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THE INFLUENCE OF INTRINSIC AND EXTRINSIC REWARDS ON EMPLOYEE PERFORMANCE

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Abstract: *This study investigates the influence of intrinsic and extrinsic rewards on employee performance within selected Small and Medium Enterprises (SMEs) in Kelantan, Malaysia. Utilizing a quantitative research design, data were collected through structured close-ended questionnaires distributed to employees across various SME sectors. The dataset comprised 116 valid responses analyzed using SPSS version 26.0. Descriptive statistics, reliability testing, Pearson product-moment correlation analysis, and hierarchical multiple regression analysis were conducted to evaluate the relationships between the constructs. The empirical findings demonstrate that both extrinsic rewards ($\beta = 0.403, p < 0.001$) and intrinsic rewards ($\beta = 0.341, p < 0.001$) have statistically significant positive impacts on employee job performance. These results highlight the critical necessity for SME owners and managers to implement balanced compensation and recognition structures to optimize workforce productivity and organizational performance.*

Keywords: *Intrinsic Rewards, Extrinsic Rewards, Employee Performance, Small Medium Enterprises (SMEs)*

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Introduction

Small medium-sized enterprises (SMEs) are described as a private company with a certain small number of employees, as opposed to large corporations. Indeed, there is no universally agreed definition of SMEs (Hooi, 2006; Omer and Ismail, 2009); for example, in the European Union, SMEs are defined as companies with fewer than 250 people.

In Malaysia, however, SMEs are defined primarily by yearly sales turnover and the total number of full-time employees (Shaikh et al., 2024, Afendi, 2024). SMEs in Malaysia can be classified into three primary categories, according to Mohd Idris (2024): general business, manufacturing, and agricultural. According to the Small and Medium Firms Corporation Malaysia (Harith, 2018), enterprises with 50-150 full-time employees are deemed medium, while those with 5-50 full-time employees are considered small, and those with less than 5 are designated micro enterprises. These SMEs are further divided into medium-sized businesses, small businesses, and micro-businesses.

According to records from the Malaysian Department of Statistics, SMEs generated 36.3 percent of national income in 2015, up from 35.9% in 2014. SMEs, without a doubt, have emerged as the country's bright spot, as they are one of the industries that contributes positively to national income. SMEs, on the other hand, have faced a number of difficulties in their current and future operations. Wei et al. (2026) suggested that lack of access to capital, formal business networks, and social networks are all key barriers to entrepreneurship development. The main issues faced by SMEs in Malaysia, according to Samiee & Chirapanda (2019). and Muhammad et al. (2010), include a lack of expertise about marketing tactics, branding, and client loyalty, as well as a lack of good contacts with other local and international firms.

In recent years, businesses' performance and employee motivation have been the subject of intense investigation. It is critical to consider how well an organization inspires its employees (both intrinsic and extrinsic) in order to fulfil its purpose and vision. Employers in both the commercial and governmental sectors are increasingly aware that employee motivation boosts productivity. Based on the foregoing and current economic trends, the rate of change in our corporate environment brings new obstacles daily. Despite this, no research has been done to look at the impact of intrinsic and extrinsic rewards on employee performance in Kelantan's SMEs.

Many studies have found a link between rewards management and desired levels of performance, while others have found that the usage of specific forms of rewards predicts a rise in employee performance and hence failure to fulfil organizational goals and objectives. Disagreement among practitioners, scholars, and researchers, as well as the presence of significant gaps in the evidence that clearly defines the logical relationship between independent variables and performance, has created a demand for more evidence on the rewards and performance relationship in various sectors and contexts.

Therefore, this study aims to examine the relationship between intrinsic rewards and firm performance and to examine the relationship between extrinsic rewards and firm performance in SMEs business in Kelantan, Malaysia. This study is limited to the SMEs in Kelantan. Scope of this study is limited to the SMEs in Kelantan. The nature of the study precludes the staff of manufacturing firms who are not expected to be involved in management decision making process of the study group. Issues for investigation are ones related to the use of the resource-

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based theory in taking competitive advantage, improving performance and structural development of the organizations.

The next study proceeds with literature reviews, research methodology, results and conclusions.

Literature Review

The motivational theories studied in this study are related to intrinsic and extrinsic motivation to see if they have an impact on those two constructs. Equity theory, Expectancy theory and Goal setting theory are the motivational theories that are relevant for this study (Ijah, 2013). Equity theory focuses on an individual's perceived fairness. The importance of equity theory is that it demonstrates how ideas, perceptions, and attitudes affect motivation. When there is a perception of injustice, employees are highly driven to fix the issue (Watters, 2021).

Expectancy theory, on the other hand, refers to a group of decision theories about job motivation and performance (McLean & Acharya, 2025). Expectancy theory emphasizes cognitive ability to foresee potential effects of behaviour, hence perception is important. Employee performance relates to how your employees act at work and how well they carry out the tasks you've assigned to them. In order to provide good value to customers, minimize waste, and run efficiently, your firm often sets performance targets for individual employees and the organization. Rewards can be monetary in the form of salary or non-monetary in the form of awards for some special services to the company or simply giving an employee a work which he enjoys doing. The primary objective of organizations in giving rewards is to attract, maintain and retain efficient, high performing and motivated employees (Elrayah & Semlali, 2023).

Motivation can be extrinsic or intrinsic. Pay, working conditions, fringe benefits, security, and advancement, as well as a contract of service, the work environment, and working circumstances, are examples of extrinsic motives. Intrinsic motivation, on the other hand, refers to incentives that can be classified as psychological motivations, such as the ability to apply one's skills, a sense of challenge and accomplishment, earning admiration, positive acknowledgment, and being treated with care and consideration (Alkandi et al., 2023).

Many people have done study in this field, including, Nwachukwu (2004), and Egwurudi (2008). All these challenges necessitate further investigation to determine how an adequate remuneration package might motivate or inspire people to establish a good attitude toward their work and, as a result, boost their productivity.

According to Ajila and Abiola (2004), a reward package can have an impact on employee performance. According to their findings, a reward system helps to improve employee performance by boosting employee skills, knowledge, and talents in order to meet organizational goals. According to Allen and Kilmann (2001), reward methods are critical in enhancing employee performance and achieving organizational objectives. As previously stated, many studies have found that employee awards are linked to employee performance. In contrast, if an organization fails to reward employees, it will have a direct impact on their performance. According to empirical studies, an effective reward system can motivate employees, whereas an ineffective reward system can demotivate them, resulting in low productivity, internal conflicts, absenteeism, high turnover, a lack of commitment and loyalty, lateness, and grievances. As a result, in order to retain competent personnel and gain a lasting competitive edge, a firm must design a strategic compensation system for them.

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The motivation theory of McClelland (1961, 1976) claimed that a person's productivity is determined by driven needs; the needs of achievement are a desire/commitment to fulfil or surpass performance criteria. Results orientation, competitiveness, demanding goals, or innovation are examples of criteria that might be set for self-achievement or improvement in the past. This demonstrates the desire to do things better and more efficiently. Individuals will be more motivated to achieve big goals, master skills, gain control, or reach high standards as a result of this.

Furthermore, he said that people with a high level of need of achievement are more willing to engage in occupations that require exceptional performance. In their meta-analysis study, Collin, Hanges, and Locke (2014) found that the desire to accomplish is a powerful predictor of entrepreneurship; entrepreneurs are more achievement-oriented than the general population. The impact of achievement on corporate performance is enormous.

Thus, from the literatures above, we can conclude that there are still needs for further evidence on the auditor independence especially using auditor opinion as a proxy, which closely relates to the family-owned companies in Malaysia when taking consideration on the scarcity in the depth of the literatures. Hence, refer to that, we able construct the research question and objective of the study that leads to the hypothesis which are:

H1: Adoption of extrinsic rewards does not have significant relationship on employees performance.

H2: Adoption of intrinsic rewards does not have significant relationship on the employee's performance.

Methodology

This research was carried out through a quantitative study with probability sampling and utilized a simple random method. 380 SME Kelantan entrepreneurs were randomly selected in order to collect data. Further, the sample size in this research was calculated under the Krejcie and Morgan (1970) table based on the data provided from the Department Statistics Malaysia in 2016 and indicated that 37 823 individuals are SME entrepreneurs in Kelantan.

Data collection procedures

The data collection instrument used was structured questionnaire because questionnaires are extremely flexible and could be used to gather information concerning almost any topic, from a large or small number of people. The instrument used in this study is a close-ended questionnaire that was adopted from Muogbo (2013). The questionnaire comprises four parts; with section A, section B, C and D used a structured 5 points modified likert scale battery of Strongly agree (4), Agree (3), disagree (2) and strongly disagree (1). The respondents were asked to indicate the extent to which they agree/disagree with various statements.

Research Design

The dependent variable of the study is employee performance. This variable is measured using six construct which is illustrated in section D of the quesThe independent variable of the study are intrinsic and extrinsic rewards. The intrinsic and extrinsic variable are measured using six construct which is illustrated in section B and C of the questionnaire. Table 1 shows the item used for the measurement of scales.

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Tables 1: Items Used for Measurement of Scales

Instruments	Items
Extrinsic	1. My motivation in working will increase if the pay compensates with the task given/ If I am supposed to put in extra effort in my job, I need to get extra pay 2. My motivation in working increase with good working condition 3. My motivation in working increase with fridge benefits offered by organization 4. My motivation in working increase with promotion offered by the organization 5. External incentives such as bonuses and provisions are essential for how well I perform my job 6. My motivation in working increase when receiving positive recognition and being appreciated
Intrinsic	1. I derive much pleasure from learning new things on the job 2. The tasks that I do at work are enjoyable and very exciting 3. Sometimes I become so inspired by my job that I almost forget everything else around me 4. I am curious about discovering new task and challenges in working 5. I am confident that I will do well for all the tasks given 6. I believe I can be a good staff and asset to a company
Performance	1. I give the best service to my organization 2. I meet the training requirements set by my organization. 3. I am fulfilling the organizational rules and procedures. 4. Report submitted by me are reliable and trustworthy. 5. I produce a high quality of work outcomes. 6. My work performance always meets the expectation of the supervisor.

Data Analysis

All data collected was analysed by SPSS version 26.0 and three data analysis methods which are: reliability test, frequency analysis, and Pearson Correlation Analysis were used. Each data analysis method will be further discussed in the next paragraph. A reliability test was used to identify the stability of the questionnaire used for this study. Therefore, the researchers measured the consistency of items in this study based on Cohen Kappa value by selecting 116 target respondents Based on Cohen (1960) and the value for all indicators exceeded 0.6 as moderated and defined as consistent for this study.

Frequency analysis is the summary of the demographic profile of target respondents in this study. This research used frequency analysis to summarise demographic profile for target respondents and investigated percentage. Based on Hair, Hult, Ringle, and Sarstedt (2016), frequency analysis assists researchers to transform data into useful information. The researchers used Pearson Correlation Analysis to identify the relationship and strength of indicators in this study.

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Result And Discussion

Descriptive Statistics

To establish the internal consistency of the measurements used, a reliability test was performed. Cronbach's alpha values less than 0.5 are regarded poor, while values greater than 0.5 are deemed good. From table 2 Cronbach's alpha values for each factor were greater than 0.50, indicating that the instrument is dependable. As a result, the complete build was deemed to be sufficiently reliable.

Table 2: Reliability Test

Instrument	Number of Item	Cronbach's Alpha
Extrinsic	6	0.803
Intrinsic	6	0.758
Performance	6	0.897

Table 3: Frequency

Item		Frequency	Percentage
Gender	Male	51	44
	Female	65	56
Age	18-25 Year Old	30	25.9
	26-33 Year Old	44	37.9
	34-41 Year Old	20	17.2
	Above 41 Year Old	22	19
Education	Spm	35	30.2
	Diploma	51	44
	Degree	20	17.2
	Others	10	8.6
Sector	Service	35	30.2
	Making	29	25.0
	Construction	14	12.1
	Agriculture	10	8.6
	Mining And Excavation	6	5.2
	Others	22	19
Employment	Permanent	69	59.5
	Contract	21	18.1
	Part Time	18	15.5
	Others	8	6.9
Year Of Service	Less Than 1 Year	11	9.5
	1 To 5 Years	64	55.2
	6 To 10 Years	24	20.7
	Above 10 Years	17	14.7

Table 3 shows the frequency of all the variables. For gender, most of the respondents are fall under female which comprises of 56 percent. Whereas male took another 44 percent. While in terms of age, the highest respondents are 37.9 percent who are from 26 to 33 years old. The lowest respondents consist of respondents who are above 41 years old, and the percentage is only 19 percent. The highest percentage of education is 44 percent which is taken by the

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respondents who have diploma qualification. While the latter comes from others group which consists of 8.6 percent. In sector industry, service has the most respondents which is 30.2 percent. Meanwhile, mining and excavation has the lesser respondents which is 5.2 percent only. On the other hand, permanent employee has the highest respondent of employment which comprises of 59.5 percent. In terms of year of service, employees who were being employed for 1 to 5 years took the first place to have the most respondents which is consist of 55.2 percent. Whilst they who were being employed for less than 1 year consist of 9.5 percent of the respondents.

Measurement Model

Three main criteria are needed in the assessment the measurement model. These three assessments are convergent validity, discriminant validity and internal consistency reliability. (Ramayah et al., 2018). Convergent validity is the level of which many items measuring the same concept. It is achieved when all the value of average variance extracted (AVE) higher than 0.50 and composite reliability (CR) exceeded the minimum level of 0.7 (Hair et al, 2011). Reliability of the construct has been tested by using Cronbach alpha value where the minimum value required is 0.6 (Hulin, Netemeyer & Cudeck, 2001). The result shows that all the Cronbach Alpha value are ranging from 0.648 to 0.892 and 0.686 to 0.895 respectively.

Table 4: Convergent Validity

Construct	Item	Loading	Cronbach	CR	AVE
	IR1	0.682	0.648	0.808	0.585
IR	IR2	0.749			
	IR3	0.854			
	ER1	0.821	0.783	0.851	0.536
	ER2	0.646			
ER	ER3	0.696			
	ER4	0.794			
	ER5	0.688			
	EP1	0.800	0.892	0.918	0.653
	EP2	0.676			
	EP3	0.856			
EP	EP4	0.793			
	EP5	0.834			
	EP6	0.873			

IR: Intrinsic Reward, ER: Extrinsic Reward, EP: Employee Performance
CR: ≥0.7, AVE: ≥0.5 (Hair et al, 2011), Cronbach: ≥0.6 (Hulin, Netemeyer & Cudeck, 2001)

Discriminant validity refers to the measurement of distinct concepts by examining the correlations between the measures of potentially overlapping. There has been criticism on the usage of Fornell-Larcker's (1981) criterion to detect discriminant validity. By using alternative approaches to assess discriminant validity, that is through Multi trait and Multimethod matrix, namely Heterotrait-Monotrait (HTMT) ratio of correlations. Discriminant validity is established for the constructs when the values are lower than the required threshold value of HTMT.90 (Gold, 2001) (Ramayah et al., 2018). The result for this study shows that all the values in this study are lower than the required threshold value of HTMT.90 (Gold, 2001). Hence, the measurement model is satisfactorily achieved as shown in Table 5.

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Table 5 : Discriminant Validity (Heterotrait-Monotrait (HTMT) Criteria)

	EXT	INT	OP
ER			
IR	0.744		
EP	0.708	0.829	

IR: Intrinsic Reward, ER: Extrinsic Reward, EP: Employee Performance
HTMT < 0.90 (Gold, 2001)

Structural Model

Prior to evaluating the structural model, lateral collinearity must be checked to ensure it is not a problem in the structural model. Although the criteria of discriminant validity are met, lateral collinearity issue (predictor-criterion collinearity) may affect the finding. This typically occurs when two variables that are hypothesized to be causally related measure the same construct (Ramayah et al., 2018).

Table 6 presents the outcome of lateral collinearity test. VIF values for both independent variables are less than 5. Therefore, there is no element of lateral collinearity in this study (Hair et al., 2017).

Table 6: Lateral Collinearity Analysis

Construct	VIF Value
	OP
IR	1.427
ER	1.427

IR: Intrinsic Reward, ER: Extrinsic Reward, EP: Employee Performance
VIF ≤ 5.0 (Hair et al., 2017)

This study seeks to investigate the importance and performance of motivation factors in achieving employee performance. For that purpose, two direct hypotheses are developed between the constructs. SmartPLS 3.0 bootstrapping function are generated to test the significance level and t-statistics for all path in the current model. Result of the test revealed that two relationships are found to be significant at 0.05 level and t-value ≥ 1.645.

Quality of the model can be assessed through effect sizes (f2), R2 value and Q2 value (Hair et al., 2017). The results showed that effect sizes (f2) for both variables are medium (Cohen 1992), and R2 more than 0.5 and Q2 are more than 0 indicating that the model has sufficient predictive relevance (Hair et al., 2017; Fornell & Cha, 1994). All the results of the hypothesis testing and quality of the model are described in Table 7 below.

Table 7: Hypothesis Testing

Hypothesis	Relationship	Std. Beta	Std. Error	Tvalue	Result	R^2	f^2	Q^2
H1	IR -> EP	0.446	0.099	4.495**	Supported	0.510	0.290	0.317
H2	ER -> EP	0.371	0.093	4.005**	Supported		0.200	

IR: Intrinsic Reward, ER: Extrinsic Reward, EP: Employee Performance
**p<0.01, t value > 2.33; *p<0.05, t value > 1.645

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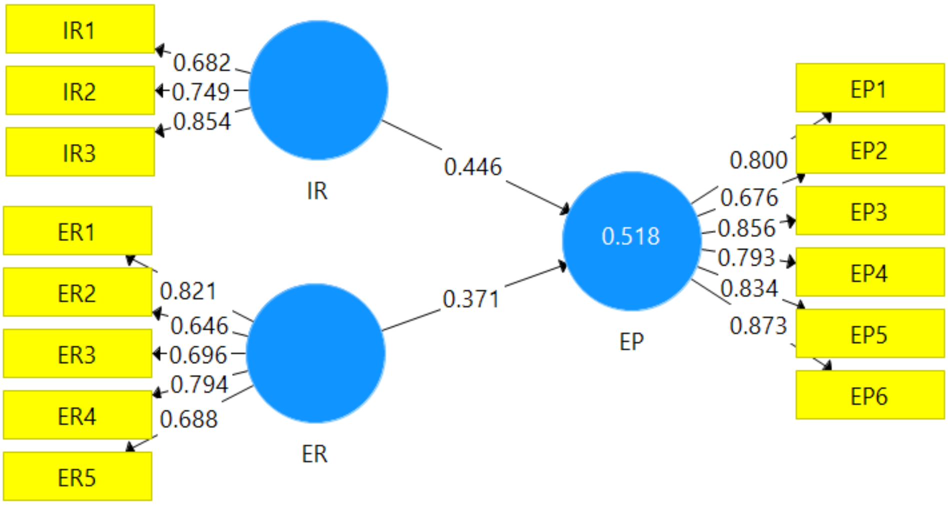

Figure 1: The Structural Model

Employees must be rewarded for good performance if they are to be motivated and retained. Employees are likely to become more devoted and effective when they receive rewards for their work. The organization's overall productivity and output may increase as a result. The study prove that intrinsic and extrinsic rewards contribute to good staff performance.

Summary and Conclusion

The study focuses on the intrinsic and extrinsic rewards on the staff performance. Prior research link rewards with staff performance. The questionnaire was design and send to the employee in SME businesses. The questionnaire design is based on the prior research. The result of the study supports the hypotheses where intrinsic and extrinsic are associated with staff performance. The study is focusing on the SME staff only, to ensure high generalization the sample need to be increased. It is suggested to have the samples for the whole business in Kelantan or Malaysia as a whole.

Employers are always forced to come up with wage policies and practises that will allow them to attract, motivate, retain, and satisfy their workers. The findings of this study could be a useful tool for resolving individual conflict that has arisen as a result of a poor reward system. At this point, it is very important to advise that further research be done on the link and impact of rewards on employee performance utilising a variety of commercial and public organisations. It is critical to conduct additional research in order to adequately address all the elements that influence worker performance. Because of the constraints listed above, the ability to generalise the findings of this study is limited. The study contributes to the practical implication where the organization need to highlight the importance of having rewards in the form of bonuses to their employee. The study also contributes to the theory on the relationship between intrinsic and extrinsic rewards to staff performance

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