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Effectiveness of Extrinsic Reward Management System on Employee Performance: A Case of Office of the Controller and Auditor General Zanzibar

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Abstract: This study examines the effectiveness of extrinsic rewards (bonuses, recognition awards and promotions) on employee performance in a case study of the Office of the Controller and Auditor General of Zanzibar (OCAGZ). The study uses primary data collected at the OCAGZ using a standard questionnaire distributed to employees in their respective departments accordingly. Linear regression analysis was applied to analyze data and fulfil the requirements of the research objectives which enabled to answer the respective research questions. The findings reveal that, promotion and bonus both have positive and statistically significant impact on employee's performance. This means that the frequency of promotions and bonuses increases, so too does the organization's performance. However, the recognition award, has a positive but not statistically significant impact to the employee's performance. Simply is to say that the coefficient for recognition is not statistical significantly different from zero, indicating it is not a significant predictor of performance. Therefore, the overall model suggests that both promotion and bonus significantly contribute to explaining variations in performance, with promotion having the largest effect. Recognition, however, does not appear to be a significant factor in this model. This suggests that OCAGZ should prioritize this aspect of extrinsic rewards when designing or revising Employee Incentive Programs.

Keywords: Bonuses, Extrinsic Rewarding, Management System, Recognition Awards, Promotion

INTRODUCTION

Employee performance is crucial for an organization's success, and effective management of it involves strategies like reward systems. Extrinsic rewards, such as monetary bonuses, promotions, and recognition, can significantly impact employee performance. Theories like Victor Vroom's Expectancy Theory and reinforcement theory support this, and empirical evidence supports the positive relationship between extrinsic rewards and performance. However, the effectiveness of these systems may vary depending on factors such as perceived fairness, alignment with organizational goals, and the design of reward structures (Smith, 2021).

A well-designed extrinsic reward management system can attract, retain, and motivate talent, ultimately enhancing individual and organizational performance. The alignment of rewards with organizational goals, perceived fairness of the reward distribution, and clarity of performance expectations are essential factors in determining the effectiveness of these systems (Taylor et al., 2022).

A comprehensive understanding of extrinsic reward management systems can help organizations optimize their human capital and foster a work environment conducive to high performance and employee satisfaction. By understanding these factors and implementing effective reward management practices, organizations can enhance employee motivation, engagement, and ultimately, performance (Brown, 2024).

A reward system is a program designed to motivate high performers and encourage low performers to increase productivity. There are two types of reward systems: intrinsic and extrinsic. Intrinsic rewards are positive emotional reactions, while extrinsic rewards are tangible, financial rewards given to employees for achieving work. They increase productivity and motivate employees, especially in developing countries where life status is a significant challenge (Yahuza & Suleiman, 2024).

In Nigeria, the civil service faces inefficiency, low productivity, and poor salary/wage administration. Extrinsic rewards can help motivate employees and improve performance, especially in the civil service where salaries are low compared to other African countries. This study aims to examine the impact of extrinsic reward management systems on employee performance in Zanzibar, a developing country (Samuel, 2024).

The study focuses on the effectiveness of the extrinsic reward system in improving employee performance in the Office of the Controller and Auditor General Zanzibar (OCAGZ). The government has focused on revamping the basic salary package, performance enhancement incentives, career promotions, and a comprehensive reward system, but the reward system poses changes in OCAGZ (Zanzibar Ministry of Finance and Planning, 2022).

By gathering empirical evidence and analyzing data, this research aims to provide insights into the efficiency of different extrinsic reward mechanisms in driving employee performance within the unique setting of the CAG office in Zanzibar. By understanding these factors, recommendations can be formulated to optimize the extrinsic reward management system, fostering a more productive and motivated workforce (OCAGZ Annual Report, 2024).

Therefore, this study aims to reach the following objectives

- To assess the influence of bonuses as an aspect of an extrinsic rewarding management system on employee performance.
- To examine the impact of recognition awards as an aspect of an extrinsic rewarding management system on employee performance.
- To determine the impact of promotion as an aspect of the extrinsic reward management system on employee performance.

THEORETICAL LITERATURE REVIEW

Herzberg's Two-Factor Theory

This theory of motivation was developed by Frederick Herzberg in 1959. According to Herzberg, some factors result in satisfaction while other job factors promotes dissatisfaction. Therefore, this theory suggests that people have two sets of needs. Their needs as animals to avoid pain and their needs as humans to grow psychologically. Herzberg's study consisted of a series of interviews that sought to elicit responses to the questions. From the results, Herzberg concluded that the replies people gave when they felt good about their jobs were significantly different from the replies given when they felt bad (Kikoito 2014). Intrinsic factors, such as work itself, responsibility, and achievement seem to be related to job satisfaction. Employees who feel good about their work tend to attribute these factors to them. In contrast, dissatisfied employees tend to cite extrinsic factors such as supervision, pay, and company policies and working conditions (Dieleman, *et al.,* 2006).

Equity Theory

The Equity theory was developed by John Stacey Adam in 1963 and is widely used in the workplace. This theory is anchored on the principle of justice and equity either, individuals expect a fair return for their input such as salary after work is done. Also, individuals focus on equal input-output ratios with colleagues. This theory suggests that it is not the absolute value of the reward that motivates, but rather the individual's view of how fair that reward is. Workers consider fairness of reward both about effort expended and about what other people are getting. This study supports the thesis that the reward structure should be related to the demands of the job and the efforts of the individuals. The basic components of equity theory are inputs, outcomes, and referents. Inputs are the contributions employees make to the organization. Inputs include education and training, intelligence, experience, effort, number of hours worked and ability. Outcomes are rewards employees receive in exchange for their contribution to the organization.

EMPIRICAL LITERATURE REVIEW

This section presents the existing literature and provides empirical evidence to support the theoretical frameworks and add a practical dimension to the conceptual foundation.

Moh'd (2022) examines the effect of reward on employee performance in West "A" Municipal Council was a case study. A descriptive research design, which involved qualitative and quantitative approaches was used. Moreover, a sample of 150 was used. Furthermore, findings showed that West "A" Municipal Council provided rewards to employees such as bonuses, recognition, gifts, and promotions. The study also found that 145 respondents equal to 96.6% of all respondents observed that, the reward system assists the employee toward their performance and that there was a statistically significance association between the rewards system and employee performance of the employee, the Pearson correlation coefficient was, and the regression results show that Extrinsic Rewards would affect employee performance with 70.1% and Intrinsic Rewards would affect employee performance with 59.9%.

Chantal et al, (2022) assessed the relationship between extrinsic rewards and employee performance in the Shyogwe diocese. This study used a correlational research design. A questionnaire survey and an interview guide were used to obtain data. Frequencies, percentages, means, correlation, and regression were used to analyze quantitative data. Content analysis was used to analyze qualitative data. The results showed that extrinsic rewards were high. In conclusion, this research shows that extrinsic rewards are critical for employee performance.

Danish1 et al, (2015) examine the effect of a reward management system, especially intrinsic rewards on task performance with the mediating role of extrinsic and intrinsic motivation of employees working in the banks in the capital of Punjab, Lahore, Pakistan. Moreover, primary data was collected data through self-administered questionnaires and a correlational explanatory research design was applied. About 300 questionnaires were distributed and 290 were returned resulting in a response rate of 96%. The analysis of the data revealed that intrinsic rewards have a positive impact on the task performance of employees working in banks and motivation and its dimensions, i.e., intrinsic motivation, extrinsic motivation, and job satisfaction mediated this relationship.

Miriam (2020) investigate the role of intrinsic and extrinsic rewards on employee performance, using Access Bank Nigeria, Kaduna branch as a case study. Correlational studies design and adopt a quantitative methodology. Furthermore, data was collected from 54 samples through questionnaires and used Pearson's multiple and simple regression analysis. The results revealed that there was a positive relation between extrinsic rewards and job satisfaction and employee productivity, as well as intrinsic rewards and employee engagement. It was also revealed that extrinsic rewards influence employee performance for a short while as it is only centered on pay, however, intrinsic made employees' performance better for the longer term as it leads to a sense of belonging and attachment in Access Bank. This reveals that both extrinsic and intrinsic rewards are good, however intrinsic leads to more committed and engaged staff.

Irshad (2016) studied the impact of extrinsic rewards on employee performance. Moreover, Primary data was collected by spreading questionnaires among employees working in the banking industry the questions were about Salary, working conditions, and performance bonuses. Furthermore, Data was analyzed through SPSS by applying different tests. In the end, it was concluded that Salary and working conditions impact employee performance. It can help employers to focus on these factors to motivate employees.

Kawara, (2014) assessed the effects of reward systems on employee productivity in The Catholic University of Eastern Africa, Kenya. Purposive sampling was used to select sample 80 respondents from all cadres of staff. Furthermore, Data was collected through self-administered questionnaires on a delivery and collection basis to the respondents. The regression technique was used to analyze the data. Moreover, the findings of this study revealed that different respondents had different motivational preferences but the majority of the Institution's staff was more exposed to the use of non-financial rewards such as recognition, training, opportunities to handle greater responsibilities, employee promotion and participation in key decision making and challenging jobs to motivate exemplary performers. The study also shows that the rewards offered as a result of good performance were worthwhile and meaningful.

HYPOTHESIS DEVELOPMENT

According to the conceptual framework below, this study is directed by three hypotheses.

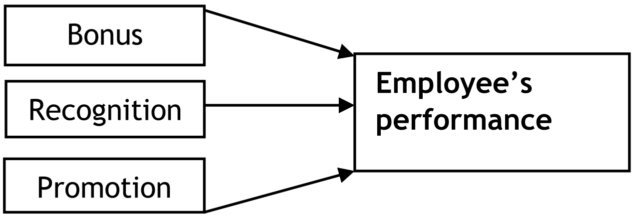

Figure 1: Conceptual framework diagram

Source: Author's creation, 2024

- *H_{1a}: Bonus has an impact on employee's performance at the Office of the Controller and Auditor General Zanzibar*
- *H_{1b}: Recognition award has an impact on employee's performance at the Office of the Controller and Auditor General Zanzibar*
- *H_{1c}: Promotion has an impact on employee's performance at the Office of the Controller and Auditor General Zanzibar*

METHODOLOGY

This study was conducted at the Office of the Controller and Auditor General in Zanzibar to understand the impact of extrinsic reward systems on employee performance within the unique organizational context of the OCAGZ office.

The research design, which includes experimental, correlation, cross-section, and longitudinal designs, was adjusted to meet the research requirements and fulfill research objectives.

The study population consisted of 146 employees from the Administration and Planning Department, Financial Audit Department, Account Department, ICT Department, and Legal Department. The data collection method used was a questionnaire, which was designed to ensure clarity, objectivity, and the ability to capture the desired information. The questionnaire's structure included closed-ended questions and likert scale with predetermined response options, making data analysis more straightforward.

Validity and reliability of the instrument were assessed using Cronbach's Alpha, a reliable test method that evaluates the dependability of the study's instruments. The overall Cronbach's Alpha for each item in the questionnaire was very high, indicating a high level of internal consistency among the items. The highest Alpha value was.939 for "promotion encourages," suggesting that this item might be the least consistent with the others but still very close to the overall value.

Data analysis techniques used in study was regression analysis using Statistical Package for Social Science ($SPSSV_{23}$). The process typically includes defining objectives, collecting relevant data, exploring patterns, and presenting findings to aid informed decision-making in research.

STUDY FINDINGS

Demographic Profile of the Respondents

This section analyzes the demographic particular of the employees of OCAGZ, those particularly age distribution, educational level of employee, gender, marital status and working experience. By considering these variables, a researcher gained a more nuanced understanding of how extrinsic rewards management systems impact employees from diverse backgrounds

Table 1: Demographic Profile of the Respondents

Variable	Category	Frequency	Percentage
Age	25-35 36-45 46-55	45 50 25	37.5 41.67 20.83
Gender	Male Female	57 63	47.5 52.5
Education level	Diploma or Equivalent College Bachelor's Degree Master's Degree	21 8 68 23	17.5 6.67 56.67 19.17
Working experience	Less than 1 year 1-3 years 4-6 years 7-10 years More than 10 years	9 14 44 18 35	7.5 11.67 36.67 15 29.17

Source: Researcher, 2024

From Table 1, respondents with ages between 25-35 years were 37.5%, 46-55 years were 20.83% and approximately 41.67% of respondents indicated they are between 36 and 45 years old, representing the majority of employees in the organization. This demographic is typically young, energetic, and capable of hard work. These employees are motivated to improve their lives and increase their income. With the right incentives, such as rewards and promotions, they are likely to go beyond their usual duties and work overtime, which will enhance the organization's performance. Also, male respondents were 47.5% and about 52.5% of respondents are female, indicating that the majority of employees in the organization are women. Many of these female employees relied solely on their income from the organization. This suggests that they are highly motivated to work hard and are willing to put in extra effort to improve employee performance. With the right motivation, they are likely to go beyond their regular duties, contributing significantly to the organization's success.

The results from Table 1 revealed that respondents with a High School Diploma or Equivalent 17.5%, with Some College or Associate's Degree 6.67%, also with Master's Degree 19.17% and approximately 56.67% of respondents hold a bachelor's degree, indicating that the majority of employees are well-educated and capable of performing their tasks effectively. These employees are competent and can complete their work as directed. Providing them with the right motivation, such as rewards, can enhance their passion and efforts, leading to improved employee performance. Furthermore, the Table 1 indicates respondents with Less than 1 year in OCAGZ were 7.5%, 1-3 years were 11.67% moreover with 7-10 years were about 15%, with more than 10 years were 29.17% and about 36.67% of respondents have worked in the organization for 4 to 6 years, suggesting that most employees have significant tenure with OCAG. These employees have a deep understanding of the organization’s needs and no longer fear job security issues. Their efforts may have diminished compared to when they were new, but maintaining a dynamic reward system can reignite their motivation.

Regression Analysis

A researcher applied a multiple regression model to examine the impact of extrinsic reward (bonus, recognition award and promotion) on employee performance inferential at OCAGZ. This analysis is performed in both model summaries which contain an R-squire which shows the percentage of the dependent variable explained by the independent variable. Moreover, the estimation of coefficients of independent variables shows the magnitude to which each independent variable contributes to the impact on employee performance. The findings of the study through multiple regression analyses were first preceded by the model summary which showed the overall influence of the study objective. Therefore, the findings were illustrated in table 2 below

Table 2: Model Summary[b]

Model	R	R Square	Adjusted R Square	R Square Change	F Change	Sig. F Change
1	.778[a]	0.606	0.595	0.606	59.393	0

a. Predictors: (Constant), Promotion, bonus, Recognition award

b. Dependent Variable: Employee performance

The findings from table 2 show that, the R-squared value of 0.606 indicates that the model explains 60.6% of the variance in employee performance. This means that 60.6% of the changes in employee performance can be explained by the changes in promotions, bonuses, and recognition awards.

Also, The Adjusted R-squared value of 59.5% is slightly lower than the R-squared value, which suggests that the model explains a good portion of the variance while accounting for the number of independent variables used in the model.

Apart from the table 2 above, the following Table 3 below displays the coefficients’ columns for the standard multiple regression conducted.

Table 3: Coefficients Table for bonus, recognition awards and promotion on employees' performance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.128	.245		4.611	.000
	Bonus	.213	.067	.294	3.188	.002
	Recognition	.080	.082	.089	.971	.333
	Promotion	.457	.077	.481	5.930	.000

The results from Table 3 above show that, Promotion and Bonus both have positive and statistically significant coefficients (Promotion: t = 5.930, Sig. = .000; Bonus: t =3.188, Sig. = .002). This means that there is a positive correlation between promotion and bonus, and employee performance. In other words, as the frequency of promotions and bonuses increases, so too does the organization's performance.

Although, Recognition Award, on the other hand, has a positive but not statistically significant coefficient (t = .971, Sig. = .333). This means that while there may be a positive correlation between recognition awards and employees' performance, it is not strong enough to say definitively that one causes the other in this study. Simply is to say that the coefficient for recognition is not significantly different from zero, indicating it is not a significant predictor of performance.

Therefore, according to the results above a researcher summary that promotion is the most influential predictor of performance with a significant and strong positive effect. Bonus also positively impacts Performance and is a significant predictor, though its effect is not as strong as promotion. Recognition has a positive but weak impact on Performance and is not a statistically significant predictor in this model. The overall model suggests that both promotion and bonus significantly contribute to explaining variations in performance, with promotion having the largest effect. Recognition, however, does not appear to be a significant factor in this model.

Table 4 of the Results for Hypotheses H1a – H1c

	Hypotheses	Results
H_{1a}:	*Bonus has an impact on employee's performance at the Office of the Controller and Auditor General Zanzibar*	Accepted
H_{1b}:	*Recognition award has an impact on employee's performance at the Office of the Controller and Auditor General Zanzibar*	Rejected
H_{1c}:	*Promotion has an impact on employee's performance at the Office of the Controller and Auditor General Zanzibar*	Accepted

DISCUSSION OF FINDINGS

The table 3 above summarizes the results of a regression analysis that examined the relationship between promotion, bonus, recognition awards, and employee performance. The dependent variable is employee performance, and the independent variables are promotion, bonus, and recognition awards. The findings of these relationship were discussed compared with previous studies as follows.

Starting with the first variable which is bonus, the coefficient for bonus (B = .213, p = .002) indicates a significant positive relationship between bonus and performance. This finding aligns with the literature suggesting that financial incentives can motivate employees and enhance performance. For instance, studies by Moh'd (2022) who examines the effect of reward on employee performance in which West “A” Municipal Council. The study found that West “A” Municipal Council provided rewards to employees such as bonuses, recognition, gifts, and promotions whereby 145 respondents equal to 96.6% of all respondents observed that, the reward system assists the employee toward their performance. Also, Gerhart and Rynes (2003) and Lazear (2000) have demonstrated that monetary rewards are effective in improving employee output and productivity.

For recognition award, the coefficient for recognition (B = .080, p = .333) shows a positive but non-significant relationship with performance. This result is somewhat surprising given the extensive literature emphasizing the importance of non-monetary rewards in enhancing employee motivation and satisfaction. Previous research by Kawara, (2014) who assessed the effects of reward systems on employee productivity in The Catholic University of Eastern Africa, Kenya revealed that different respondents had different motivational preferences but the majority of the Institution’s staff was more exposed to the use of non-financial rewards such as recognition, training, opportunities to handle greater responsibilities, employee promotion and participation in key decision making and challenging jobs to motivate exemplary performers. The non-significant finding in this study could be attributed to several factors, such as the context of the organization, the type of recognition provided, or the possibility that financial rewards overshadow the impact of recognition in this particular setting.

Furthermore, promotion has a strong and significant positive effect on performance (B = .457, p < .001). The standardized coefficient (Beta = .481) indicates that promotion is the most influential factor among those examined. This finding is consistent with previous studies that underscore the role of career advancement opportunities in motivating employees. Research by Kikoito, (2014) who examines the impact of reward systems on organizational performance in commercial banks in Mwanza City, Tanzania. The findings of this study showed that both extrinsic (salary, bonus, and promotion) and intrinsic (praise, recognition, and genuine appreciation) rewards has an impact to their employee’s performance. In addition, the study of Kuvaas (2006) and Van Scotter (2000) has shown that promotions are strongly linked to increased job performance and employee retention. Promotions not only provide financial benefits but also fulfill employees' psychological needs for growth and achievement, which can lead to enhanced performance.

Therefore, employees did all argue that extrinsic rewards such as salary, bonus and allowance do have an impact on both individual and organization performance. They explained that motivated employees generally perform better and consistently when these extrinsic rewards are offered frequently rather than once a year. However, they also admitted that motivation is only sustained when it is supplemented with intrinsic rewards such as praise for a job well done and recognition formally and informally.

CONCLUSION

The research analyzed the impact of bonuses, recognition awards, and promotions on employee performance at OCAGZ. Results showed that bonuses significantly improve performance, recognition awards increase performance by 0.054, and promotions positively impact performance by 0.492. However, there was insufficient evidence to support the 5% significance level of these findings. Overall, the extrinsic reward management system at OCAGZ has a positive impact on employee performance.

RECOMMENDATION OF THE STUDY

Prioritize Bonuses and Promotions because the research shows clear positive relationships between bonuses and promotions with improved employee performance. This suggests that OCAGZ should prioritize this aspect of extrinsic rewards when designing or revising employee incentive programs.

Also, the study recommends that organizations reconsider using recognition awards as a form of extrinsic motivation to improve employees' performance. Therefore, by implementing these recommendations, the OCAGZ can design more effective motivational programs for the public sector in Zanzibar. This could lead to a more engaged workforce and ultimately improved performance across government departments.

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