

Reward and Performance: Why Social and Extrinsic Rewards Fail to Improve Job Performance?

Sinta Dewi Artha Rini¹, Keumala Hayati^{2*}

Lampung University, Lampung, Indonesia^{1,2}

keumala.hayati@feb.unila.ac.id²



Article History:

Received on 01 June 2025

1st Revision 15 June 2025

2nd Revision 22 June 2025

3rd Revision 02 August 2025

Accepted on 08 August 2025

Abstract

Purpose: This study aims to examine the effect of Total Reward on employee performance by integrating intrinsic, extrinsic, and social reward components within Herzberg's Two-Factor Theory framework. The motivation for this research comes from the gap in existing literature, which often emphasizes partial reward systems, while the holistic Total Reward perspective remains underexplored, particularly in the context of employee motivation and performance in Indonesia's banking sector.

Research Methodology: The study applied a survey method by distributing structured questionnaires to bank employees in Lampung Province, Indonesia. A simple random sampling technique was employed to ensure representativeness. Data were analyzed using Partial Least Squares Structural Equation Modeling (SEM-PLS) with SmartPLS, focusing on the second-order construct of Total Reward to test the effect of intrinsic, extrinsic, and social dimensions on employee performance.

Results: The findings indicate that intrinsic rewards, such as recognition, responsibility, and personal growth opportunities, significantly improve employee performance. However, extrinsic rewards (salary, benefits, working conditions) and social rewards (relationships with colleagues and supervisors) did not show a significant influence.

Conclusions: The study concludes that enhancing intrinsic rewards is a key driver for boosting employee performance in the banking sector. While extrinsic and social rewards remain necessary, they are insufficient without meaningful intrinsic motivators.

Limitations: This study is limited to one province and a specific industry, reducing its generalizability.

Contribution: The research contributes to HR management by demonstrating the strategic value of focusing on intrinsic rewards to foster sustainable performance improvements.

Keywords: *Extrinsic Reward, Herzberg's Theory, Intrinsic Reward, Job Performance, Social Reward.*

How to Cite: Rini, S, D, A., Hayati, K. (2025). Reward and Performance: Why Social and Extrinsic Rewards Fail to Improve Job Performance?. *Studi Akuntansi, Keuangan, dan Manajemen* (5) 1, 285-298.

1. Introduction

This study, therefore, seeks to focus on the impact of Total Reward on the performance of employees according to Herzberg's Two-Factor Theory (Herzberg et al., 1966). In this view, employee performance is a principal determinant of organizational success in human resource management, and many means have been put into place to boost the performance of the employees, one of which is a reward system. Total reward is an integration of intrinsic, extrinsic, and social rewards to enhance motivation and performance (Alhmoud & Rjoub, 2019; Davis et al., 2021). More research has also confirmed the importance of rewards on performance and motivation, either through direct paths or mediators (Clay et al., 2022; Murayama, 2022; Wang et al., 2017). Previous studies more often focus

on partial aspects, such as only intrinsic or extrinsic rewards, without considering the total package of rewards or the combination of all kinds of rewards.

The theoretical underpinning of this study hinges on Herzberg's Two-Factor Theory (Herzberg et al., 1966), which clearly distinguishes between motivators (intrinsic rewards) and hygiene factors (extrinsic rewards). In the context of Herzberg, job satisfaction is derived from motivators such as recognition, responsibility, and achievement, while dissatisfaction is from hygiene factors such as pay and working conditions. Indeed, this explains that for companies to improve employee performance, they must manage Total Reward strategically since its two dimensions create an optimal work environment. In the same way, earlier studies, such as by Bhatt et al. (2022), have also endorsed the fact that if Herzberg's theory is applied to the current workforce, especially the millennials, this may further help in understanding the process through which employees can be motivated through a mixture of intrinsic and extrinsic rewards.

However, literature gaps still exist regarding the impact of Total Reward on employee performance, especially when Total Reward is integrated with Herzberg's Two-Factor Theory. Most previous studies focus on intrinsic or extrinsic rewards separately, with only a few paying attentions to combining both aspects as a totality approach (Sumiansi, Fadjar, Sutomo, & Wanti, 2025). In addition, there are also limitations in research that explore the role of social rewards as part of Total Reward. The social rewards of rewards refer to social recognition, peer support, and non-monetary benefits that have thus far remained relatively non-descript about how they influence the general performance behavior of employees, more so under the considerations put forth by Herzberg's Two-Factor Theory (Davis et al., 2021; Wang et al., 2017). To date, empirical testing of the effect of Total Reward on employee performance comprehensively by use of a model that includes all dimensions of reward has not been achieved (Alqudah et al., 2023). This study thus fills that gap by undertaking an in-depth analysis of how total reward impacts performance using Herzberg's theoretical approach. The general standard solution for improving performance was giving the right rewards, both intrinsic and extrinsic. Most researchers made the mistake of just focusing on one type of reward.

However, this research makes an inclusive solution by incorporating Total Reward, which shall cover all aspects of reward to create a motivating work environment. The previous literature has proven that these intrinsic rewards effectively increase employee performance, ultimately enhancing their internal motivation. (Shaheen et al., 2020; Zheng et al., 2020). Some studies also emphasize extrinsic factors like salary and incentives to ensure employee motivation (Hareendrakumar et al., 2021).

Some research findings indicate that intrinsic and extrinsic rewards influence employee performance across all levels; however, the effect varies based on the organizational context and work culture (Li et al., 2023). A study conducted in India's public sector indicates that satisfaction with Total Reward contributes significantly toward job satisfaction and increased employee productivity in the organizational context (Hareendrakumar et al., 2021). Another study conducted in Myanmar indicated that public sector organizations following Herzberg's Two-Factor Theory can positively contribute to employee job satisfaction (Thant & Chang, 2021).

Several studies related to the effect of Total Reward on employee performance have given empirical support to this relationship; however, they are still limited by the study used the approach of Herzberg's two-factor theory. For example, the research conducted by Munap et al. (2021) within the Royal Malaysian Navy revealed that the practical operation of Herzberg's theory improves workers' performance because it enhances their motivator factors. This study did not apply the Total reward dimension to some extent; it focused more on motivators or intrinsic rewards. A lack of literature pertains to the Herzberg two-factor theory being applied within the whole context of Total Reward, particularly toward employee performance. Although some studies have been done on individual reward aspects, the combined effect of intrinsic and extrinsic rewards as Total Reward has not been widely explored. Therefore, an empirical analysis of the effect of Total Reward on employee performance is lacking, which has never been done by (Alrawahi et al., 2020).

Therefore, this study will explore and test the effect of Total Reward on employee performance using Herzberg's Two-Factor Theory through Structural Equation Modeling Partial Least Square (SEM-PLS). This research is novel because it locates a Total Reward approach within the framework of Herzberg's Theory. It adds much to the extant literature and provides new solutions for human resource management to enhance employee performance. The study will test this hypothesis to provide more understanding of how rewards could best be used to motivate and improve employee performance (Sihombing & Febriansyah, 2025).

2. Literature Review and Hypotheses Development

2.1 Herzberg's Two-Factor Theory

Work motivation has become a critical issue in human resource management, and the most impactful theory in this regard is the Two-Factor Theory of (Herzberg et al., 1950). The theory describes two main factors influencing work motivation: motivator or intrinsic and hygiene factors, or extrinsic reward. This theory states that the motivator factors are those conditions attached to job satisfaction that motivate people, such as achievement, recognition, and responsibility. In contrast, hygiene factors involve more working conditions, such as salary and company policies, which, though they do not add motivation, can prevent dissatisfaction when well controlled (Herzberg et al., 1966).

Recent literature about how intrinsic and extrinsic rewards influence employee motivation and performance has continued unabated (Alqudah et al., 2023; Murayama, 2022). Rewards do increase work motivation among workers, which then increases their performance. Most studies indicate that rewards enhance workers' performances. Rewards can be divided into several categories: the first category relates to intrinsic rewards, which give inner work satisfaction itself, and extrinsic rewards, which relate to external benefits such as salary and benefits (Manzoor et al., 2021; Shaheen et al., 2020).

One example is research by Clay et al. (2022), which found that rewarding cognitive effort increases the intrinsic value of mental work per se, suggesting that intrinsic rewards may be vital in maintaining long-term motivation. Conversely, Zheng et al. (2020) demonstrated that in the learning process, intrinsically learned rewards capture the participants' attention and also maintain this state during the work process, thus intensifying the relationship between intrinsic rewards and employee performance.

However, there still needs to be a gap in the literature regarding Total Reward underpinning Herzberg's Two-Factor Theory. Total reward has been considered a bundle of intrinsic and extrinsic rewards as a holistic approach toward improving employee motivation and performance. (Lee et al., 2022), who researched what affects satisfaction from the perspective of the determinants of job satisfaction, Herzberg's Two-Factor Theory, have concluded that satisfaction with each factor can enhance overall performance. However, most existing literature tends to dissect the influence of intrinsic and extrinsic rewards, not the influence of overall rewards on employee performance (Bhatt et al., 2022; Li et al., 2023).

It gives the empirical literature a gap and fills how Total Reward, even considering the integration of both types of reward, identifies its effects on employee performance based on Herzberg's theory. In other words, this study also considers social reward as part of total reward. Social rewards come with interpersonal relationships, support from co-workers, and the social environment at work. Other recent studies have also pointed out social rewards as essential in increasing employee performance, especially in workplaces that foster a more collaborative and supportive team environment (Nguyen & Prentice, 2022; Tarigan et al., 2022). Nevertheless, relatively few studies have investigated the effect of social rewards regarding Herzberg's Two-Factor Theory. Therefore, this study will further investigate the role of social rewards in influencing employee performance.

2.2 The Effect of Extrinsic Reward on Employee Performance Based on Herzberg's Two-Factor Theory

According to Herzberg's Two-Factor Theory, hygiene factors cannot create lasting motivation for employees, and these factors involve extrinsic rewards like salary, benefits, and working conditions.

They can only work to prevent dissatisfaction. While hygiene factors, such as extrinsic rewards, can improve poor working circumstances, they will not significantly improve employee performance. Their absence may result in dissatisfaction and reduced motivation. According to (Herzberg et al., 1950), these factors have little impact on satisfaction and are primarily concerned with employees' work contexts. Herzberg says that employees will only continue to be motivated to work if motivators (intrinsic rewards) are present. Therefore, high salaries or good facilities will not sustain work motivation since employees will have gotten used to these things in the long run (Yustianto, Epenetus, Rozika, & Syarif, 2025).

Recent research indeed supports this view. For instance, Shaheen et al. (2020) established that extrinsic rewards slightly influence employees' creative performance. It was evident when they said, "Employees consider extrinsic rewards as their rightful entitlement; it does not encourage them to enhance performance." It is reconfirmed by the research findings of Hareendrakumar et al. (2021) when they find that extrinsic rewards are only temporarily fulfilling and do not significantly influence increasing long-term productivity or performance. Similarly, Alqudah et al. (2023) observed that extrinsic rewards reinforced compliance with organizational rules rather than performance improvement by employees.

Similarly, Nguyen & Prentice (2022) revealed the inverse relationship between rewards and performance when employees depend entirely on extrinsic rewards. The study found that employees who regard salary or benefits as the primary motivator will progressively deteriorate in performance if the reward is not frequently fine-tuned. It, in essence, attests that extrinsic rewards have their limitations in motivating and often fail to elicit the long-term motivation necessary for improving performance. Herzberg's Two-Factor Theory and existing empirical evidence conclude that extrinsic rewards have no significant influence on employee performance. Employees need more intrinsic motivators to motivate them to higher performance. This study presents the first hypothesis as follows:

H1: Extrinsic reward has no effect on employee performance based on Herzberg's Two-Factor Theory

2.2 The Effect of Intrinsic Reward on Employee Performance Based on Herzberg's Two-Factor Theory

According to Herzberg, motivators, also known as intrinsic rewards, are directly linked to the content of the job itself. These include responsibility, achievement, recognition, and personal growth. They are supposed to be the key factors creating satisfaction with the job and, as a result, intrinsic motivation that provokes employees to aim at higher performance. While the extrinsic rewards are short-lived, the intrinsic rewards provide a source of motivation for a long time, again making the employees highly motivated toward achieving any organizational goal.

There is empirical support for this. Manzoor et al. (2021) study demonstrated that intrinsic rewards strongly correlate with employee motivation and performance. They established that workers who felt they were appreciated for their contribution and those with defined responsibilities were prone to good performance. According to further research by (Murayama, 2022), intrinsic rewards increase workers' curiosity and interest in work, translating into better performance. Furthermore, Clay et al. (2022) have noted that rewarding cognitive effort can increase the intrinsic value of mental work, making employees more internally motivated to complete assigned tasks.

Zheng et al. (2020) emphasized that intrinsic rewards enhance employee engagement and offer deeper motivation to achieve their goals. In this context, intrinsic rewards encourage employees to produce more work and add creativity toward finding new solutions for accomplishing things. It, therefore, implies that intrinsic rewards better impact employee performance because the feeling of being valued in one's work makes employees deliver the best. Overall, intrinsic rewards significantly impact employee performance since they can offer long-term sustainable motivation. Drawing from empirical evidence and Herzberg's Two-Factor Theory, this study second hypothesizes as follow:

H2: Intrinsic reward positively affects employee performance based on Herzberg's Two-Factor Theory.

2.3 The Effect of Social Reward on Employee Performance Based on Herzberg's Two-Factor Theory

In Herzberg's Two-Factor Theory, the aspects of motivation that influence employee performance are divided into two main categories: motivators and hygiene factors. According to Herzberg, motivators are intrinsic factors that promote job satisfaction, such as achievement, recognition, and responsibility, while hygiene factors are extrinsic factors that prevent dissatisfaction but do not directly motivate or improve employee performance (Herzberg et al., 1950; Herzberg et al., 1966). One crucial aspect that has yet to be discussed in depth in Herzberg's theory is social reward, which can be classified as a factor that plays a role in creating social support and interaction between employees. In this context, social rewards include recognition and appreciation provided by coworkers and managers and supportive interpersonal relationships in the workplace (Toni, 2025).

Several contemporary studies show that social rewards are essential in improving employee performance. Research conducted by Tarigan et al. (2022) found that strong social support from management and coworkers can increase productivity and job satisfaction. This research supports the view that social rewards significantly influence employee performance. Similarly, research conducted by Hareendrakumar et al. (2021) found that satisfaction with total rewards, including social rewards, positively impacts public sector employee performance. Social factors include superiors and colleagues, who can provide a motivational boost through daily interactions in the work environment.

In addition, social rewards can be seen as part of the motivators in Herzberg's framework as they increase recognition and sense of achievement through positive interactions with others in the workplace. Munap et al. (2021) research at the Royal Malaysian Navy also found that social rewards play a role in improving employee performance through enhancing motivational factors. It aligns with the idea that good interpersonal relationships in the workplace can increase intrinsic motivation and, ultimately, employee performance. This research shows that although social reward is not an explicit part of Herzberg's theory, it can be considered a factor that increases intrinsic motivation through positive social interactions.

Furthermore, other studies have also shown that social rewards can mediate the relationship between extrinsic and intrinsic rewards and employee performance. For example, research by Nguyen & Prentice (2022) found that social interactions and colleague recognition are essential in knowledge sharing within the organization, improving employee performance. These findings indicate that social rewards drive performance through motivational mechanisms and the development of strong professional relationships within the organization.

In a previous literature review, Bhatt et al. (2022) also tested Herzberg's Two-Factor Theory on millennials and found that social rewards are essential in motivating young employees. Millennials, who rely heavily on social recognition and interpersonal relationships, suggest that social rewards can significantly influence employee performance more significantly than previous generations. This research highlights the importance of social rewards as a motivator to boost employee performance through positive social interactions and recognition from coworkers and management.

Overall, social rewards are an important motivational factor within the framework of Herzberg's Two-Factor Theory, even though it is not explicitly mentioned in the original theory. Social support from coworkers and superiors and social recognition can increase employees' intrinsic motivation, which in turn impacts improving their performance. This research strengthens the hypothesis that social rewards influence employee performance through increased job satisfaction and intrinsic motivation resulting from positive social interactions in the workplace (Li et al., 2023; Tarigan et al., 2022). Therefore third hypothesis as follow:

H3: Social reward affects employee performance based on Herzberg's Two-Factor Theory

3. Method

3.1 Measurements

The present paper contributes to the literature on Total Reward and employee performance, using Herzberg's Two-Factor Theory as a theoretical framework. The survey questionnaire used in this study was adapted from existing literature to measure different dimensions of Total Reward and employee

performance. The Total Reward construct was assessed by measuring extrinsic reward, intrinsic reward, and social rewards, following Alhmoud & Rjoub (2019). Six latent constructs were created for extrinsic rewards, which include 22 items: financial reward, employee insurance, promotion opportunities, organizational support of education and training, supervisor support for career development, and reasonable workload. These latter items evaluated how rewards affect employee performance. The intrinsic reward part included 4 latent constructs in total 28 items. Subjects answered questions on supervisor support for job tasks, input into job tasks, the meaning of job tasks, and co-worker support—factors linked to cognitive motivation. Finally, the social reward component addressed the helping environment, including social support and recognition from co-workers to supervisors.

An instrument adapted from Rodwell et al. (1998) was used to measure employee performance, who designed a scale comprising nine items investigating such aspects of performance as productivity, quality of work, and pride in one's work. This address, the perception of Total Reward and its relationship to performance, was measured with a 5-point Likert scale questionnaire from Strongly Disagree to Agree Strongly.

3.2 Sample

The respondents of this study were bank employees in Lampung, Indonesia. Based on the 250 questionnaires distributed, 205 were returned and filled in altogether, representing a reasonable response rate (82%). The respondents were chosen by Simple Random sampling to get general for Lampung Bank employees. Prior to the initiation of data collection, the purpose and voluntary participation part were explained to every participant. Participants were informed that their data would be used for research purposes only and kept anonymous. The majority of the respondents had bachelor's degrees, while some had postgraduate or diploma degrees. Most respondents were aged between 31 and 40, indicating that the age range was even wider. This heterogeneity in terms of education profile and age will be able to corroborate the previous study on determinants associated with employee performance, whether only total reward or combined variable (Indrayani et al., 2025).

3.3 Data Analysis Tool

The data analysis was carried out using SmartPLS version 4, mainly focusing on the measurement and structural models. The tool was chosen because it can handle complex structural models with multiple indicators and latent variables. Partial least squares structural equation modeling was applied to test the reliability and validity of the measurement model and relationships among constructs in the structural model. Reliability was assessed using Cronbach's alpha (α), Composite Reliability (CR), while validity was tested through average variance extracted (AVE). The use of PLS-SEM in this study follows previous research recommendations, highlighting the method's suitability for social science studies involving numerous latent variables and measurement items (Hair Jr et al., 2020; Sarstedt & Cheah, 2019). This method also facilitates in-depth analysis of direct and indirect relationships between variables, which is crucial for examining the effect of Total Reward on employee performance.

In addition, the second-order construct analysis approach was also applied in this study, especially to test complex constructs such as latent variables from the Extrinsic Reward and Intrinsic Reward dimensions. This approach combines first-order constructs into second-order constructs using the composites of composites method in the PLS-PM (Partial Least Squares Path Modeling) framework. This second-order analysis is relevant when conceptual constructs are composed of several dimensions that interact hierarchically (Schuberth et al., 2020). Each dimension (extrinsic and intrinsic reward) acts as a more abstract latent variable, allowing a more comprehensive understanding of the contribution of each dimension to the parent construct. A similar approach has also been used in studies of deviant behavior with a second-order construct approach, which shows the validity and reliability of this method in social and behavioral research (Roni et al., 2015). Thus, the use of second-order analysis in this study strengthens the theoretical arguments and the accuracy of the structural model developed.

4. Result and Discussion

4.1 Assessment of Measurement Model

In the Extrinsic Reward construct, Cronbach's alpha (α) value of 0.859 and Composite Reliability (CR) of 0.894 indicate that this construct has good internal reliability. The Average Variance Extract (AVE)

value of 0.588 indicates adequate convergent validity because it exceeded the recommended minimum limit of 0.5 (Hair et al., 2019). Thus, the indicators used can consistently represent the extrinsic reward construct. In detail, the Financial Reward indicator has the highest loading value of 0.873 with a VIF value of 2.868, indicating a strong contribution to the construct. Other indicators, such as Organizational Support for Education & Training and Employee Insurance, also show strong loadings of 0.832 and 0.769, respectively. The Promotion Opportunity and Supervisor Support for Career Development indicators have loadings of 0.706 and 0.756, indicating a fairly good contribution to the construct. However, the Reasonable Workload indicator has the lowest loading value of 0.641 with a VIF of 1.276, which is still within reasonable limits but shows a lower contribution compared to other indicators.

For the Intrinsic Reward construct, the α value of 0.882 and CR of 0.918 indicate very good internal reliability. The AVE value of 0.739 reflects strong convergent validity because it is far above the threshold of 0.5. The Input into Job Task and Meaning of Job Task indicators have high loadings of 0.906 and 0.907, respectively, with a VIF above 3, indicating that both contribute greatly to explaining this construct. In addition, Coworker Support and Supervisor Job Support also show significant contributions with loadings of 0.838 and 0.780, respectively, and a VIF below 2.1, indicating no multicollinearity problems.

The Social Reward construct has an α value of 0.677 and a CR of 0.860, indicating acceptable reliability even though its α value is relatively low. An AVE of 0.755 indicates that this construct has very good convergent validity. Its two indicators, SR1 and SR2, have loadings of 0.894 and 0.843, respectively, and a VIF of 1.356, confirming that both indicators are quite strong and have no multicollinearity. In the Employee Performance construct, an α value of 0.892 and a CR of 0.916 indicate a high level of reliability. An AVE of 0.608 also indicates that this construct has good convergent validity. The seven indicators used, namely PF2, PF5, PF6, PF7, PF8, PF9, and PF10, have loading values that vary from 0.726 to 0.819. These indicators have VIF values below 2.6, indicating that each indicator can be used validly and there is no high correlation problem between indicators. The complete loading values of the items for all dimensions can be seen in Appendix 1.

This measurement model shows good reliability and convergent validity in most constructs, and no multicollinearity problems exist in the indicators analyzed. These findings indicate that the instrument used in this study is suitable for measuring the Total Reward and Employee Performance constructs with the PLS-SEM approach, as suggested by Hair et al. (2020) and Sarstedt & Cheah (2019).

Table 1. Measurement Model

Later Variabel and Items	Outer loadings	VIF	α	CR	AVE
EXTRINSIC REWARD			0,859	0,894	0,588
Employee Insurance	0,769	2,106			
Financial Reward	0,873	2,868			
Organizational Support for Education & Training	0,832	2,772			
Promotion Opportunity	0,706	2,147			
Reasonable Workload	0,641	1,276			
Supervisor Support for Career Development	0,756	1,856			
INTRINSIC REWARD			0,882	0,918	0,739
Input into Job Task	0,906	3,300			
Meaning of Job Task	0,907	3,209			
Coworker Support	0,838	1,976			
Supervisor Job Support	0,780	2,036			
SOCIAL REWARD			0,677	0,860	0,755
SR1	0,894	1,356			

Later Variabel and Items	Outer loadings	VIF	α	CR	AVE
SR2	0,843	1,356			
EMPLOYEE PERFORMANCE			0,892	0,916	0,608
PF2	0,726	1,682			
PF5	0,819	2,507			
PF6	0,787	2,043			
PF7	0,777	1,940			
PF8	0,803	2,434			
PF9	0,772	1,935			
PF10	0,771	1,965			

Two approaches used in the discriminant validity analysis are the Heterotrait-Monotrait Ratio of Correlations (HTMT) and the Fornell-Larcker Criterion (Hair Jr et al., 2020; Sarstedt & Cheah, 2019; Sobaih & Elshaer, 2022). The HTMT Criterion shows that most HTMT values are below the threshold of 0.90 recommended by Henseler et al. (2015), indicating discriminant validity between constructs. The HTMT value between Extrinsic and Intrinsic rewards is 0.953, slightly exceeding the recommended limit, indicating potential discriminant problems between these two constructs. However, other HTMT values, such as between Intrinsic Reward and Employee Performance (0.794), Social Reward and Intrinsic Reward (0.901), and between Social Reward and Extrinsic Reward (0.740), are still within acceptable limits, reflecting that these constructs are generally quite different from each other empirically.

The Fornell-Larcker criterion was also used to validate the discriminant between constructs. In this approach, the square root value of AVE for each construct must be higher than the correlation between other constructs. The results show that all constructs meet this criterion. For example, the AVE root value of Employee Performance is 0.780, which is higher than the correlation between Employee Performance and other constructs such as Extrinsic Reward (0.654), Intrinsic Reward (0.719), and Social Reward (0.610). Likewise, Intrinsic Reward has an AVE root of 0.859, higher than its largest correlation to Extrinsic Reward (0.833). It confirms the existence of adequate discriminant validity between constructs.

Model fit analysis shows that the Standardized Root Mean Square Residual (SRMR) for the saturated and estimated models is 0.087. The SRMR value indicates that the model is still within the tolerance limit, although close to the recommended upper limit, so the model can be said to have an acceptable fit (Hair Jr. et al., 2020). d_{ULS} and d_G have values of 1.442 and 0.556 (saturated and estimated models), respectively. The relatively small and consistent values between models indicate no major difference between the assumed model and the empirical data. Chi-square in the PLS model is usually less emphasized than in covariance-based SEM (CB-SEM). However, the consistency of the values between the saturated and estimated models indicates the stability of the model. The Normed Fit Index (NFI) is 0.763, although it indicates that this model has not reached the optimal level of fit, but is still acceptable (Sarstedt & Cheah, 2019).

Table 2. Model Fit

Model fit	Saturated model	Estimated model
SRMR	0,087	0,087
d_{ULS}	1,442	1,442
d_G	0,556	0,556
Chi-square	650,000	650,000
NFI	0,763	0,763

4.2 Structural Model Assessment

Table 3 and Figure 1 provide insights into the structural model assessment conducted using partial least squares structural equation modeling (PLS-SEM). Based on the structural model analysis results presented in the Path Coefficients Table, only one of the three hypotheses is statistically supported. The first hypothesis (H1) tests the effect of Extrinsic Reward on Employee Performance (0.182, p-value 0.101). This value is insignificant at the 95% confidence interval (CI) level from -0.025 to 0.413, which includes zero, indicating that its effect cannot be statistically confirmed (Hair Jr et al., 2020).

On the other hand, the second hypothesis (H2), which tests the effect of Intrinsic Reward on Employee Performance, received significant support. The estimated value (0.426, p-value 0.005) indicates that the intrinsic effect on employee performance is strong and significant. The confidence interval from 0.174 to 0.758, which does not include zero, strengthens the conclusion that intrinsic rewards contribute positively and significantly to increased performance (Sarstedt & Cheah, 2019; Sobaih & Elshaer, 2022).

Meanwhile, the third hypothesis (H3) regarding Social Reward on Employee Performance (0.197, p-value 0.156) is insignificant. The confidence interval range of -0.126 to 0.382 also includes zero, indicating that the relationship is not strong enough to be concluded statistically. Overall, only intrinsic reward has been proven to significantly affect employee performance, while extrinsic reward and social reward have not shown a significant impact in this model. This finding supports the importance of internal rewards improving employee performance in the context of this study (Hair Jr et al., 2020; Sobaih & Elshaer, 2022).

Table 3. Structural Model Analysis

Hypothesis		Path coefficients			Confidence intervals	
		Estimate	T statistics	P values	2.5%	97.5%
H1	Extrinsic Reward -> Employee Performance	0,182	1,640	0,101	-0,025	0,413
H2	Intrinsic Reward -> Employee Performance	0,426	2,835	0,005	0,174	0,758
H3	Social Reward -> Employee Performance	0,197	1,419	0,156	-0,126	0,382

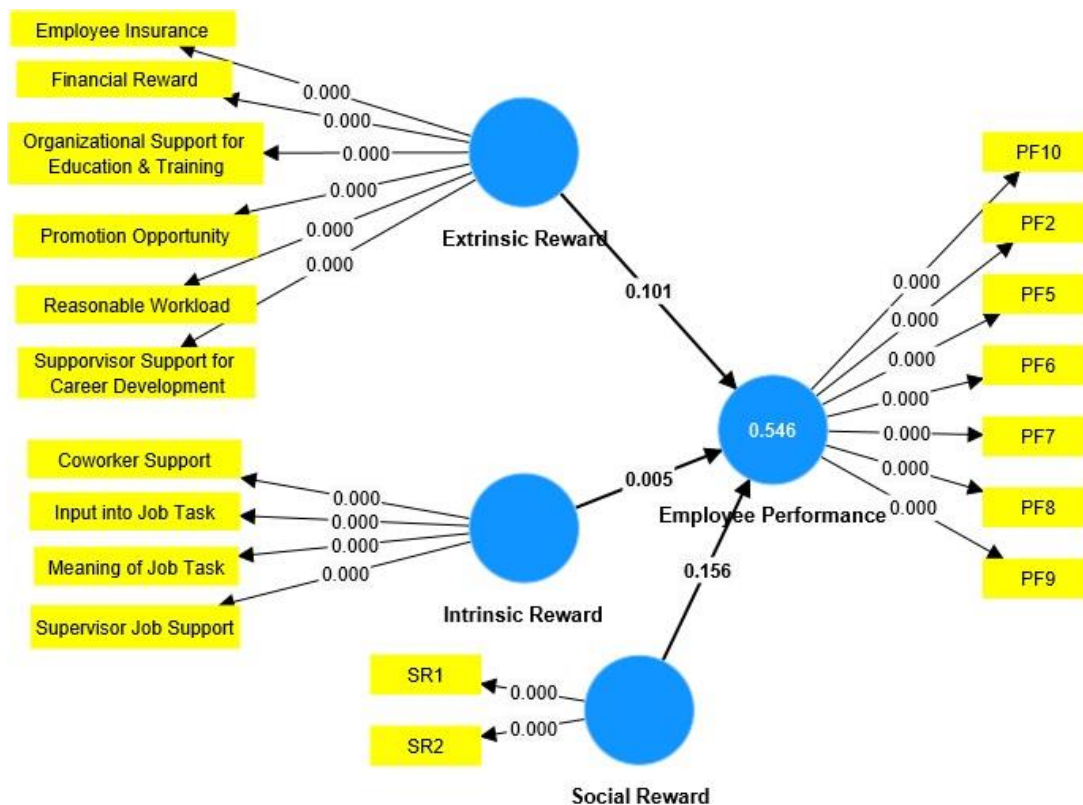


Figure 1. Structural Model of Second Order Stage

The results of the first hypothesis test in this study showed that extrinsic rewards did not significantly affect employee performance. This finding can be explained through the perspective of the Two-Factor Theory developed by Herzberg et al. (1966). In this theory, extrinsic rewards such as salary, benefits, and working conditions are categorized as hygiene factors, which, although they can prevent job dissatisfaction, do not directly motivate individuals to improve performance. In other words, these factors only create a "good enough" work environment but do not encourage higher achievement or proactive work behavior (Alrawahi et al., 2020; Lee et al., 2022).

Several previous studies support this finding, such as those stated by Bhatt et al. (2022), that millennials tend to be more motivated by intrinsic rewards than material compensation. In addition, research by Alhmoud and Rjoub (2019) shows that in the Middle Eastern context, extrinsic rewards play a limited role in driving retention or performance because employees value psychological aspects and personal growth more. It also aligns with the ideas of McGraw (2015) and Murayama (2022), who stated that excessive reliance on external rewards can damage a work's intrinsic value and reduce long-term motivation.

Although extrinsic rewards are important to avoid job dissatisfaction, organizations need to focus more on motivating factors to improve performance sustainably (Herzberg et al., 1966; Manzoor et al., 2021). These findings support the urgency to balance reward strategies with approaches that emphasize the intrinsic aspects of work motivation. The results of the second hypothesis test significantly support the positive influence of intrinsic rewards on employee performance. This finding is in line with Herzberg's Two-Factor Theory, which separates motivational factors (intrinsic) and hygiene factors (extrinsic) in influencing job satisfaction and performance (Herzberg et al., 1966). In this framework, inherent rewards such as recognition, achievement, meaningful work, and responsibility can increase employee internal motivation, which ultimately positively impacts performance improvement.

Several studies have confirmed the significant role of intrinsic rewards on job performance. Manzoor et al. (2021) showed that intrinsic rewards drive greater employee motivation, contributing to achieving

work targets more optimally. Alrawahi et al. (2020) also proved the relevance of Herzberg's theory in healthcare, where motivators such as personal development and a sense of achievement have a major impact on performance. In the Middle East context, Alhmoud and Rjoub (2019) underlined the importance of the total reward approach, where intrinsic elements play an important role in maintaining and driving employee productivity.

In line with Herzberg's view, increasing intrinsic rewards is proven to be key to building a productive and sustainable work environment. Organizations should develop performance management systems emphasizing the importance of non-material (intrinsic) rewards. Based on the third hypothesis analysis results, there was no significant effect between social rewards and employee performance. This finding can be explained through Herzberg's Two-Factor Theory framework. In this context, social rewards are categorized as hygiene factors. According to Herzberg et al. (1966), hygiene factors do not motivate directly, but their absence can cause dissatisfaction. Thus, social rewards may not be enough to significantly improve performance without being supported by intrinsic motivators such as achievement or self-development.

Previous studies also support the idea that social rewards alone do not guarantee improved performance. Alhmoud and Rjoub (2019) showed that total rewards have varying impacts depending on cultural and organizational contexts. Likewise, Alrawahi et al. (2020) found that intrinsic factors influenced job satisfaction in Oman's healthcare context. Bhatt et al. (2022) even suggested that millennials respond better to intrinsic than social rewards. These results emphasize the importance of focusing managerial strategies on providing intrinsic motivators to drive optimal performance. Social support remains an important element for a healthy work environment. However, as explained in Herzberg's theoretical framework, this factor is not enough to directly improve performance. This finding aligns with previous studies that emphasize the effectiveness of intrinsic rewards in enhancing employee motivation and performance (Manzoor et al., 2021; Murayama, 2022).

5. Conclusions

5.1 Conclusions

The findings show that not all forms of rewards have a significant impact on employee performance. According to Herzberg's two-factor theory, extrinsic and social rewards do not directly improve performance. The theory states that these factors prevent job dissatisfaction but cannot motivate directly. In other words, although creating a decent work environment is important, extrinsic and social rewards do not necessarily drive real performance improvements. On the other hand, intrinsic rewards have positively affected employee performance. Rewards such as recognition, responsibility, and meaning in work can generate strong internal motivation, which drives higher work achievement. These results confirm that employee motivation is more effective in creating sustainable performance. Although social rewards are still needed to create a harmonious work environment, the main focus in improving performance should be strengthening intrinsic motivators. By emphasizing non-material rewards, organizations can build a work culture that is more productive, meaningful, and resilient to long-term challenges.

The theoretical implications of the findings of this study enrich the understanding of Herzberg's two-factor theory in the context of modern organizations, especially regarding the effectiveness of various types of rewards on employee performance. The study results show that extrinsic and social rewards do not significantly affect performance, which strengthens the position of this theory that these factors are included in the hygiene category. In this framework, the existence of these factors only prevents dissatisfaction but cannot be the main driver of increased performance. This finding challenges the traditional assumption that financial incentives and social relations are the main tools for increasing productivity and directs theoretical focus to the intrinsic dimension of work motivation.

The significant influence of intrinsic rewards on performance supports the relevance of internal motivation theory in today's work, especially for younger generations, such as millennials, who seek meaning and satisfaction in work. It confirms that motivation theory cannot be applied universally without considering the culture, generation, and work sector context. This study contributes to the

human resource management literature by offering empirical evidence that the total reward approach needs to emphasize intrinsic aspects to encourage optimal performance. Thus, these findings broaden the scope of Herzberg's two-factor theory and encourage the development of more contextual, adaptive, and psychological needs-oriented models of work motivation for today's employees. Motivation theory needs to be continuously updated to address the dynamics of increasingly complex and diverse work needs.

The practical implications of this study's findings suggest that organizations need to review their performance management strategies by emphasizing the importance of intrinsic rewards. Managers should not only provide financial compensation or create a supportive social environment but should also be able to design work systems that provide meaning, recognition, opportunities for growth, and a sense of achievement to employees. Leadership training should focus on providing positive feedback, encouraging employee participation in decision-making, and creating a workspace that allows for personal growth.

For organizations dominated by the younger generation, human resource strategies should be directed at creating meaningful work experiences, not just facilities or material rewards. This aligns with global trends showing that employees today value flexibility, autonomy, and self-development as indicators of job satisfaction and high performance. In terms of policy, public and private institutions need to formulate compensation and reward policies that balance financial and non-financial aspects. The preparation of human resource policies should not only rely on benefits and bonuses but also include career development programs, mentoring, recognition of achievements, and performance evaluations based on intrinsic motivation. The government must encourage regulations or incentives for companies to prioritize employee psychological well-being. This approach would ensure that employment policies are not only oriented towards short-term productivity but also towards long-term sustainability and quality of working life.

5.2 Suggestions

Some limitations of this study need to be considered. First, it has not fully explained the psychological mechanisms behind the influence of extrinsic rewards on performance. Second, it was conducted in a specific organizational and cultural context, so generalizing the results to other organizational contexts with different cultural characteristics or structures must be done with caution.

Third, the social reward variables in this study may not have been developed comprehensively to capture broader social dimensions, such as peer influence, social support from superiors, or team dynamics. Fourth, the data were collected at one point, so they cannot describe changes in motivation and performance longitudinally.

For further research, it is recommended that a mixed methods approach be used that combines quantitative and qualitative data to explore the meaning of intrinsic and social rewards more deeply from the employee perspective. In addition, cross-cultural studies are also important to see how rewards are valued differently in diverse social and economic contexts. Further research can also explore the mediating or moderating role of variables such as job satisfaction, employee engagement, and leadership style on the relationship between reward types and performance. Thus, understanding of work motivation can be more holistic and applicable.

Acknowledgment

We want to thank the LPPM of Lampung Universitas for their technical support and all the contributors who helped with this study.

Financial Disclosure

This research received a grant from the Indonesia Ministry of Education, Culture, Research, and Technology

References

- Alhmoud, A., & Rjoub, H. (2019). Total Rewards and Employee Retention in a Middle Eastern Context. *Sage Open*, 9(2), 2158244019840118. <https://doi.org/10.1177/2158244019840118>
- Alqudah, H., Amran, N. A., Hassan, H., Lutfi, A., Alessa, N., & Almaiah, M. A. (2023). Examining the critical factors of internal audit effectiveness from internal auditors' perspective: Moderating role of extrinsic rewards. *Heliyon*. <https://doi.org/10.1016/j.heliyon.2023.e20497>
- Alrawahi, S., Sellgren, S. F., Altouby, S., Alwahaibi, N., & Brommels, M. (2020). The application of Herzberg's two-factor theory of motivation to job satisfaction in clinical laboratories in Omani hospitals. *Heliyon*, 6(9). <https://doi.org/10.1016/j.heliyon.2020.e04829>
- Bhatt, N., Chitranshi, J., & Mehta, M. (2022). Testing Herzberg's two factor theory on millennials. *Cardiometry*, 22, 231–236. <http://dx.doi.org/10.18137/cardiometry.2022.22.231236>
- Clay, G., Mlynski, C., Korb, F. M., Goschke, T., & Job, V. (2022). Rewarding cognitive effort increases the intrinsic value of mental labor. *Proceedings of the National Academy of Sciences*, 119(5), e2111785119. <https://doi.org/10.1073/pnas.2111785119>
- Davis, A. J., MacCarron, P., & Cohen, E. (2021). Social reward and support effects on exercise experiences and performance: Evidence from parkrun. *PloS One*, 16(9), e0256546. <https://doi.org/10.1371/journal.pone.0256546>
- Hair Jr, J. F., Howard, M. C., & Nitzl, C. (2020). Assessing measurement model quality in PLS-SEM using confirmatory composite analysis. *Journal of Business Research*, 109, 101–110. <https://doi.org/https://doi.org/10.1016/j.jbusres.2019.11.069>
- Hareendrakumar, V. R., Subramoniam, S., & Bijulal, D. (2021). Measuring total reward satisfaction: Scale Development and empirical validation for public sector employees in India. *Metamorphosis*, 20(2), 77–89. <http://dx.doi.org/10.1177/09726225211041873>
- Herzberg, F., Mausner, B., & Synderman, B. (1950). *The motivation to work*, 2nd. New York: John Wiley and Sons.
- Herzberg, F., Snyderman, B. B., & Mausner, B. (1966). *The motivation to work: 2d Ed.* J. Wiley.
- Indrayani, S., Mira, M., Mayasari, N., Astuti, W., Anastasya, R. A., & Mulyadi, N. A. A. (2025). Sales Forecasting with Exponential Smoothing for Webrooming–Showrooming Strategy at Yumna Batik. *Studi Akuntansi, Keuangan, dan Manajemen*, 5(1), 257–268. doi:[10.35912/sakman.v5i1.3234](https://doi.org/10.35912/sakman.v5i1.3234)
- Lee, B., Lee, C., Choi, I., & Kim, J. (2022). Analyzing determinants of job satisfaction based on two-factor theory. *Sustainability*, 14(19), 12557. <https://doi.org/10.3390/su141912557>
- Li, C., Duan, X., Chu, X., & Qiu, Y. (2023). Total reward satisfaction profiles and work performance: A person-centered approach. *Heliyon*, 9(3). <https://doi.org/10.1016/j.heliyon.2023.e14154>
- Manzoor, F., Wei, L., & Asif, M. (2021). Intrinsic rewards and employee's performance with the mediating mechanism of employee's motivation. *Frontiers in Psychology*, 12, 563070. <https://doi.org/10.3389/fpsyg.2021.563070>
- McGraw, K. O. (2015). The detrimental effects of reward on performance: A literature review and a prediction model. *The Hidden Costs of Reward*, 33–60.
- Munap, R., Hashim, M., Zain, M., & Amin, R. (2021). Examining the Relationship of Herzberg Two-Factor Theory towards Job Performance in Royal Malaysian Navy. *Turkish Online Journal of Qualitative Inquiry*, 12(3).
- Murayama, K. (2022). A reward-learning framework of knowledge acquisition: An integrated account of curiosity, interest, and intrinsic–extrinsic rewards. *Psychological Review*, 129(1), 175. <https://psycnet.apa.org/doi/10.1037/rev0000349>
- Nguyen, T.-M., & Prentice, C. (2022). Reverse relationship between reward, knowledge sharing and performance. *Knowledge Management Research & Practice*, 20(4), 516–527. <https://doi.org/10.1080/14778238.2020.1821588>
- Rodwell, J. J., Kienzle, R., & Shadur, M. A. (1998). The relationship among work-related perceptions, employee attitudes, and employee performance: The integral role of communications. *Human Resource Management: Published in Cooperation with the School of Business Administration, The University of Michigan and in Alliance with the Society of Human Resources Management*, 37(3-4), 277–293.

- Roni, S. M., Djajadikerta, H., & Ahmad, M. A. N. (2015). PLS-SEM Approach to Second-order Factor of Deviant Behaviour: Constructing Perceived Behavioural Control. *Procedia Economics and Finance*, 28, 249–253. [https://doi.org/https://doi.org/10.1016/S2212-5671\(15\)01107-7](https://doi.org/https://doi.org/10.1016/S2212-5671(15)01107-7)
- Sarstedt, M., & Cheah, J.-H. (2019). *Partial least squares structural equation modeling using SmartPLS: a software review*. Springer. <https://doi.org/https://doi.org/10.1057/s41270-019-00058-3>
- Schuberth, F., Rademaker, M. E., & Henseler, J. (2020). Estimating and assessing second-order constructs using PLS-PM: the case of composites of composites. *Industrial Management & Data Systems*, 120(12), 2211–2241. <https://doi.org/10.1108/IMDS-12-2019-0642>
- Shaheen, K., Waheed, A., & Hashmi, W. H. (2020). Extrinsic rewards and creative performance syndrome: The mediating mechanism and interacting effects. *Thinking Skills and Creativity*, 38, 100713. <http://dx.doi.org/10.1016/j.tsc.2020.100713>
- Sihombing, M., & Febriansyah, F. (2025). Kualitas Konten sebagai Moderator Pengaruh Media Instagram dan Brand Ambassador Skintific. *Studi Akuntansi, Keuangan, dan Manajemen*, 5(1), 101-113. doi:[10.35912/sakman.v5i1.4100](https://doi.org/10.35912/sakman.v5i1.4100)
- Sobaih, A. E. E., & Elshaer, I. A. (2022). Personal traits and digital entrepreneurship: a mediation model using SmartPLS data analysis. *Mathematics*, 10(21), 3926. <https://doi.org/10.3390/math10213926>
- Sumiansi, S., Fadjar, A., Sutomo, M., & Wanti, S. (2025). Pengaruh Digital Marketing dan Daya Tarik terhadap Keputusan Berkunjung (Wisata Paralayang Matantimali). *Studi Akuntansi, Keuangan, dan Manajemen*, 5(1), 187-202. doi:[10.35912/sakman.v5i1.4294](https://doi.org/10.35912/sakman.v5i1.4294)
- Tarigan, J., Cahya, J., Valentine, A., Hatane, S., & Jie, F. (2022). Total reward system, job satisfaction and employee productivity on company financial performance: evidence from Indonesian Generation Z workers. *Journal of Asia Business Studies*, 16(6), 1041–1065. <http://dx.doi.org/10.1108/JABS-04-2021-0154>
- Thant, Z. M., & Chang, Y. (2021). Determinants of public employee job satisfaction in Myanmar: Focus on Herzberg's two factor theory. *Public Organization Review*, 21(1), 157–175. doi:[10.1007/s11115-020-00481-6](https://doi.org/10.1007/s11115-020-00481-6)
- Toni, W. F. L. (2025). Pengaruh Kualitas Sistem, Layanan, Pemasaran Relasional terhadap Loyalitas melalui Kepuasan Pengguna. *Studi Akuntansi, Keuangan, dan Manajemen*, 5(1), 31-50. doi:[10.35912/sakman.v5i1.3973](https://doi.org/10.35912/sakman.v5i1.3973)
- Wang, D., Liu, T., & Shi, J. (2017). Development of monetary and social reward processes. *Scientific Reports*, 7(1), 11128. <http://dx.doi.org/10.1038/s41598-017-11558-6>
- Yustianto, D. B. P., Epenetus, A. J., Rozika, T. F., & Syarif, A. (2025). The Effect of Fiscal Decentralization on the Performance of Regional Apparatus Organizations. *Studi Akuntansi, Keuangan, dan Manajemen*, 5(1), 161-171. doi:[10.35912/sakman.v5i1.3611](https://doi.org/10.35912/sakman.v5i1.3611)
- Zheng, Z., Oh, J., Hessel, M., Xu, Z., Kroiss, M., Van Hasselt, H., Silver, D., & Singh, S. (2020). What can learned intrinsic rewards capture? *International Conference on Machine Learning*, 11436–11446. <https://doi.org/10.48550/arXiv.1912.05500>