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**THE EFFECT OF FINANCIAL AND NON-FINANCIAL  
REWARDS ON EXECUTIVES' PERFORMANCE IN  
MANUFACTURING FIRMS: A CASE STUDY AT KULIM-HI  
TECH PARK, KULIM, KEDAH, MALAYSIA**

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**Abstract:**

Compensation and benefits are one of the very important human resource management practices in addressing issues related to job performance. Therefore, the purpose of this study is to assess the extent of the role of financial and non-financial rewards and their contribution to the performance of executives in manufacturing firms. Methodology in this study was built where a questionnaire was designed for data collection to measure compensation and benefits related to financial and non-financial rewards on executives' performance. Data were collected among executives in manufacturing firms at Kulim Hi-tech Park, Kulim, Kedah, Malaysia which had a 4438 population, 351 samples, and 244 respondents successfully collected from 25 manufacturing firms. A stratified sampling method was used to determine the samples and the data obtained were analyzed using SmartPLS version 3.7.8. The finding of this study found that financial rewards have no significant relationship with executive job performance. While non-financial rewards have a significant relationship with executive job performance. It is proved from SmartPLS analysis shown that the financial rewards variable have a negative impact on executives' performance compared with non-financial rewards have a positive impact on executives' performance in manufacturing firms. The limitation of the study only covers the manufacturing firms. Another limitation is the respondents only included executives. Apart from these limitations, this study can give a strong impact on the top management of manufacturing firms to design the strategy of compensation and benefits which covered financial and non-financial rewards to be more effective in improving the work performance of executives.

**Keywords:**

Compensation and Benefits, Financial and Non-Financial Rewards, Executives' Performance

## Introduction

Compensation and benefits are one of the most important human resource management practices in an organization. Compensation and benefits involved rewards in monetary and non-monetary forms. Rewards in financial form involved salaries, wages, bonuses, insurance payments, medical treatment, transport allowance, and diligence allowance. While rewards in the form of non-monetary involved letters of appreciation, letters of condemnation, and letters of congratulations. Both financial and non-financial rewards play an important role in increasing the motivation of each employee to work harder to achieve their job performance with greater excellence (Uwimpuhwe, Mushabe & Kajugiro,2018; Kurnia & Ramdani, 2021). Satisfactory rewards for each employee can inspire the entire workforce to always maintain the skills already available to them in handling their daily tasks and responsibilities. Skills, abilities, and competencies are the most important factors that an employee must possess to ensure that organizational goals can be achieved (Wambui & Kathombe,2018). The result of the competencies possessed can have a positive impact on the work performance of each employee and this situation contributed to the growth and profitability of the organization for a long period (Mabaso, 2019; Zafar, Sarwar, Zafar & Sheeraz,2021).

Every organization needs to ensure that the remuneration given to each of its employees is commensurate with their ability in performing a task and the current economic position. In addition, the salary factor should also be on par with other organizations because any differences in the salary gap and financial benefits affected job performance. Every employee is motivated by salaries and financial incentives because every employee who works has one goal which is salaries and financial incentives that can satisfy them (Ketut, Saparuddin, Budi, Herlita, Tuty & Indah, 2018). Salaries and financial incentives have a very significant relationship to the job performance of each employee. Therefore, effective compensation and benefits practices can improve the job performance of each employee as well as increase their level of job satisfaction to constantly improve all the skills needed to achieve a proud job performance and growth of their organization to compete better in the global marketing arena (Mardiyanti, Utami & Prasetya,2018; Jufrizen, 2021).

## Research Objectives and Research Questions

### *Objectives of this study:*

1. To evaluate the relationship between financial rewards on executives' performance in manufacturing firms.
2. To examine the relationship between non-financial rewards on executives' performance in manufacturing firms.

### *Research Questions*

1. Is there any significant relationship between financial rewards on executives' performance in manufacturing firms?
2. Is there any significant relationship between non-financial rewards on executives' performance in manufacturing firms?

## Literature Review

### *Financial Rewards*

#### *Salary*

Salary is a financial remuneration paid by an organization to one of their employees as payment for duties and responsibilities that have been performed effectively. The salary factor is an important element and is fundamental in the performance of a task. Martono, Khoiruddin, and Wulansari (2018) in their study stated that every employee who works is to earn a salary. It is impossible for an employee not to think about the salary that will be earned when they perform a task well for the organization in which they work. Meanwhile, Moruri, Obwavo, Kimeto, Khandira, and Mbatha (2018) stated that a salary that is appropriate to their duties and responsibilities can have a positive impact on their work performance. This is due to the high level of satisfaction with the financial rewards earned. Moruri *et.al* added that a reasonable salary contributes to a good level of work motivation to ensure that they always continue to work harder to achieve their organizational objectives. In addition, a salary that is appropriate to the current economic situation is important because every employee is not burdened with uncertain economic conditions that cause the price of goods to be unstable. Nair and Ganesh (2017) added that the increase in the price of goods caused the salary earned to be insufficient to cover their daily needs. Novianty and Evita, (2018) on the other hand, emphasized that salaries that were still at the old level and not following the change of time would affect poor work performance. Organizations need to be open to involving the interests of their employees to participate in making a decision involving salary. This situation will cause each employee to have high motivation in performing a task and this directly shows their work performance will always improve over time. Calvin (2017) found that organizations cannot be arbitrary in setting salaries, for each of their employees. Low or different salaries from other organizations affect low productivity of job performance. Organizations need careful planning in involving the provision of salaries by the current economic situation which involves the price of goods and daily expenses are high and this situation will destroy the income of the organization's staff. Omuya (2018) in his study stated that the role of salary is very important to job performance. Salaries should be mutually adequate between daily life and current needs so that the remuneration earned is mutually adequate.

#### *Bonus*

Bonuses can be defined as extra and unexpected advantages. Bonuses are additional dividends paid to each employee as a reward for the growth of the organization's profits as an effort to increase the motivation and productivity of an employee's work to be better. Baledi and Saed (2017) in his study stated that bonus payment is compensation for the amount of payment that has been determined as basic salary or hourly rate of payment. The basic amount of compensation has been determined in the job offer, in the employee's personal file or in the contract. Bonus payments can refer to the achievement of several key indicators depending on the organization's capabilities but are often related to the organization's income for a fiscal year. Usually, organizations notify their employees in advance if they will receive a bonus or vice versa. Feraro-Banta and Shaikh (2017) in his study stated that bonuses play a role in increasing the motivation of each employee to continue working harder because all their achievements have been evaluated and measured properly. The effect of the bonus rewards given causes every employee to feel that the organization recognized their existence as an important asset in contributing to the achievement as well as growth of the organization.

Meanwhile, Indriyani (2017) stated that bonuses and performance appraisals are inseparable. For outstanding employees, good performance appraisals are due to them producing efficient work productivity and achieving goals. The result of productive work causes their organization to reward in the form of bonuses to each of their employees. Chepchumba and Kimutai (2017) added that bonuses and job satisfaction are important combinations to improve the job performance of each employee. Organizations need to maintain a high level of job satisfaction to create the organizational competencies and job performance needed for more rapid organizational growth. Abadi and Renwarin (2017) stated that bonuses have an important relationship with work motivation and if the bonus earned is high, work motivation will be better to work harder and this directly improve job performance to be better. Gunawan and Amalia (2017) studied about the role of bonuses in influencing job performance by placing quality of life as a mediator. The results of this study have important implications on the work performance of staff of an organization when this study found that bonus factors and quality of daily life play an important role in improving job performance in the workplace. Bonus factors and quality of daily life for employees of the organization need to be given emphasis and attention by top management because it contributed to the influence of job performance. In this study found that there is a significant relationship between bonus and job performance with quality of daily life as a mediator. The results of this study shown that every employee should be given priority in giving bonuses especially when the organization manages to get high profits so that excellent work performance can be maintained. Thus, the granting of bonuses can maintain the performance of skilled work and the performance of the organization as a whole.

### ***Financial Incentives***

Financial Incentives refer to any indirect financial incentives such as allowances, paid leave, overtime pay, employer contributions through the Employees Provident Fund (EPF), and any marriage leave, death, paid childbirth, financial incentives such as transportation allowances, allowances meals, social security, insurance policies, medical benefits, and profit-sharing. Akter and Moazzam (2019) in their study stated that financial incentives have a significant relationship with job performance. Kiruja and Mukuru (2018) in their study stated that there is a significant relationship between financial incentives with the work performance of employees of an organization. This study emphasized the importance of indirect remuneration which remuneration in monetary form has a positive impact on the job performance of each employee. While Saleh and Khawaja (2018) stated that financial incentives that are appropriate to the tasks and responsibilities performed have high implications on job performance. Job-commensurate financial incentives are the main factors contributing to low retrenchment rates, controllable absenteeism, quality work discipline, and work commitment to perform a variety of work is high because there is a sense of satisfaction with the financial incentives obtained although the work is difficult to perform. Anthonia, Okeke, and Ikechukwu (2019) added that financial incentives such as transportation facilities, travel allowances, and holiday incentives have a positive impact on job performance. This can be seen from the indicators of financial incentives in the study that has been done and the results prove that the exogenous variable is financial incentives directly has a significant effect on the endogenous variable which is job performance. This shows that the higher the financial incentives given by an organization to its employees will be able to continuously improve the work performance of its employees. In addition, the satisfaction of the results of financial incentives provided by the organization has an important influence on job performance. Meanwhile, Isaac (2018) stated that financial incentives and job satisfaction are an important combination to improve the job performance

of each employee. Organizations need to maintain a high level of job satisfaction to create the organizational competencies and job performance needed for more rapid organizational growth. Financial incentives that are still at the old level and do not follow the changes over time will affect poor work performance. Organizations need to be open in involving the interests of their employees to participate in making decisions that involve financial incentives. This situation caused each employee to have high motivation in the performance of a task and this directly shows that their work performance always improves over time.

### ***Non-Financial Rewards***

Non-Financial Rewards refer to non-monetary rewards including letters of appreciation, letters of achievement, letters of congratulations, and letters of commendation given by employers in recognition of the successes and achievements made by their employees (Berman, Bowman, West & Wart, 2019; Bratton & Gold, 2017). Chukwudi, Chigozie, and Chijioke (2018) found that there is a significant relationship between non-monetary rewards on job performance. Based on the findings in this study, non-monetary rewards have their importance in influencing job performance. These non-monetary rewards involved rewards such as congratulatory letters, letters of appreciation, or letters of commendation when an employee can perform well. This shows that top management pays attention to the achievements of its employees. The study also found that non-monetary rewards have an effective effect on work productivity in addition to the existence of harmony in the organization of fellow employees, improvement in work results, high commitment to daily tasks, and efficiency of each employee at a high level. Employees who are in the best position as a result of top management's concern for their performance can provide space for the organization to achieve positive change towards more aggressive and profitable improvement and growth. Non-monetary rewards also play a role in encouraging its employees to work hard, positive work attitude, and high performing work results and this situation increases the level of staff satisfaction to keep working because all the achievements they make get recognition from top management (Nyaribo & Nyakundi, 2016; Oaya, 2019; Prihantoko & Ferijani, 2021). As a result of this recognition, employees of the organization can produce efficient work performance while motivated to move further in building all the skills and competencies in performing their duties responsibly. Whereas Khan, Waqas, and Muneer (2017) in their study, the effectiveness of rewards (intrinsic and extrinsic) on job performance case study in Courier Companies of Cities Faisalabad, Pakistan has shown a positive relationship between extrinsic and intrinsic factors with job performance. Based on the results of the study found that non-financial extrinsic rewards involving recognition, career development, responsibilities, and learning opportunities have a significant influence on job performance. The study also showed that every employee has a feeling of being praised and recognized by their superiors for their performance. This extrinsic reward is a form of psychological reward because it gives employees ample opportunity to use all available abilities, face challenges with perseverance, focus on maximum achievement on job performance, and have encouraging aspirations to continue striving for self-achievement and its organization (Liga-febrina, Agusra, Lussianda & Susanti, 2021; Marwanto, 2021).

### ***Executives' Performance***

The performance of an organization is the result of the excellent work performance shown by executive-level employees. Executives are middle-level management staff who are responsible for planning and executing a task assigned by top management. While the achievement of an organization is valued based on the performance of the organization's executive employees (Singh & Kassa, 2018; Anwar & Abdullah, 2021). Executives can be defined as employees who

are responsible for planning, organizing, executing, and monitoring all their daily job responsibilities by focusing all activities on achieving organizational goals (Amin, Halim & Majid, 2017; Mutua & Kinyili, 2017). Executives' performance refers to the skills, abilities, and competencies that an executive possesses in an organization. Previous literature reviews are showing that there is a positive relationship between executives' performance on work quality and productivity, skills and competencies, creativity and innovation, problem-solving and decision making, job knowledge, attitudes and discipline, communication, teamwork, management skills, and professionalism with the job performance of each employee in an organization. Kadir, Humaid Al-Hosani, Ismail, and Sehan (2019) in a study stated that an executive in an organization has a big role to perform especially a job designed to achieve maximum profitability for a long time. In addition, executives also have a role to ensure the existence of their organization is very important in the market. global and the ability to move the organization forward compared to other competitors. An executive is said to be an efficient and skilled person when they can perform a task with excellence. As a result of success in the implementation of a task, the organization will also move forward to achieve the success that has been set based on the vision and mission that has been designed about what needs to be achieved in a certain period (Kougiannou & Ridgway, 2021; Alghamdi, 2021).

### **Conceptual Framework**

Based on the literature review above, the conceptual framework was designed to show two independent variables and dependent variables to describe the overall study.

### **Independent Variables**

#### ***Financial Rewards***

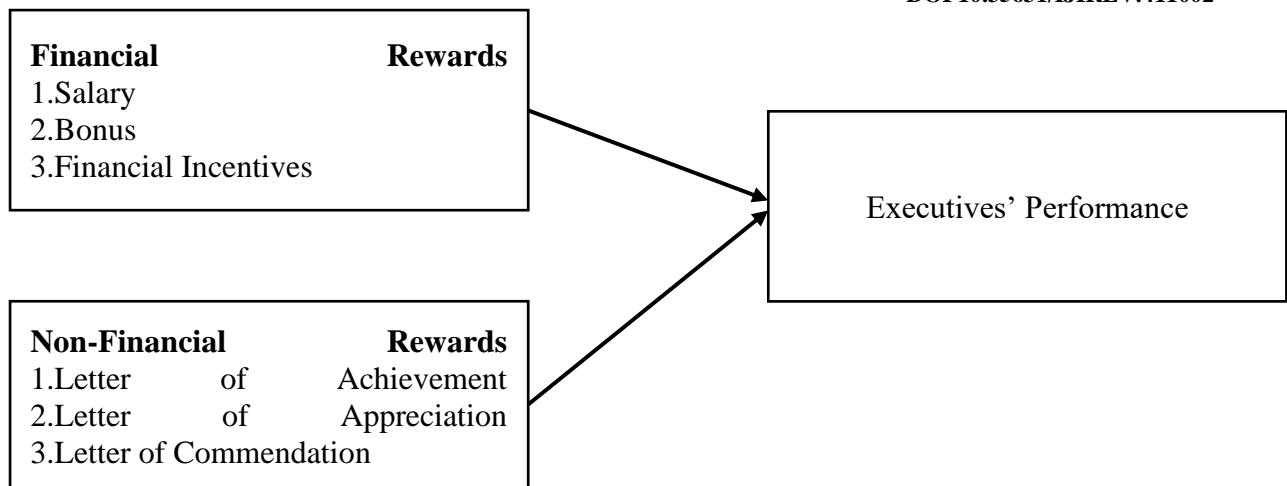
- Salary
- Bonus
- Financial Incentives

#### ***Non-Financial Rewards***

- Letter of Achievement
- Letter of Appreciation
- Letter of Commendation

#### ***Dependent Variable***

- Executives' Performance In Manufacturing Firms



This research was conducted to identify the relationship between financial rewards (Salary, Bonus, Financial Incentives) and non-financial rewards (Letter of Achievement, Letter of Appreciation Letter of Commendation) on executives' performance. A questionnaire was designed to collect the data from in manufacturing firms at Kulim Hi-tech, Kulim Kedah, Malaysia.

### Hypothesis Development

H1: There is significant relationship between financial rewards on executives' performance in manufacturing firms.

H2: There is significant relationship between non-financial rewards on executives' performance in manufacturing firms.

### Methodology of Research

#### Research Design

In this study, a fully quantitative research survey was adopted and respondents comprise executives in the manufacturing firms. The research study was conducted to determine the impact of financial and non-financial rewards on executives' performance.

#### Data Collection Instrument

The following Table shows the instrument measurements in this study:

Likert Scale Measurement				
1	2	3	4	5
Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree

Sources: De-Winter & Dodou, (2010)

#### Scope of Study/ Sampling

The scope of the study covers manufacturing firms at Kulim Hi-tech Park, Kulim, Kedah. There are 25 manufacturing firms in this area. About 25600 employees in the population of this study are 4438 executives (FMM,2021). Kulim Hi-tech, Kulim, Kedah was selected in this study because this area provided sophisticated technology manufacturing firms consisting of electronic, electrical, textile, and fabricated products which the investors came from many countries especially Japan, America, China, and Europe (FMM,2021). Kulim Hi-tech, Kulim,

Kedah contributed about 22.2 billion to Malaysian economic (MIDA,2021). Based on the table of Krejcie and Morgan (1970), the number of a sample depends on the total population obtained by the researcher. The table shows the total sample selected based on the population, which is 351 samples of respondents.

**Table for Determining Sample Size**

N	S
3500	346
<b>4000</b>	<b>351</b>
4500	354
5000	357
6000	361

Sources: (Krejcie & Morgan, 1970)

Note:

N=Population

S= Sample size

### ***Stratified Sampling Technique / Method***

A stratified sampling technique method is employed to enable the findings generalized to the population and every executive in manufacturing firms has the chance to be selected as a respondent. In techniques of data analysis discuss the use of statistical methods used to analyze data and hypothesis testing made to test the objectives of the study. A stratified sampling technique ( $351/4438 = 0.079$ ) method was employed to enable the findings to generalize the population and every executive in manufacturing firms has the chance to be selected as a respondent. The data obtained were analyzed using SmartPLs 3.7.8. A total of 4438 is population and 351 are samples. For example, Wong Engineering (M) Sdn. Bhd has 550 employees with 49 executives, the calculation to get the respondents is  $0.079 \times 49 = 3.871 \sim 4$ . Therefore, 4 executives from this manufacturing firm are a respondent in this study. All respondents among executives from 4438 and 25 manufacturing firms are calculated with the same formula to get 351 samples.

## **Result**

### ***Data Analysis***

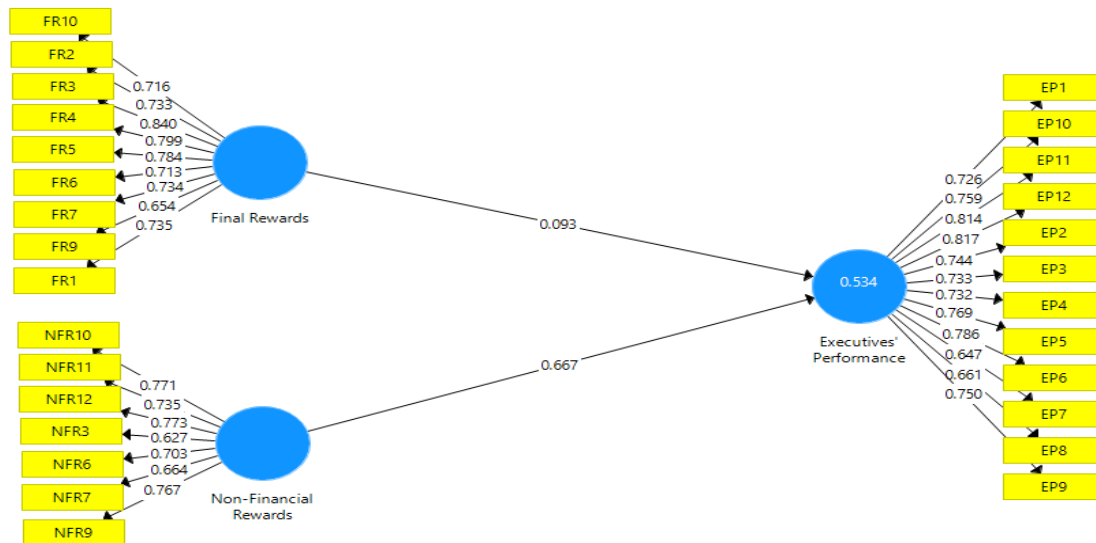
SmartPLS is highly recommended by statistical scholars in producing an accurate analysis of the cause and effect relationship of each variable. SmartPLS is also referred to as a large multivariate analysis technique in social and psychological research. SmartPLS is capable of analyzing measurement model evaluation and structural model evaluation.

Table 1 shows the Loading, Composite Reliability (CR), Average Variance Extracted (AVE) values for each construct studied and the lowest value is 0.6266 and the highest value is 0.8897. These values are greater than 0.5 ( $> 0.5$ ), confirming that the study construct can explain the mean change of variance within the items (Fornell & Larcker, 1981; Gefen & Straub, 2005; Henseler, Ringle & Sinkovics, 2009).



**Table 1**  
**Loading, CR & AVE Results**

	<i>Loading</i>	<i>CR</i>	<i>AVE</i>
Financial-Rewards		0.9188	0.5582
FR1	0.7354		
FR2	0.7334		
FR3	0.8897		
FR4	0.7989		
FR5	0.7838		
FR6	0.7131		
FR7	0.7339		
FR9	0.6543		
FR10	0.7156		
Non-Financial Rewards		0.8833	0.5210
NFR3	0.6266		
NFR6	0.7033		
NFR7	0.6638		
NFR9	0.7665		
NFR10	0.7707		
NFR11	0.7349		
NFR12	0.7730		
Executives' Performance		0.9376	0.5571
EP1	0.7261		
EP2	0.7436		
EP3	0.7332		
EP4	0.7321		
EP5	0.7688		
EP6	0.7857		
EP7	0.6465		
EP8	0.6606		
EP9	0.7502		
EP10	0.7592		
EP11	0.8143		
EP12	0.8167		



**Figure 1: Structural Model Direct Effects**

The discriminant validity test was measured through two methods, namely the Heterotrait-Monotrait (HTMT) criterion test and cross-loading (Henseler et al., 2009). Table 2 below shows the output from the HTMT analysis. The results can be calculated easily using the formula as in (Henseler, Ringle & Sarstedt, 2015).

**Table 2  
 Discriminant Validity**

Constructs	FR	NFR	EP
<b>FR</b>	<b>0.7464</b>		
<b>NFR</b>	0.5286	<b>0.7471</b>	
<b>EP</b>	0.7276	0.6536	<b>0.7218</b>

Note: Values in Bold face are the square root values of average variance extracted

**Assessment of Structural Model**

The findings for testing this direct effect model using SmartPLS software package version 3.7.8 that is through the structural equation model. This measurement aims to test the direct effect model and the effective model of the mediated variable. Therefore, empirical evidence has been used to construct a direct effect model as shown in Table 3.

**Table 3  
 Summary of Hypotheses**

Relationship	Summary of Hypotheses				
	beta	Std Error	T-Value	P-Value	Decision
FR -> EP	0.0930	0.0697	1.3288	0.1840	Not Supported
NFR ->EP	0.6671	0.0616	10.8300	0.0000	Supported

## Discussion

### *Financial Rewards*

The results obtained shown that the Financial Rewards variable has a not-significant relationship on executives' performance in manufacturing firms ( $\beta = 0.930$ ;  $t = 1.3288$ ;  $p = 1.1840$ ). H1 Rejected. The results also showed that financial rewards contributed 9.3% ( $R^2 = 0.093$ ) to changes in executives' performance in manufacturing firms.

The problem that occurs when manufacturing firms do not focus on appropriate financial rewards, especially involved salaries, wages, and bonuses. The salary that is not related to the current economy when the cost of goods and services is high, salaries and bonuses that are not in line with other firms that give higher rewards, manufacturing firms that are too profit-oriented, and wage payments that are not commensurate with the duties and responsibilities of executives are given the negative impact on executives' performance. Factor Movement Control Order (MCO) due to covid-19 also contributed to the failure of manufacturing firms to provide many financial rewards benefits because manufacturing firms have no income when manufacturing operations stop and manufacturing firms do not have enough income to fund satisfactory financial rewards the hearts of all executives.

Manufacturing firms need to ensure that every financial reward given to executives is appropriate to their duties and responsibilities. Unsatisfactory financial rewards of each executive affected their level of satisfaction which has an unsatisfactory effect on their job performance. Financial rewards are very important because every executive is motivated by financial rewards, especially salary and bonus. Failure to provide financial rewards that can provide satisfaction to executives results in low levels of motivation for job performance. Emphasis should be given to salary, wages, bonuses, and allowances so that each executive has a high level of motivation to work harder. The results of this study show that there is a non-significant relationship between financial rewards on executives' performance in manufacturing firms. Therefore, the financial rewards factor should be reviewed to be relevant to the current economic situation and in line with the duties and responsibilities of an executive.

### *Non-Financial Rewards*

The results obtained shown that the Non-Financial Rewards variable has a significant relationship on executives' performance in manufacturing firms ( $\beta = 0.6671$ ;  $t = 0.0616$ ;  $p = 0.0000$ ). H2 Accepted. The results also showed that non-financial rewards contributed 66.7% ( $R^2 = 0.667$ ) to changes in executives' performance in manufacturing firms.

The results of this study showed a significant relationship between non-financial rewards on executives' performance in manufacturing firms. Non-financial rewards that involved letters of appreciation, letters of commendation, or letters of congratulation can increase the level of motivation of each executive to work harder on their duties and responsibilities. This situation can directly increase their productivity and work performance. Every executive feels that they are valued by their top management for all their achievements in performing a task. The effect of non-financial rewards given by the firms where they work causes each executive to always ensure that they have the level of skills, knowledge, competence, and ability in carrying out any given task that can be performed efficiently and achieve objectives.

## Conclusion

This result is very significant to the human resource management practices to identify the role of financial rewards that needs more attention so that appropriate rewards are given to executives based on their responsibilities and work results. The results of this study show that there is a non-significant relationship between executives' performance, importance to top management, and compensation and benefits practices focusing on issues related to salary, bonus, and financial incentives to meet current salary conditions and their daily responsibilities. Determining issues related to salary, bonus, and financial incentives is a very important element because every executive has a high mentality towards financial rewards. Any form of reward in the form of direct money has motivated them to work harder. Failure to provide financial rewards primarily involved salaries, bonuses, and financial incentives resulting in declining executive performance, and impaired quality and productivity of work. Financial rewards that involved salary, bonuses, and financial incentives commensurate with their responsibilities have a positive impact on the overall work performance of executives. While non-financial rewards involved a letter of achievement, a letter of appreciation and a letter of commendation have a significant relationship with executives' performance. Manufacturing firms need to maintain non-financial rewards because the letter of achievement, letter of appreciation, and letter of commendation contributed to high work performance. Human resource management through the practices of compensation and benefits got more attention from every executive because the letter of achievement, letter of appreciation, and letter of commendation motivated them to maintain their job performance better.

The limitation of this study only focuses on manufacturing firms. Future research needs to be given attention to various firms such as security, banking, education, transportation, and SME sectors. The respondents were also not limited to only executives but overall, the level of employees including directors, general managers, managers, and non-executives included officers, technicians, supervisors, line leaders, operators, and general workers. With the participation of various firms, it is hoped to get more accurate results, in line with the current economic situation and as a reference to other firms outside Kulim-hi Tech Park to improve the financial and non-financial rewards of their organizations for the better rewards.

The last conclusion of this study concluded that executives refer to employees who are responsible for planning, organizing, executing, and monitoring all their daily job responsibilities by focusing all activities on achieving organizational goals. Emphasizing financial rewards is very important in ensuring that every executive has a strong job resilience in improving their job performance. While the combination of financial and non-financial rewards at the maximum level can affect a positive work culture among executives and it can directly improve the work performance of each executive in the workplace.

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