

Analyzing the Impact of Extrinsic and Intrinsic Rewards on Employee Motivation in the Academic Sector of Pakistan

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Abstract

Purpose – The present study aims at examining the relationship between rewards and employee motivation in the academic sector of Pakistan. More specifically, this study investigates the relationship between extrinsic and intrinsic rewards and to find out which type of rewards most significantly impacts the motivation level of university teachers in Pakistan.

Design /Methodology / Approach – Diversified frequency tables and graphs were used to provide and present information on demographic variables. Inferential statistics have been used to determine the strength of relationship between dependent and independent variables. A total of 200 questionnaires were distributed to teachers working in public and private sector universities and colleges of South Punjab (Pakistan), and a total of 160 employees completed the questionnaire properly.

Findings – The results indicate that extrinsic rewards had statistically strong positive and significant association with motivation of teachers.

Practical Implications – The study explored factors determining extrinsic and intrinsic rewards and their impact on employee motivation, which in turn can enable the employees to strive harder for the achievement of organizational goals. It is important for the organizations to establish a culture, where employees feel secure, confident and motivated from the reward system.

Originality Value – Previous studies conducted in Pakistan have explored the HR practices in general in the academic sector. This study focuses on the extrinsic and intrinsic rewards being offered to academicians and their subsequent impact on the motivation levels.

Keywords Motivation, Extrinsic, Intrinsic, Retention, Employee Morale, Organizational Productivity

Research type Research Paper

1.0 INTRODUCTION

An effective reward system is considered as one of the most important elements to motivate employees, so that they can contribute their best efforts for the success of organization. Motivated employees tend to generate better and innovative ideas that lead to improved organizational performance. General perception is that monetary benefits are more motivating for employees working in professional organizations, but there are latest research studies (Ihedinmah et al., 2015; Ajmal et al., 2015) which have shown that encouragement, appraisal and recognition results in higher employee retention rates, productivity and job satisfaction. The organizations whose

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employees have the perception that the organization treats them in sufficiently well manner will get the best effort from their employees towards the work. According to Ajmal et al. (2015), well treated employees are more engaged with the work and much more committed to organization and the organizations whose employees are treated like a machine will leave the organization or work less committed with the organization. However, this rule cannot be generalized across all cultures, societies and sectors.

In today's globalized and competitive business environment, companies are facing many challenges and among those challenges obtaining the right workforce and holding it, is of great importance. Humans are considered as the most important asset for any organization (Schuler, 1998). Keeping the employees motivated in various situations is an important aspect of Human Resource Management. Employee will give their maximum results when they feel or trust that their management will reward them for their efforts. Employee performance will be affected by many factors such as working conditions, relationship between the employee and employer, training and development opportunities, job security, and overall company's policies and procedures for rewarding employees, etc.(Robbins, 2001). Among all those factors which affect employee performance, motivation that arises with reward is of prime importance. According to Baron (1993, pg.21) "*Motivation is the combination of different processes which directly affect our behavior to achieve some particular goal*". Highly motivated and satisfied employees are the most valuable asset for any organization.

Many authors such as Dewhurst et al.(2010) have argued that apart from financial rewards, there are other mechanisms which can motivate employees such as acknowledgement from managers, opportunity to work or lead projects and even proper managerial attention. It has been observed that employee tend to be more loyal to an organization, if they begin to "trust" their management (Schuler and Jackson, 1999). There are many factors that affect employee motivation such as working conditions, employee and employer relationship, company's rules and regulations etc. However, the motivation that comes with rewards is of utmost importance. Rewards can be extrinsic or intrinsic, extrinsic rewards are tangible rewards and these rewards are external to the job or task performed by the employee. Extrinsic rewards are related to the money needs of employees, while the intrinsic rewards are related to acknowledgement and recognition. Intrinsic rewards are intangible rewards or psychological rewards like appreciation, meeting the new challenges, positive and caring attitude from employer, and job rotation after attaining the goal (Henderson, 2006).

According to Aktar, Sachu and Ali (2012), rewards can be broadly classified into two categories i.e. financial and non-financial. Both categories of rewards are helpful in motivating employees. Financial rewards are more monetary and are paid solely on the basis of performance i.e. promotions, bonus payments, commissions, gratuities etc. On the other hand, the non-financial rewards are more psychological and non-monetary i.e. acknowledgment, appreciation etc.

Many research studies have been conducted in this subject area that explores the relationship between employee motivation and rewards system. The main reason for the great interest in this area is the belief that employee happiness (from meeting a need or reaching a goal) affects the overall morale of the employee and reduces absence, turnover rate, subsequently enhancing organizational performance. Nadia, Syed and Humera (2011) claimed that organizations design and use various forms of reward packages to attract and retain employees. It has also been suggested that the organizations face great difficulty in predicting the future job related behavior of their employees. This study has been conducted to examine the relationship of extrinsic and intrinsic rewards on employee motivation, specifically for university teachers in Pakistan. When reviewing the concept of Motivation, the main idea comes from Herzberg's theory of motivation in which he explains that intrinsic and extrinsic rewards has more effective influence on the employees' motivational level, when implemented in industrial institutions (Herzberg, 1959). Demotivated employees can result in lower productivity levels for the employees, which subsequently causes higher turnover ratio, increased absenteeism ratio etc.

According to the Schuler and Jackson (1999) and Shore and Martin (1989), presence of motivated and committed employees in an organization is a sign that the employer gives value to its employees. In such organizations, employees play a significant role in the overall organizational development. This positively impacts both the employee and the employers. According to Kreitner and Kinicki (2004), motivated employees are considered an asset for the organization and play a vital role in the overall success of the organization.

As far as the Pakistani context is concerned, very limited research has been conducted in this domain, particularly in the university sector. Majority of the research has focused on the banking sector of Pakistan (Khan et al., 2013; Tahir et al., 2011; Rafiq, 2012). This research aims to find out the impact of rewards (both extrinsic and intrinsic) on the overall performance of the employees working in difference academic setups across Pakistan.

2.0 LITERATURE REVIEW

According to Harackiewicz et al. (1997), "Motivation can be defined as the motive force behind all the actions of the individual", whereas Kreitner and Kinicki (2004) specify that "the term motivation originated from the Latin word movere, which means to make some movement". Shafiq, Mariam and Raza (2011), define motivation "...as the internal and external factors that inspire the eagerness and excited interest in people to be dedicated towards a job and to make constant hard work to complete that task". Motivation is the most important factor to influence the employees both positively or negatively. Employees can be positively motivated if rewards and encouragements are duly given to them and vice versa.

According to Robbins (2001), Motivation will bring a feeling of commitment, loving loyalty and happiness among the employees. Lawler (1973) declares that employee's performance is the

result of his or her motivation. Schuler (1998), on the other hand considers motivation as a tool that indicates human behavior towards satisfaction of his desire or want.

Motivation has a direct impact on the performance of employees. Khan et al. (2013) claimed that organizations must plan such policies, actions and rewards systems which improve the performance of employees. Better employee performance will lead towards better organizational performance. Employee performance can be improved by giving them more rewards and encouragements. The relevant literature in this domain suggests that several theories have been developed regarding the relationship between motivation and employee performance:

1. Content theories
2. Process theories

Abraham Maslow (1954), McGregor (1960), Herzberg (1959), and McClelland (1961), suggested the content theories. Content theories majorly focus on the internal elements that motivate the humans i.e. the intrinsic side of rewards, whereas the Process theories focus on the external factors. Content theories majorly focuses on the inside elements of the human being that motive them intrinsically while process theories majorly focuses on the external factors (Locke, 1960).

Extrinsic rewards is an award that is tangible or physically given to employees by managers for accomplishing something like raise in salary, bonus for reaching some task etc. they are called extrinsic rewards (Henderson, 2006). These material rewards can be motivating to employees as most people consider them important for advancement and recognition. Extrinsic rewards are relatively straightforward and usually based upon performance reviews or individual projects. They are particularly useful for motivating employees to work towards specific organizational goals, however for short-term only (Aktar et al., 2012). However, in some cases where the appraisal or performance review processes are perceived unfair, extrinsic rewards are less effective than the intrinsic rewards.

Intrinsic rewards, on the other hand actually fulfills employee's internal factors or motivators and thus motivate them e.g. giving challenging task, involving in decision making process, giving a higher rank etc (Henderson, 2006). Many research studies have been conducted on understanding the impact of extrinsic and intrinsic rewards on employee motivation and its subsequent impact on organizational performance. Some of the theories highlighted in the literature related to motivation of employees at work are as follows:

- Maslow's hierarchy of need theory, presented in 1954 recognized five different needs: basic needs, safety needs social needs, self-confidence needs and completely reaching your potential needs which when made happy employees will get motivated and their performance increased. Basic and protection needs are low order needs and are full filled by external factor coming from outside the company and other three needs are high order needs and full filled by internal factor built in reward.

- Another important theory is Herzberg's two factor theory (1959), which includes the concept of 'motivators' and 'hygiene factors'. Motivators are the intrinsic factors that increase job satisfaction and motivation like Achievements, Recognition, work itself, Responsibility, growth and Hygiene are the extrinsic factors that eliminate job dissatisfaction, but do not motivate like salary, company policy, and relationship with supervisor, security, supervision etc.
- McClelland's Human Motivation theory (1961) claimed that every person has one of three main driving motivators: the needs for achievement, affiliation, or power. These motivators are not inherent i.e. a person develops them through our culture and life experiences.
- Goal-setting theory (1960) stated the proposition that specific goals increase performance and that difficult goals when accepted, result in higher performance than do easy goals. Goal-setting theory has been the most researched, utilized, and established theory of work motivation.
- Reinforcement theory of motivation was proposed by BF Skinner. It says that behavior is a function of its consequences and that an individual's purposes direct his or her behavior. The manager can use the following mechanisms for controlling the behavior of employees' i.e. Positive reinforcement, Negative reinforcement, Punishment and Extinction.

In Pakistan, very limited research has been conducted on understanding the impact of rewards on employee motivation. Tahir et al. (2011) and Shafiq et al. (2011) investigated the impact of intrinsic and extrinsic compensation on the banking sector of Pakistan. They concluded that compensation has direct positive relation with motivation. The research study considered organizational performance as an independent variable and employee motivation as a dependent variable and extrinsic and intrinsic benefits played a moderating role. The study recommended that effective compensation policies in the banking sector of Pakistan improved employee morale, retention, employee engagement and productivity. They also examined that the intrinsic factors such as the job itself, career development, empowerment and delegation also had some impact on the motivation process. The result analysis showed that the employee's performance and motivation was directly linked with both intrinsic and extrinsic (monetary, non-monetary) factors. Rafiq (2012) said that job satisfaction is more dependent on extrinsic rewards than the intrinsic rewards. Job satisfaction had a positive relationship with both intrinsic and extrinsic rewards. In this study job satisfaction is a dependent variable or extrinsic and intrinsic rewards are independent variable. Similarly, Nadia et al. (2011) investigated the impact of reward system on employee motivation on non-profit organizations in Pakistan. More recent research studies include those of Zafar et al. (2014) and Ajmal et al. (2015) and focuses on knowledge sharing, employee attitude and perceived organizational support.

3.0 RESEARCH METHODOLOGY

This research study is limited to the employees working in the academic sector of South Punjab (Pakistan). For this study, the researcher has only focused on collecting data from the “academic” staff of the universities and colleges i.e. Lecturers and above. A total of 200 survey forms were distributed, out of which 160 completed forms were collected. The respondents were identified using Stratified Random Sampling.

The objective of this study is to find out the relationship between rewards and employees motivation in Pakistani universities and colleges located in South Punjab (Pakistan).

More specific objectives of this study are as follows:

1. To find out the impact of extrinsic rewards on employees’ performance.
2. To find out the impact of intrinsic rewards on employees’ motivation.
3. To investigate the relationship between extrinsic and intrinsic rewards.

Based upon the research gaps identified in the previous section, the following conceptual model can be developed for this research study:

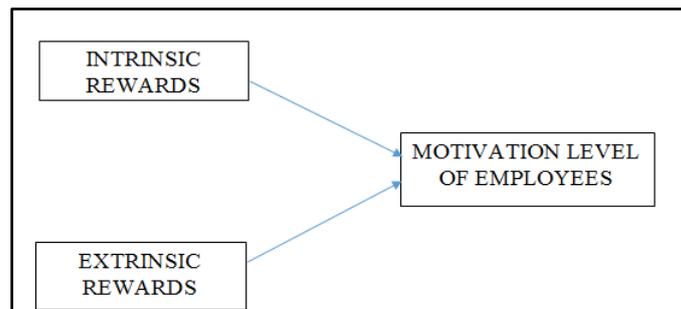


Figure 1 Conceptual Model of the Research Study

The following hypothesis can be developed for this study:

H1: There is a direct relationship between extrinsic rewards and employee motivation

H2: There is a direct relationship between intrinsic rewards and employee motivation.

H3: There is a significant difference between the impact of extrinsic and intrinsic rewards on employee motivation.

The business research is generally driven by two main methodological approaches. Quantitative approach focuses on the interpretation of scientific methods and techniques whereas the Qualitative approach is based upon the analysis of the content and verbal aspects of data (Bryman and Bell, 2007). This research study is conducted using both quantitative and qualitative techniques. A survey questionnaire was designed to record the opinion of employees working in the academic sector of Pakistan. Content analysis was also used as a mechanism to interpret various concepts related to intrinsic and extrinsic rewards and their subsequent impact on the employee motivation levels.

A questionnaire based on 35 items covering intrinsic, extrinsic rewards, employee motivation level was developed. The Research was conducted in the South Punjab region of Pakistan. Targeted population was private and public universities and colleges of South Punjab (Pakistan). Employees were contacted for collection of their responses regarding rewards system, their motivation levels and corresponding perceptions about the organization in which they work. Only the teaching staff of the universities and colleges were asked to fill out the survey forms i.e. Lecturers and above. The data collected through the survey questionnaire was aimed at sketching the views of respondents about reward system and corresponding level of motivation. The results were compared with the ‘perceptions’ and ‘theories’ already available in the literature, so as to provide a comprehensive picture on the subject area. Primary theme of the survey questionnaire was to explore the ‘type of rewards’ which employees of academic sector find motivating.

The survey questionnaire for this study has been adopted from the research study of Allen & Kilmann (2001), but has been modified to some extent, with reference to the Pakistani market and to add items related to employee motivation. The questionnaire has been divided into two parts, the first part, deals with understanding the perception of employees towards various forms of rewards, whereas the second part, measures the general motivation level of employees in diverse scenarios and contexts. Motivation is considered as a dependent variable, whereas extrinsic and intrinsic rewards are the independent variable.

Five-point (1 - 5) likert scale instrument (strongly agree to strongly disagree) was used. Negative/reverse coded questions were the part of questionnaire so that the employees could response with care. That scale is designed to test the impact of all the variables.

The criterion for distributing the survey questionnaire was as follows:

Table 1 Criterion for Sample Selection

Cadre / Designation	Lecturer (BPS 18) and Above
Age	28 Years and Above
Experience	More than 02 Years in University/College Service
Gender	Any

4.0 RESULTS AND DISCUSSION

In order to understand the significance of the results, it is important to understand the biographical details of the respondents.

The following tables show the details of the responses collected:

Table 2 Age-Wise distribution of Collected Responses

Age Categories	Frequency	Percentage	Valid Percent	Cumulative Percent
26-30	11	6.9	6.9	6.9
31-35	41	25.6	25.6	32.5
36-40	36	22.5	22.5	55.0
41-45	34	21.3	21.3	76.3
46-50	15	9.4	9.4	85.6
51-55	10	6.3	6.3	91.9
56-60	9	5.6	5.6	97.5
60 above	4	2.5	2.5	100.0
	160	100	100	

The respondents were divided into eight different categories of age. Based on the results the majority (25.6%) of the respondents were present in 31-35 years category.

Table 3 Gender-Wise distribution of Collected Responses

Gender Categories	Frequency	Percentage	Valid Percent	Cumulative Percent
Male	125	78.1	78.1	78.1
Female	35	21.9	21.9	100.0
	160	100	100	

In order to establish a balanced opinion, every effort was made to collect data from both genders. But given the employment trend in universities and colleges of Pakistan, only 21.9% of the respondents were female.

Table 4 Experience-Wise distribution of Collected Responses

Experience Categories	Frequency	Percentage	Valid Percent	Cumulative Percent
2 to 4 Years	12	7.5	7.5	6.9
5 to 7 Years	14	8.8	8.8	16.3
8 to 10 Years	54	33.8	33.8	50.0
11 to 13 Years	21	13.1	13.1	63.1
14 to 16 Years	25	15.6	15.6	78.8
17- 19 Years	11	6.9	6.9	85.6
20 Years and Above	23	14.4	14.4	100.0
	160	100	100	

The respondents were also categorized based upon their experience in university/college service. This distribution was divided into seven categories with majority (33.8%) of respondents having 8-10 years of experience.

For inferential statistics, the results were generated using SPSS. The following table shows the results which have been generated:

Table 5 Statistical Analysis of Results

	F-Value	β	R ²	Sig
IR	13.223	0.78	0.56	0.001
ER	17.335	0.89	0.65	0.000

Dependent Variable: Motivation

Above table shows that regression results depicts the relationship between dependent and independent variable. F-Value shows the model fit found to be significant at 0.001 and 0.000.

H1: There is a direct relationship between extrinsic rewards and employee motivation

β value shows that 1% increase or decrease in ER provided to employees will cause an increase or decrease of 89% in motivation level of employees. This shows that extrinsic rewards have a direct relationship with the motivation level of employees. Our hypothesis stands valid.

H2: There is a direct relationship between intrinsic rewards and employee motivation.

β value shows that 1% increase or decrease in IR will cause an increase or decrease of 78% in motivation level of employees i.e. intrinsic rewards have a direct relationship with the motivation level of employees. This means that our hypothesis stands valid.

H3: There is a significant difference between the impact of extrinsic and intrinsic rewards on employee motivation.

R-square shows that 56% variation in motivation level of employees is due to IR and 65% variation is due to ER. Moreover the differences in the β values also show that there is a significant difference in the “impact” of extrinsic and intrinsic rewards. The results of this study suggest that as far as the motivation levels of university/college teachers of South Punjab (Pakistan) are concerned, they are more motivated from extrinsic rewards.

5.0 CONCLUSION

The study explored the impact of extrinsic and intrinsic rewards on the motivation level of employees working in the academic sector of Pakistan. The results generated in this study clearly show that extrinsic rewards have a greater impact on the motivation level of employees, as compared to the intrinsic rewards. Primary reason for this can be the overall state of economy in the country i.e. increasing prices and reduced income levels may have caused people to get motivated through monetary gains and benefits. However, the results also show that the importance of intrinsic rewards cannot be undermined. They also significantly impact the motivation level of employees working in the academic sector. Recognition, Appreciation, Work Life Balance, Environment all play a vital role in determining the motivation level of employees.

Studies have been conducted in Pakistan to find out the impact of various HR policies on the motivation, job satisfaction and job performance levels of the employees, however those studies have focused on the IT and Banking sector of Pakistan. This study has tried to find out the direct

impact of the various forms of rewards on the motivation level of employees, more specifically in the academic sector.

The limitation for this research study is the data set i.e. the sample was collected only from the educational institutions of Multan. Any future research in this domain can focus on extending the data set to other parts of the country, so as to present a better picture of the scenario. Moreover, more statistical tests can be conducted to find out the impact of specific components of extrinsic and intrinsic rewards on the motivation level of employees.

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