

Role of Intrinsic and Extrinsic Rewards in Motivating Employees

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Abstract

An organization's ability to motivate its workers is crucial to its long-term viability and competitive advantage in the complex field of organizational behavior. Realizing that inspired workers are more invested in their work, creative, and productive, organizations are always looking for ways to bring out the best in their staff. There are two main kinds of rewards that are used strategically in this endeavor: intrinsic and extrinsic. Organizations often use extrinsic rewards as a means of incentivizing certain actions and results. Salary, bonuses, promotions, and other monetary and non-monetary advantages are common examples of such tangible kinds of reward. Employees are motivated to fulfill organizational objectives and maintain high levels of performance when they receive extrinsic rewards, which are meant to acknowledge and reinforce favorable behaviors. Those in leadership positions who want to foster an inspiring workplace must have a firm grasp on the interplay between internal and external incentives. Intrinsic rewards are crucial for encouraging long-term engagement and work happiness, in contrast to extrinsic rewards, which are good for driving performance and goal attainment in the short term. The combination of these two forms of compensation has the potential to greatly impact how workers act, how they feel about their jobs, and what they bring to the table as a whole. The findings from this study provided results into the effectiveness of intrinsic and extrinsic rewards in influencing employee motivation levels within the organization. It aims to contribute to the development of evidence-based strategies for optimizing reward systems to enhance overall employee engagement and organizational performance.

Keyword: Intrinsic Rewards, Extrinsic Rewards, Motivation, Employees

Introduction

When it comes to the complex landscape of organizational behavior, the motivation of employees is a cornerstone that is essential to establishing sustainable success and gaining a competitive edge. When companies recognize that motivated workers are not only more productive but also more innovative and committed to their professions, they make it a priority to continually work toward the goal of unlocking the full potential of their workforce (Chadha, A., 2014). The utilization of rewards in a strategic manner is of utmost importance in this endeavor. These rewards can be roughly classified into two categories: intrinsic and extrinsic. The innate pleasure and contentment that people gain from their job is the source of the intrinsic pleasures known as intrinsic rewards. The fulfillment of personal goals and values, as well as personal progress and a sense of accomplishment, are some of the components that are included in these rewards, which motivate individuals from inside (Goyal, P. K., 2016). There is a correlation between individuals who are intrinsically motivated and more creativity, higher quality work, and a stronger devotion to their firm. When people are intrinsically motivated, they participate in their tasks with a real interest and passion.

Extrinsic rewards, on the other hand, are incentives that take place outside of the organization and are offered by the organization in order to encourage particular behaviors and performance outcomes. In many cases, these rewards are presented in the form of physical items, such as salary, bonuses, promotions, and perks. The purpose of extrinsic rewards is to identify and reinforce desirable actions, which in turn motivates employees to accomplish the objectives of the organization and sustain high levels of performance (Dutta, S., & Kant, K., 2015). In order for managers and leaders to successfully create a compelling work environment, it is essential for them to have a solid understanding of the dynamics of both intrinsic and extrinsic rewards. Despite the fact that extrinsic rewards have the ability to effectively drive short-term performance and goal attainment, intrinsic rewards are absolutely necessary for developing long-term engagement and job happiness (Bhushan, A., 2016). It is possible for the interaction between these two categories of rewards to have a major impact on the behavior of employees, thereby molding their perspectives on their work and the total contribution they provide to the firm.

Merits of Intrinsic Rewards

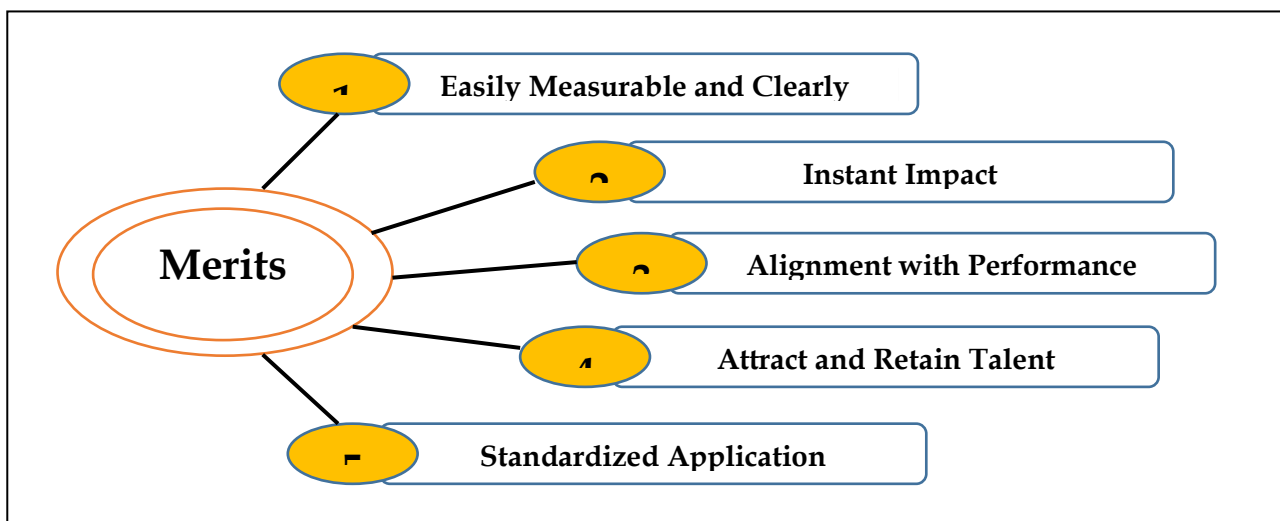


Figure: Merits

- Defined Extrinsic benefits are easily measurable, clearly defined, and clearly defined. Employees are aware of the rewards that will be bestowed upon them in exchange for their efforts, which can motivate particular behaviors and results.
- This is because extrinsic rewards have the potential to have an instant effect on both performance and motivation. Motivating employees to reach short-term goals and swiftly increasing their output can be accomplished through the use of financial incentives, for instance.
- It is possible to directly link extrinsic rewards to performance measurements, which guarantees that awards are awarded in accordance with objective standards. This can assist in aligning the activities of employees with the aims of the firm.
- It is essential to provide competitive extrinsic rewards in order to attract and keep top talent. When making a decision to join or remain with an organization, employees frequently take into consideration compensation, benefits, and other external variables.
- Extrinsic awards can be standardized and applied in a consistent manner throughout the business, which ensures that the distribution of prizes is both fair and transparent.

Demerits of Intrinsic Rewards

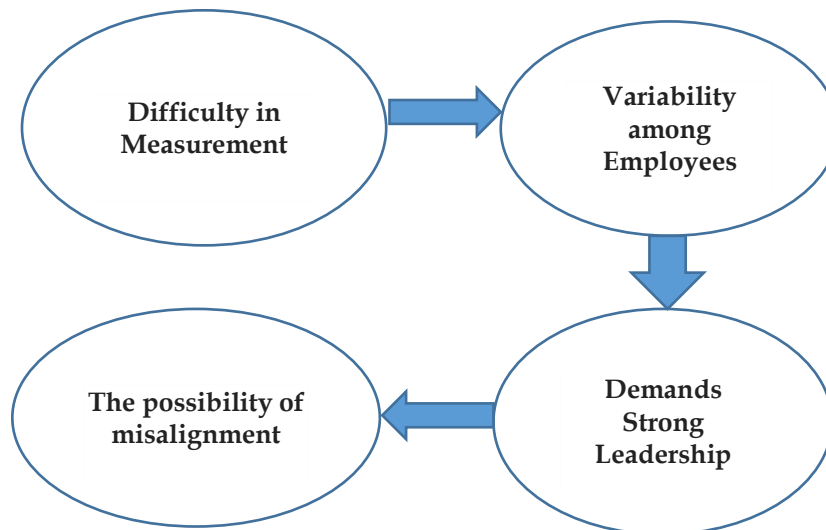


Figure: Demerits

- Intrinsic rewards are frequently subjective and difficult to measure. This is one of the reasons why they are tough to quantify. It is more difficult to evaluate and manage intrinsic rewards because, in contrast to extrinsic rewards, which can be defined, intrinsic rewards are dependent on the individual's feelings and views.
- The intrinsic reasons that motivate employees might vary from person to person, and not all employees are motivated by the same things. The fact that what is satisfying for one individual might not be for another makes it difficult to devise a method of intrinsic motivation that is universally applicable to all individuals involved.
- The cultivation of intrinsic motivation frequently necessitates the presence of strong, supportive leadership as well as a dedication to the establishment of a positive working environment. This may need a significant amount of resources and is something that management must continue to work on.
- If the goals of the organization are not matched with the intrinsic rewards that employees receive, this may cause employees to prioritize their own personal interests over the things that the organization wants to accomplish.

Review Literature

Employee motivation is an essential factor in the success of a business, since it directly impacts productivity, job satisfaction, and the overall harmony of the workplace. There are two main forms of rewards, intrinsic and extrinsic, that have a significant impact on motivating employees. This literature review examines the theoretical frameworks and empirical evidence concerning intrinsic and extrinsic rewards, emphasizing their influence on employee motivation. Intrinsic rewards refer to the gratification and sense of personal accomplishment that one experiences from inside. These benefits are intrinsically motivated and stem from the task itself, rather than from external stimuli. The fundamental elements of intrinsic rewards are job satisfaction, a feeling of achievement, and individual development. The Self-Determination Theory (SDT) proposed by Deci and Ryan suggests that intrinsic motivation is influenced by the need for autonomy, competence, and social connection. Based on Self-Determination Theory (SDT), employees exhibit intrinsic motivation when they perceive a level of autonomy in their tasks, possess a sense of competence, and engage in meaningful social interactions within their work environment (Deci & Ryan, 2000). The model proposed by Hackman and Oldham posits that job design has a significant impact on intrinsic motivation. According to Hackman and Oldham (1976), jobs that have a high level of skill variation, task identity, task significance, autonomy, and feedback are more likely to increase intrinsic motivation in employees. This is because these types of jobs give employees a sense of meaningfulness, responsibility, and understanding of their results. Extensive research has consistently demonstrated that intrinsic rewards play a vital role in sustaining long-term motivation and job satisfaction. An example is a study conducted by Gagné and Deci (2005) which discovered that employees who viewed their work as inherently fulfilling reported greater levels of job satisfaction and commitment to the organization. Thomas (2009) showed that there was a high correlation between intrinsic rewards, such as personal growth and recognition, and employee engagement and performance.

Extrinsic rewards refer to external incentives offered by the firm, such as salary, bonuses, benefits, and promotions. These rewards are frequently concrete and are employed to strengthen desirable behaviors and performance results. Vroom's Expectancy Theory states that employees are driven to work hard when they believe that their efforts will lead to successful performance and that this performance will be rewarded with valuable incentives. According to Vroom's (1964) theory, the appeal of external rewards can have a substantial impact on employee motivation. The Reinforcement Theory: Skinner's Reinforcement Theory posits that conduct is determined by the outcomes it produces. Utilizing positive reinforcement, such as providing monetary prizes, can enhance the probability of desired behaviors being replicated. In contrast, the lack of rewards or the existence of negative consequences might diminish undesirable behaviors (Skinner, 1953). Extrinsic incentives have been proven to be efficacious in stimulating personnel, particularly in the immediate term. An empirical investigation conducted by Jenkins et al. (1998) demonstrated that monetary rewards were successful in enhancing the productivity of employees, specifically in sales and manufacturing settings. In a study conducted by Shaw and Gupta (2015), it was shown that extrinsic rewards, such as bonuses and profit-sharing schemes, had a favorable correlation with both organizational success and employee retention.

The interplay between inherent and external incentives can be intricate. The overjustification effect suggests that an excessive dependence on external rewards can weaken internal drive. Deci et al. (1999) discovered that whereas external rewards can enhance motivation temporarily, they can reduce intrinsic drive if they are seen as controlling or if they overshadow the inherent worth of the job. On the other hand, certain research indicate that a well-rounded blend of inherent and external rewards might amplify overall drive. Eisenberger et al. (1999) posited that extrinsic rewards can enhance intrinsic motivation if they are seen as helpful rather than controlling.

Research Methodology

The purpose of this study is to evaluate the correlations between intrinsic and extrinsic rewards and the levels of employee motivation. The research methodology utilized in this study is quantitative. In this study, the research methodology is cross-sectional, and the primary focus is on gathering data from one hundred thirty people working for the business at a specific point in time. For the purpose of ensuring that all divisions within the business are adequately represented, a random selection of 130 employees was made. The utilization of structured surveys for the purpose of measuring factors such as perceptions of intrinsic and extrinsic rewards as well as levels of motivation. The statistical approaches In order to assess the hypotheses, we used the independent samples t-test and the Pearson correlation analysis.

Objective of the study

- To study the merits & demerits of intrinsic and extrinsic rewards in motivating employees
- To explore & analyse the role of intrinsic and extrinsic rewards in motivating employees

Hypothesis of the study

- (H1) "There is no significant difference in motivation levels between high and low intrinsic rewards groups."
- (H1) "There is a significant difference in motivation levels between high and low intrinsic rewards groups."
- (H2): "There is no significant relationship between extrinsic rewards and motivation levels."
- (H2): "There is a significant relationship between extrinsic rewards and motivation levels."

Data Analysis & Discussions

Table 1: Descriptive Statistics

Variable	Count	Mean	Std Dev	Min	25%	Median	75%	Max
Personal Growth	130	3.75	0.40	2.5	3.5	3.75	4.0	4.8
Job Satisfaction	130	3.85	0.35	2.8	3.6	3.85	4.1	4.7
Recognition	130	3.90	0.30	3.0	3.7	3.90	4.2	4.5

Salary	130	46000	2000	42000	44500	46000	47500	50000
Bonuses	130	4600	300	4000	4400	4600	4800	5200
Benefits	130	3300	200	2900	3150	3300	3450	3700
Motivation Level	130	4.15	0.30	3.0	4.0	4.15	4.3	4.8

Table 2: T-statistic

Variable/Group	Mean	Standard Deviation (SD)	Sample Size (n)
High Intrinsic Rewards	78	8	65
Low Intrinsic Rewards	70	10	65
t-statistic	4.22		
p-value	0.00003		

As per above table, t-statistic- 4.22 indicates a significant difference in mean motivation levels between high and low intrinsic rewards groups. As, p-value 0.00003, which is less than the significance level (0.05), suggests that the difference in motivation levels between the two groups is statistically significant. So, Reject the null hypothesis (H₀). There is a significant difference in motivation levels between high and low intrinsic rewards groups among the sampled employees

Table 3: Correlation

Group/Variable	Mean	Standard Deviation (SD)	Sample Size (n)
Extrinsic Rewards	3.80	0.65	130
Motivation Level	4.10	0.60	130
Correlation Coefficient (r)	0.45		130
p-value	0.001		130

Correlation Coefficient (r) is 0.45 indicates a moderate positive relationship between extrinsic rewards and motivation levels. Whereas , p-value 0.001, which is less than the significance level (0.05), suggests that the relationship between extrinsic rewards and motivation levels is statistically significant. So, Reject the null hypothesis (H₀). There is a significant positive relationship between extrinsic rewards and motivation levels among the sampled employees.

Findings of the study

- The mean motivation level of employees in the high intrinsic rewards group was 78, with a standard deviation of 8, whereas those in the low intrinsic rewards group had a mean of 70 and a standard deviation of 10. This implies that employees who perceive intrinsic rewards (including personal growth, job satisfaction, and recognition) as being of a higher quality possess substantially higher motivation levels than those who perceive them as being of a lower quality.
- Motivation levels between the high and low intrinsic rewards groups are statistically significantly different, as evidenced by the t-statistic of 4.22 and a p-value of 0.00003. The motivation levels of the sampled employees are significantly different between the high and low intrinsic rewards categories.
- The moderate positive relationship between extrinsic rewards and motivation levels is indicated by the correlation coefficient (r) of 0.45. Employees who perceive greater levels of extrinsic rewards (including salary, incentives, and benefits) exhibit higher levels of motivation. The extrinsic rewards and motivation levels of the sampled employees are significantly positively correlated.

Conclusion

There is a significant role for both internal and extrinsic rewards in the process of motivating people. While extrinsic rewards, such as financial incentives and promotions, can drive performance and retention in the short term, intrinsic rewards, such as job satisfaction and personal growth, are vital for long-term motivation and engagement. When it comes to long-term motivation and engagement, intrinsic rewards are essential. When organizations have a better understanding of the interplay between these different sorts of rewards, they are better able to build effective motivating tactics that nurture a workforce that is both productive and fulfilled. There are positives and negatives associated with both intrinsic and extrinsic rewards when it comes to motivating employees. In order to cultivate a workforce that is motivated, engaged, and high-performing, firms can benefit from adopting a balanced approach that capitalizes on the positive aspects of both types of rewards while simultaneously minimizing the negative aspects of each. When it comes to developing an

efficient incentive system that encourages both short-term success as well as long-term happiness and commitment, it is essential to have a solid understanding of the specific requirements and preferences of employees.

Future Implications

It is recommended that organizations take into consideration the possibility of increasing both intrinsic and extrinsic reward systems in order to boost employee motivation, work satisfaction, and overall achievement. The cultivation of a sense of contentment and engagement among workers can be facilitated by placing an emphasis on intrinsic benefits such as personal growth and acknowledgment. In addition to having a good impact on levels of motivation, ensuring that extrinsic rewards such as salary, bonuses, and benefits are competitive helps facilitate the recruitment and retention of talented individuals.

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