

# RELATIONSHIP BETWEEN REWARDS AND EMPLOYEE'S MOTIVATION IN THE NON-PROFIT ORGANIZATIONS OF PAKISTAN

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## Abstract

This study empirically examines the relationship between rewards and employee's motivation in the non-profit organizations of Pakistan. Employees of three organizations (PERRA, World Vision and SUNGI Development Foundation) working in Khyber Pakhtunkhwa province of Pakistan were taken as sample of the study. Self designed questionnaire was used for data collection. 125 questionnaires were distributed and 107 were returned, hence the response rate was 85.6%. The data was analyzed using the techniques of rank correlation coefficient and multiple regression analysis. All the findings were tested at 0.01 and 0.05 level of significance. The result concludes that there is a direct relationship between extrinsic rewards and the employee's motivation. However, intrinsic rewards found an insignificant impact on employee motivation. **Key words:** Rewards, Employee motivation, Non-Profit Organization (NGO), Correlation, Regression, KPK province, Pakistan.

In today's competitive business environment companies are facing many challenges and among those challenges acquiring right workforce and retaining it, is of utmost importance. Nowadays, human asset is considered to be the most important asset of any organization. In order to get the efficient and effective result from human resource, employee motivation is necessary.

Employee will give their maximum when they have a feeling or trust that their efforts will be rewarded by the management. There are many factors that effect employee performance like working conditions, worker and employer relationship, training and development opportunities, job security, and company's over all policies and procedures for rewarding employees, etc. Among all those factors which affect employee performance, motivation that comes with rewards is of utmost importance. Motivation is an accumulation of different processes which influence and direct our behavior to achieve some specific goal (Baron, 1983).

This study will examine the employee's motivation of an organization with the rewards (both extrinsic and intrinsic) given to them. For the study, particularly employees of non-profit organizations of Pakistan will be selected, and as a sample employees would be taken from three non-profit organizations of Abbottabad, KPK, Pakistan, namely, PERRA, World Vision and SUNGI Development Foundation.

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. External rewards can be in terms of salary/pay, incentives, bonuses, promotions, job security, etc. 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. Frey (1997) argues that once pay exceeds a subsistence level, intrinsic factors are stronger motivators, and staff motivation requires intrinsic rewards such as satisfaction at doing a good job and a sense of doing something worthwhile.

Desired performance can only be achieved efficiently and effectively, if employee gets a sense of mutual gain of organization as well as of himself, with the attainment of that defined target or goal. An organization must carefully set the reward system to evaluate the employee's performance at all levels and then rewarding them whether visible pay for performance or invisible satisfaction. The concept of performance management has given a reward system which contains; needs and goals alignment between organization and employees, rewarding employees both extrinsically and intrinsically. The system also suggests where training and development is needed by the employee in order to complete the defined goals. This training or development need assessment of employee gives them an intrinsic motivation.

The objective of this study is to find out the relationship between rewards and employees' performance in non-profit organization in Pakistan. More specific objectives are to find out:

- The effect of intrinsic rewards on employee's performance.
- The effect of extrinsic rewards on employees' performance and
- The effect of both intrinsic and extrinsic rewards on employees' performance

Based on the above objectives, the present study seeks to test the following hypothesis:

*H1: There is a direct relationship between intrinsic rewards and employee motivation.*

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

The significance of the study would be an idea about relative importance of extrinsic and intrinsic rewards. Management can get a better idea while preparing its reward system that what kind of reward would be given the most importance and at what stage through such a type of study.

This paper is organized as follows: after introduction in section 1, literature review is carried out in section 2. Research framework and methodology is mentioned in section 3. Result and discussion is provided in section 4. Final section concludes the study.

## Literature Review

Human resource is one of the most important resources of gaining competitive advantage over competitors for a firm. And this resource can be retained and optimally utilized through motivating it using different techniques among which reward is of significance importance. Carraher et al (2006) advocates that there should be an effective reward system to retain the high performers in the organization and reward should be related to their productivity. A lot of work has been done on evaluating the relationship between rewards and employee motivation and there exist a large number of studies in the literature describing impact of reward on employee motivation. In order to maximize the performance of the employees organization must make such policies and procedures and formulate such reward system under those policies and procedures which increase employee satisfaction and motivation. Bishop (1987) suggested that pay is directly related with productivity and reward system depends upon the size of an organization. Organizations in today's competitive environment want to determine the reasonable balance between employee loyalty and commitment, and performance of the organization.

The existing literature on individuals' innovative performance reveals a wide array of individual and organizational antecedent factors. Among many individual antecedents that influence employees' innovative performance are attitudes (Williams, 2004), cognitive styles (Scott and Bruce, 1994), personality and demographic characteristics such as age, education background, and prior R&D experience (Roberts, 1991 and Rothwell, 1992). In terms of organizational antecedents, expenditure on R&D (Hadijimanolis, 2000), cooperation with external technology provider, leader's influence (Hage and Dewar, 1973), and reward system (Eisenberger and Cameron, 1996; Janssen, 2000; Mumford, 2000) are commonly cited as factors that affect individuals' innovative performance. Efficient reward system can be a good motivator but an inefficient reward system can lead to demotivation of the employees. Reio and Callahan (2004) concludes that both intrinsic and extrinsic rewards motivates the employee resulted in higher productivity.

Most of the organizations have gained the immense progress by fully complying with their business strategy through a well balanced reward and recognition programs for employee. Deeprose (1994) argued that the motivation of employees and their productivity can be enhanced through

providing them effective recognition which ultimately results in improved performance of organizations. The entire success of an organization is based on how an organization keeps its employees motivated and in what way they evaluate the performance of employees for job compensation.

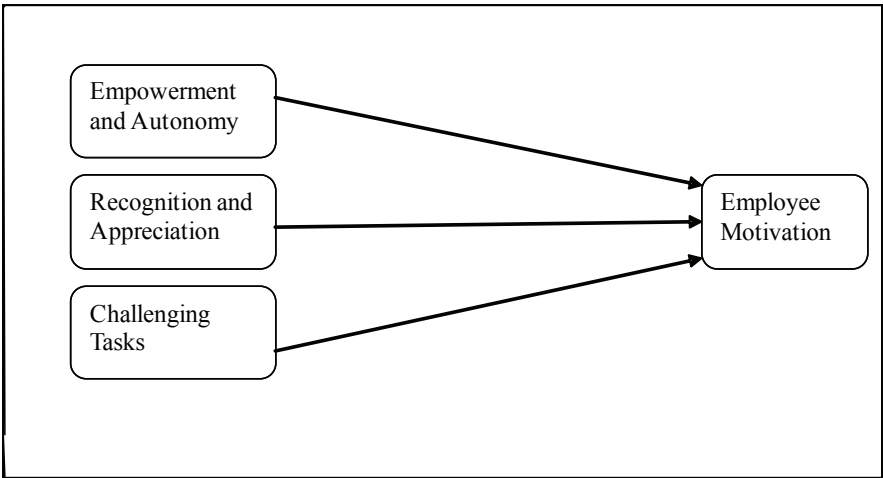
Sometimes management pays more attention to extrinsic rewards but intrinsic rewards are equally important in employee motivation. Intangible or psychological rewards like appreciation and recognition plays a vital role in motivating employee and increasing his performance. Andrew (2004) concludes that commitment of employees is based on rewards and recognition. Lawler (2003) argued that prosperity and survival of the organizations is determined through how they treat their human resource. Ajila and Abiola (2004) examine that intrinsic rewards are rewards within the job itself like satisfaction from completing a task successfully, appreciation from the boss, autonomy, etc, while extrinsic rewards are tangible rewards like pay, bonuses, fringe benefits, promotions, etc. Filipkowski and Johnson (2008) examined the relationships between measures of job insecurity, organizational commitment, turnover, absenteeism, and worker performance within a

manufacturer. A positive relationship was found between job insecurity and intentions to turnover, and a small negative correlation was found between measures of job insecurity and organizational commitment. Tosti and Herbst (2009) discuss about behavior systems approach which can be used to achieve a customer centered organization through examples and reports from consultation cases. Johnson et al (2010) establish the effects of presenting organizational information through implicit and explicit rules on sales-related target behaviors in a retail setting. Results indicated that when organizational information was presented in a specific form, productivity was increased and maintained longer than when presented in other forms.

### Research Design and Methodology

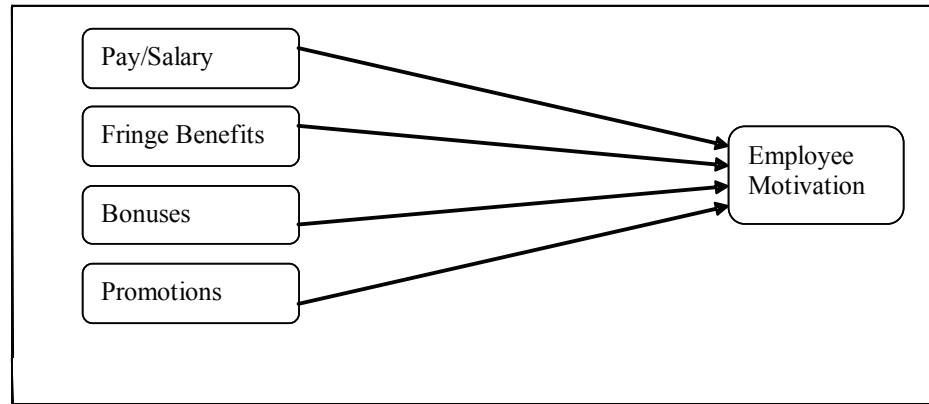
As this study examines the impact of extrinsic and intrinsic rewards on employee motivation, the employees of the non-profit organizations working in KPK has been taken as population. Employee motivation is taken as dependent variable and extrinsic and intrinsic rewards are taken as independent variable. The framework of the study is given in Figure 1, 2 and 3 respectively.

Figure 1: Intrinsic Rewards and Employee’s Motivation



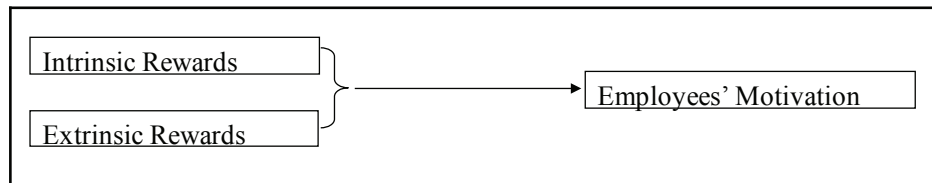
Source: Self Construct

Figure 2: Extrinsic Rewards and Employee's Motivation



Source: Self Construct

Figure 3: Research Framework



### Sampling

Using convenience method of sampling, 125 questionnaires were distributed among the employees of three selected non-profit organizations namely, PERRA, World Vision and SUNGI working in Abbottabad. 107 questionnaires were returned, so the response rate was 85.6%.

### Data Collection

Self Designed questionnaire has been developed for data collection. Self-designed questionnaire was divided into two parts; one containing socio-demographic questions and the second part containing questions related to variables that are extrinsic and intrinsic rewards and employee motivation. Parameters for measuring extrinsic rewards are pay, bonuses, fringe benefits, and promotions while parameters for measuring intrinsic rewards are empowerment and autonomy, recognition and appreciation, and challenging tasks. Five point Likert Scale ranging from 1 (strongly disagree) to 5 (strongly agree) was used to measure responses. The respondents' scores for each

construct were obtained by summing across all the item scores of the individual variables. The Cronbach's Alpha reliability coefficients for the sample are given in Table 1.

Table 1: Cronbach's Alpha Reliability Coefficients

Items	Cronbach's Alfa
Extrinsic Rewards	0.83
Intrinsic Rewards	0.90

## Results and Discussion

### Frequency Distribution

Table 2 shows the demographic information of the respondents. Most of the respondents are falling in the age group of 26-30 year with the percentage of 50% and then 31-35 years of age with 21%. The demographic characteristics also show a gender division of the respondents, majority of the respondents' are males, i.e. 80% representing a bigger part of the sample group. However, 20% percent respondents are females.

Table 2: Frequency Distribution of Demographic Variables

Variables	Frequency	Percentage
<b>Age</b>		
21-25	10	9.3
26-30	55	51.4
31-35	25	23.3
36-40	09	8.4
41-45	05	4.6
46-50	02	1.8
51-55	01	1.2
<b>Gender</b>		
Males	77	71.9
Females	30	28.1
<b>Education</b>		
Under graduate	03	2.8
Graduate	42	39.2
Masters	61	57.0
Others	01	1.0

### Descriptive Statistics

Table 3 explains that majority of the responses regarding pay, fringe benefits, appreciation and challenging tasks were neutral i.e., mean value is less than 3.5. The responses of promotions, bonuses, empowerment and motivation show that employees consider this factor slightly more important than other factors as mean value is greater than 3.5. Standard deviation of challenging tasks and pay shows that these variables have extensive responses than its mean as value indicates 1.33 and 1.24 respectively. One of the reasons for this deviation could be the selection of three different organizations in the sample having different pay packages.

Table 3: Descriptive Statistics

Variables	Mean	Std. Deviation
Pay (PAY)	3.2857	1.2411
Fringe Benefits (FB)	3.3571	.8934
Promotions (PRO)	3.5714	.7086
Bonuses (BON)	3.3714	.8456
Empowerment (EMP)	4.0500	.7668
Appreciation (APP)	2.9464	.8511
Challenging Task (CT)	2.9089	1.3373
Motivation (MOT)	3.9857	.4761

### Correlation Analysis

Spearman's Correlation was performed to study the size and magnitude of the relationship between the variables. The relationship between extrinsic, intrinsic and employee performance are shown in the Table 4.

Table 4 shows that all extrinsic rewards i.e., pay, fringe benefits, promotions, bonuses are positive and significant related with employee motivation, whereas intrinsic rewards i.e., empowerment appreciation and challenging task have a negative but insignificant impact with employee motivation. Correlation coefficient between fringe benefits and motivation (0.319) is the highest among all the variables and is significant at 99%. Pay (0.281) and promotions (0.254) are also significant at 99%. Bonuses have a weakest correlation among extrinsic rewards but it is significant at 95%. Among intrinsic rewards all are insignificant relationship with employee motivation.

Table 4: Correlation Matrix

Variables	MOT	PAY	FB	PRO	BON	EMP	APP	CHA
MOT	1.000							
PAY	.281**	1.000						
FB	.319**	.342**	1.000					
PRO	.254**	.328**	.317**	1.000				
BON	.190*	.076	.423**	.330**	1.000			
EMP	-.042	.070	-.114	.074	.240*	1.000		
APP	-.019	-.179	-.172	.155	.116	.451**	1.000	
CT	-.023	-.250*	-.289**	-.166	.100	.683**	.829**	1.000

\*\* Correlation is significant at the .01 level.

\* Correlation is significant at the .05 level.

### Incremental Regression

The incremental regression is performed by removing individual independent variables from the model and by checking the effect on the value of R-squared. Among all the variables removed, fringe benefit has altered the value of R-squared to a highest degree i.e., 8.4% decreases in the portion of the dependent variable explained by independent variables as the value for the R-squared changes from 54.2% to 45.8%. This importance is also highlighted in the regression result as the value of coefficient of the variable is highest among all the variables in their three models respectively. The result is presented in Table 5.

Table 5: Incremental Regression Dependent Variable: Employee Motivation

Variables	OLS1	OLS2	OLS3	OLS4	OLS5	OLS6	OLS7	OLS8
Pay	.145	—	.240***	.188	.131	.077	.140	.108
FB	.347*	.387*	—	.364*	.380*	.374*	.355*	.346*
PRO	.203	.236***	.235***	—	.220***	.180	.154	.134
BON	.097	.077	.214***	.129	—	.039	.076	.060
EMP	-.286**	-.246***	-.324**	-.268**	-.263**	—	-.272**	-.205
APP	-.217	-.205	-.263	-.071	-.184	-.163	—	.069
CH	.377	.316	.374	.233	.337	.154	.176	—
R square	.542	.528	.458	.516	.535	.494	.533	.519
F-value	3.680*	4.056*	2.786*	3.817*	4.221*	3.381*	4.162*	3.877*
D-W	1.773	1.799	1.611	1.753	1.789	1.716	1.740	1.712

\*, \*\* and \*\*\* indicates significance at 0.01, 0.05 and 0.09 percent level.

The result further shows goodness of fit in the incremental regression after removing fringe benefits in Table 6. This decrease in the value of the R-squared shows the importance of fringe benefits in the model.

Table 6: Results of Incremental Regression removing Fringe Benefits

Models	Values
R-squared (original)	0.542
R-squared (after the removal)	0.458

### Hypothesis Testing

*H1: There is a direct relationship between intrinsic rewards and employee motivation.*

The results of correlation matrix rejects the hypothesis as it gives a negative and weaker relationship of empowerment (-0.042), appreciation (-0.019) and challenging tasks (-0.023) with employee motivation. Intrinsic rewards are insignificant relationship with employee motivation.

Incremental regression also rejects this hypothesis, which shows that empowerment and appreciation has a negative impact on employee motivation. And only empowerment is significant among intrinsic variables. Chris and Awonusi (2004) supports that extrinsic rewards have a significant impact on employee motivation while intrinsic rewards don't have any significant impact on employee motivation.

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

The results of correlation matrix have supported the hypothesis that there exist a positive/direct relationship between extrinsic rewards and employee motivation. Incremental regression analysis also confirms the hypothesis, as the most significant variable is fringe benefit which is an extrinsic reward.

### Conclusion

Human resource is considered to be the most important resource of an organization to remain competitive in today's competitive business world. Acquiring the right workforce and then retaining that force is one of the challenges faced by organizations and their management. The results from this study reveal that there is a significant and positive relationship between extrinsic rewards and employee motivation but it has been observed that organizations are not offering right amount of financial rewards (extrinsic rewards) to their employees in this sector. Pay is a significant factor which affects employee motivation but the results moderately supports the hypothesis due to difference between the pay packages of three different organizations. Fringe benefits are very important in motivating employees according to this study, so organizations must have to provide all the essential fringe benefits to their employees, it also increase their job efficiency.



On the other hand, intrinsic rewards have a weaker impact on employee motivation. Empowerment has negative effect on employee motivation, due to the lack of trust between employee and his/her boss through which employee thinks that his/her boss has over burden him instead of thinking himself empowered. There is an indirect relationship between appreciation and employee motivation as employees of the organizations are not satisfied with their pay packages. So in the absence of extrinsic rewards which is the basic source of motivation for employee, intrinsic rewards like recognition, appreciation and empowerment is of little importance. Pay is potentially powerful tool to employee motivation so the employees can only be intrinsically motivated to perform an activity when they are fully satisfied with the pay they are getting.

There are certain limitations of the study which can be taken into account for further studies in the future, like sample size was too small and only organizations working in Abbottabad were considered. Another important limitation was that the pay structure of the three organizations was different from one another, so responses regarding pay variable were deviating, generating slightly significant impact of pay on employee motivation. These limitations can be avoided in the future studies carried out in this field, and a more clear picture can be obtained regarding impact of extrinsic and intrinsic rewards on employee motivation.

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