

THE INFLUENCE OF INTRINSIC AND EXTRINSIC MOTIVATION FOR EMPLOYEE COMPENSATION

Ilie Popa Georgiana-Florina, Bucharest University of Economic Studies

Tănase Veisa Alina, Bucharest University of Economic Studies

Băcănoiu Văduva Cecilia, Bucharest University of Economic Studies

ABSTRACT

Understanding intrinsic and extrinsic motivation is the key to performance management. If a manager spends all his time trying to stimulate extraordinary performance through external motivations when an employee's motivation is inside, he will not only lose time and money but also lose the interest of the best performers. In our modern knowledge society, using money or any other reward similar to financial ones without proper recognition increases the extrinsic motivation of the employee and erodes intrinsic motivation.

Keywords: Extrinsic Motivation, Intrinsic Motivation, Performance, Compensation.

INTRODUCTION

Intrinsic motivation can come from several sources, including the desire to please a manager, improve a certain skill or continue the company's mission. Intrinsic motivation is why personal development goals are so important for successful performance management. Intrinsic motivators come from the inside; they're more psychological than extrinsic motivators. Some experts go so far as they say that intrinsic motivation is the only type of motivation that leads to serious success. When employees are intrinsically motivated, they are more likely to perform well and be promoted.

Extrinsic motivators tend to be financial or tangible. In general, they take the form of an increased salary, a bonus, a company car, or a promotion. These rewards, as you can tell, are external to the work itself. It is also worth mentioning that the form of an extrinsic reward is usually determined by someone else, such as the employee's manager. Motivation at work has grown to become one of the central issues that organizations and managers are facing worldwide (Amabile, 1993).

Essentially, those who have an extrinsic motivation do things first to receive a reward. According to this logic, an employee does not perform well because they enjoy a certain sense of satisfaction or want to help the business thrive. Rather, they behave well to earn material compensation for their efforts, such as wages or salaries. Two broad classes of motivation, extrinsic and intrinsic motivation, have been defined and researched across a range of contexts throughout the years (Lin, 2007; Amabile, 1993; Ryan & Deci, 2000) Motivation is defined in these two ways for practical purposes, guiding the direction, the intensity, and the persistence of performance behaviors (Cerasoli et al., 2014, p. 980).

Intrinsic Compensation: Based on the Hierarchy of Needs

Traditionally, draft compensation plans have addressed the needs of the lower levels of the hierarchy, those of physical comfort and security. This is understandable because in the past the contract or agreement between the employee and the employer was, for the most part,

a financial one (Allen & Carthy, 2017). But after the 1990s, many employees found themselves focusing less on the element of avoidance that is associated with lower levels of hierarchy and began to look to higher levels, which offer psychic rewards. For many, the needs of the lower level have been met, and the scale of their needs is growing, beyond the need for physical comfort and security and closer to self-realization. Thus, extrinsic compensation is not enough; organizations must now consider addressing the higher level of employees with needs that are related to mental or intrinsic compensation.

The relationship between incentive compensation-based behavior and Maslow's hierarchy of needs is illustrated in the following. The needs at the lower levels of the pyramid - physical comfort and security - are addressed through extrinsic compensation, but higher personal needs for social acceptance, self-respect, and self-fulfillment are addressed through intrinsic compensation (Campbell & Wiernik, 2015). One of the reasons why the quality of life at work has become as important as the basic compensation for today's employees is that it addresses their high priority, intrinsic needs. The organization needs to find solutions to incorporate this approach into the design of a compensation plan for all employees.

These challenges can only be addressed if compensation means a motivational tool to be used in the broader context of an organization's management style. If this approach is used, elements such as employee involvement techniques can be included in the design of the compensation plan to meet the need for self-respect and self-fulfillment. Specific activities, and management support tactics, will work to meet the need for social acceptance and can be easily included in the structure of a compensation plan that measures performance and requires interaction (Harari et al., 2016). These are examples of compensation elements that meet the intrinsic needs of employees without an increase in basic compensation. It has been shown that any effort by an organization to provide this non-financial form of employee compensation produces a receptive audience.

The researcher whose contribution can provide support regarding the application of this concept is B.F. Skinner. He believes that applying Maslow's theory postulates that people will do almost anything in their power to meet their needs. If this is true, then the theory that behaviors are based on compensation and incentives is the key to the source of motivation for human potential. It becomes the responsibility of managers to develop a process by which the needs of employees can be met in a way that is beneficial to the organization. As holders of power and authority, managers can affect the physical, social and psychological environment of the workplace.

The ability of people to do this in response to B.F. Skinner's theory of behavior is the most functional concept available for the everyday professional sphere, to promote motivation at work. Skinner was an eminent and highly controversial behavioral scientist. While Maslow is concerned with the theory of motivation, Skinner is concerned with the theory of behavior. The difference is that behavior theory takes into account both motivation and environment. This is a significant development toward the application of the Theory of the Law of Human Behavior, on which Skinner has identified a basic law of human behavior that forms the foundation of applied behavioral technology. This technology can be used to motivate employees through specific actions that meet their needs. By applying this behavioral technology, it is possible to derive positive side effects for the environment. Skinner's theory of human behavior provides a way to take advantage of the vast reserves of our employees' ability to differentiate between the effectiveness of an organization and its economic value.

Dr. Skinner observed that, at the individual level, a stimulus will initiate a behavior that, in turn, will generate a result. In other words, the results are a consequence of the behavior and any behavior generates a certain type of result. If the consequences of the behavior are positive for the individual who created the behavior (ie if they are considered desirable because they meet a certain need), the relationship between behavior and

consequences will generate a situation that meets the individual's need for positive reinforcement. Skinner also observed that if a certain behavior results in a positive consequence, then the individual would tend to repeat that behavior. Moreover, the consequences would change the behavior and, in fact, act as an incentive. These two observations are the source of the concept of positive reinforcement. Of all the concepts analyzed, the ability of certain behavior/consequence relationships to meet the employee's need for positive reinforcement will prove to be the most important from a practical point of view in applying to the workplace.

The behavioral model will be useful in developing a clear understanding of the implications, impact, and application of behavioral technology in the field of compensation incentives. It is a graphical representation of the relationships that Skinner observed. These relationships combine to meet the need for positive reinforcement. A background is anything that precedes the behavior and acts as a stimulus to initiate it. Management is well educated and experienced in the disciplines of training, organization, and systematization. The management trend of previously developed instruments, which: information reports, training, work policies and procedures, specific instructions, work tasks, and job descriptions. The behavior that matters is the performance of an employee that occurs as a result of the previous stimulus. For example, "*I need this document produced in finished form by three o'clock this afternoon*" may be a precedent that initiates employee performance.

There are two important points to be drawn from the behavioral model. The first is that the quality of the results will be directly related to the quality and timeliness of the background. The more specific the antecedent and the closer it is to the time of behavior, the greater its effect on behavior. It happens relatively rarely that an experienced employee does not live up to expectations, than one who lacks experience. Following the analysis, it is generally found that one of the causes is that the antecedent, the understanding of the task, was neither specific nor understood. The second point of the behavioral model is that certain consequences provide feedback to the individual. This feedback acts as a precedent. In many cases, feedback replaces the original background and changes performance. Employees are often placed in a position, given an overview of job activities and performance expectations, and then allowed to take advantage of their initiative. Inexperienced employees generally appreciate early support, but as the model indicates, face-to-face interactions bring performance closer to expectations by providing feedback that will change future performance. A good example of this concept, as applied to incentive clearing, is the back office operation of a credit card processing center where employees are responsible for processing credit card payments. Until they are processed, these payments represent receivables rather than income.

There is an identifiable value for the company for the timely processing of payments and, for this reason, there is a clear opportunity for part of each employee's cash compensation to be in the form of a performance incentive. In such a scenario, payment processing becomes an important consequence for employees. As employees perceive the opportunity to increase their income and thus make it possible for them to fulfill their material desires, the quantity or volume of cards that each employee processes become important. Most employees will try to process multiple payments to receive more compensation. Thus, timely performance feedback in the form of daily or, rather, hourly results, will act as an encouragement that will drive employee performance. The behavior model is a very powerful tool that can be used to provide opportunities that will meet the intrinsic needs of the employee. As such, it is a key element in the design of any behavior-based behavior.

Incentive Compensation Plan

In the Fishbone diagram, there is an element of the intrinsic need for positive reinforcement. The reward is represented by the elements, actions, or situations that employees will perceive as opportunities to meet their needs. However, these are also opportunities for management to offer rewards.

To offer performance-dependent rewards, it is necessary to understand what a reward is. The concept of rewards is based on both performance and perception. By definition, a reward is something that is perceived as desirable by the recipient and is obtained as a result of an action. If it is not perceived as positive, then it is not full of satisfaction for the recipient. If it is not derived from a conscious action, if it is a gift or comes from a source of chance, it cannot be considered a reward. To be perceived as positive, the reward must meet a need. Because each employee has different needs, no reward will be perceived as positive by all employees. Of course, it could be said that basic compensation is a universally positive reward because it meets the basic needs of security and physical comfort. But some materially independent people work for reasons other than money. What is a reward is a matter of perception on the part of the recipient, so management must be continually sensitive to each employee's perception of the situation.

As we progress in the development of the Fishbone chart, we will encounter situations and information that increase our sensitivity in this direction. The choice of elements to include in behavior based on the incentive compensation plan deserves serious attention. For example, if an employee's basic need for security is manifested by the need for good care and trust in children, then the company's ability to provide such care is perceived as satisfying and attractive. For another, employee care may be meaningless. Different types of employees have different intrinsic and extrinsic needs. The needs of directors are probably not the same as those of production workers, and the needs of public employees are not the same as those of freelancers in the field of art. It is important to highlight the key needs in order.

The ceremony meets several levels of human needs identified by Abraham Maslow - namely, security, self-esteem, and peer recognition. The ceremony meets these needs primarily by giving legitimacy and value to a situation in the perception of participants and observers. The marriage ceremony, the religious services, and even the inauguration of the heads of state recognize and incorporate this premise. The ceremony is, in fact, part of the validation of the recipient's self-worth by the company. This strong element should be incorporated in the compensation of incentives whenever possible. By doing so, the efficiency of the reward can be greatly improved at a low cost. The behavioral pattern and positive, immediate, and safe motivational elements are both key components to be used in evaluating and designing any incentive.

Compensation Plan

The following figure shows the intrinsic compensation part of the Fishbone type, incorporating the behavioral, positive, immediate, and safe model, as well as the motivational criteria. As the Fishbone elements develop, they are correlated and placed in the position of their apparent primary relationship, where they make the greatest contribution. The amount of compensation can be correlated with motivational effectiveness. Financial reward is only one component of behavior based on compensatory behavior, whether it is incentive compensation or basic compensation. Today's employees have developed a cost-benefit relationship with their material and mental needs. Many families have more money than time and this situation affects their value systems. They tend to spend their energy in the areas that offer them the greatest reward.

Stimulants Vs Recognition

No analysis of behavior and motivation would be complete without addressing the difference between incentives and recognition. Too often the confusion between these two methods of reward results in an inefficient program. Incentives and recognition are both ways of giving a reward. If the approach is wrong, employees will not respond as managers anticipated. An incentive supports performance. It's a pre-performance contract that promises a reward for a certain action: *"If you do that, you get it."* The incentive can be intrinsic, such as when employees meet their own need for positive reinforcement just because they performed well, but most incentives are extrinsic. They meet the need for positive reinforcement with tangible rewards, such as money, goods, or travel, or with other intangible rewards such as free time or free childcare (Hulsheger, et al., 2009). Incentives should be designed to reward results. It should also be self-financing so that if there are no results, there is no cost involved. When the program is designed correctly, incentives are the most cost-effective, effective, and risk-free in terms of the form of compensation that exists.

Recognition is the last type of appreciation for a contribution. In many cases, it is a surprise to the recipient that it has had good results for reasons other than recognition. It is generally a form of social cohesion, in which a ceremony involving leadership and colleagues offers strong intrinsic rewards by addressing the individual's needs for self-esteem and belonging (Oldham & Cummings, 1996). Where incentives emphasize specific behavior that leads to results, recognition emphasizes the feelings and emotions that are associated with meeting the need for positive reinforcement. As mentioned earlier, the ceremony is more of a recognition factor, and the visual element plays a key role. In most cases, the ceremony includes the presentation of a material object that symbolizes the cultural values held by management. The symbol should be consistent with the culture and values of the organization; as well as the purpose of the presentation. An example of a program in which recognition is part of the organizational culture is one in which the organization talks about the value of teamwork, but formally recognizes only the contributions of individuals. Recognition has a strong effect on the rest of the organization. The material reward, often minimal in extrinsic value, is an important symbol of management's sincerity and commitment to organizational values. In this way, recognition can have a significant impact on morale and, to a lesser extent, on performance.

Extrinsic Compensation

The mainstream of employee involvement and dedication was that the way a product or service is accepted in a market depends on them. Competing organizations adopt this concept and develop a variety of employee engagement techniques designed to encourage them to contribute their full resources. But if you look beyond employee relationships and organizational development at the compensation function, you can see a different situation. In most organizations, incentive compensation plans are offered only to the most productive of employees, usually the sales force, and to the largest approximately 10% of managers. In the case of civil servants, the situation is different; the differentiation based on remuneration cannot be as polarized. According to the traditional model, thinking about compensation, these people are the only employees able to make a significant contribution to the profitability of the organization. Extrinsic motivation on the other hand is not linked to the satisfaction the employee gets from performing the task itself, but rather from the external outcomes of the task such as financial rewards or incentives (Giancola, 2014).

In real life, of course, most organizations focus on features other than traditional ones that focus on costs and the philosophy of compensation under human resource pressure. In today's social and economic realities, organizations can no longer afford to pursue a cost-

based compensation practice. The human element would become very close to the commodity element, which is trying to be avoided since the principle of human resource existed. Market-oriented businesses need creativity and individual input, as well as teamwork to be successful. Civil servants can also follow this model, although at first glance the association between the market and the public institution is not obvious. Based on behavior, incentive compensation will be paid to a greater extent than by encouraging those behaviors among all employees in a process based on financial control. Thus, the discipline related to compensation, relations with employees, organizational development, and training of new employees must become a closely linked unit of operation.

The Reality of Change

If an organization is to survive and thrive in a competitive and fast-paced way in the marketplace, it must be flexible and able to change the traditional ways of doing things. But for a stable organization, especially a large one, with well-defined organizational policies and culture, tested and conservative procedures and methods, it is difficult to become flexible. The answer can be found individually. Based on the sum of its employees, although it is much more than that, an organization will change only to the extent that its employees change the way they think or do things. For the average employee, personal change is difficult. It requires learning new ways of doing things and it is full of uncertainty. The change carries with it a fear of the unknown and is uncomfortable for most employees. Of course, they tend to resist change. The easiest resistance is passive resistance, where policies are practiced to accept the urges of change leadership, but few actions are implemented and change does not take place at the deceased (pace & Brannick, 2010). Under these circumstances, an organization simply cannot force change and expect it to happen - it must actively encourage change. And he can do different things in this regard.

The management of the organization must also admit the scenario in which you do not always get what you want. Providing a more effective response to customer needs is sometimes a difficult task for any organization. The concentration, interaction, and involvement that are required from employees have not generally been part of the traditional management style. As such, it must be viewed from two different perspectives, that of management, on the one hand, and that of employees, on the other. Management's view of the terms of employment is based on the job description, pre-employment discussions, and tasks assigned to the employee at the beginning of his / her job. The employee's perspective on employment conditions tends to be immediate. It is based on the level of daily performance that management accepts to pay its salary. The reality of this mechanism is that the level of performance for which the organization's management pays is the level of performance that is received. In the current practical compensation, without a strong direct link between performance and salary, you do not receive what you pay, but you pay for what you receive. In the eyes of the employee, if this level of performance is not enough, then managers, in their role as administrators, should take steps to change something. This is a dilemma, because too often management is only aware of the disciplinary actions that can be taken, and those actions seem ineffective in stimulating participation or change. If, as a manager, one wants to change something about employee participation by matching compensation with the quality or quantity of employee performance, three general approaches can be used.

Reducing the level of compensation to be correlated with the current level of performance. This implies that employees do not currently make their full and mandatory contribution by contract, but that they will remain within the organization even after the reduction of income. Some organizations have used a two-tier approach that applies salary reductions to newcomers. Experience has shown that employee morale tends to decline in this scenario. This, together with current and future job prospects, leads to the conclusion that this

is not the best option. However, in an environment where the basic salary is well above average, offering the opportunity to compensate with incentives while threatening part of the basic salary, effective results can be achieved in improving quality and reducing costs.

Maintain the current level of compensation and increase performance. The use of coercive techniques, force, and the principle "*for this they are paid*", in general, does not work well at present when human resources have reached such a high degree of professional emancipation. But if this is the position of the organization, it will be necessary for the management to support it with disciplinary measures and dismissal when employees do not respond. After the 1990s, however, this became more difficult to implement.

Migration to a system that makes the compensation process conditional on performance. To do this effectively, managers need to change their perspective and look at the issue of motivation and compensation from the point of view of those who are required to do the work. By allowing employees to gain access and enjoy increased benefits at the organizational level, virtually access to internalized earnings, the management gives them a strong motivation to participate and increase their level of contribution.

The third perspective seems more attractive. Incentive compensation gives all participants a personal interest in the success of the effort. Instead of performing as robots, without any ownership or involvement, each individual is given a reason to develop the most effective means of achieving the organization's goals and meeting the organization's needs. Employees begin to act as owners of the company because they have the opportunity to meet their extrinsic needs through the process of successfully meeting the needs of the organization. To clarify this concept, a scenario is assumed in which the management no longer considers the current level of employee performance acceptable.

Change is needed and it is accepted that the variant of behavior based on stimulating compensation is the most effective approach. Both dimensions of motivation, intrinsic and extrinsic, need to be addressed. To respond to intrinsic needs, one of the first things to consider is to provide some reason for the need for change. This will help reduce anxiety and promote acceptance of the change. This reasoning, although primarily financial decision-making, can be supported by the human resources community. The measure is a communication and training awareness campaign. From an extrinsic point of view, employees must be allowed to improve their standard of living by increasing financial compensation. This opportunity will give employees a reason to improve their performance. But the extrinsic element is a budget issue, and senior management will want to be provided with some financial justification for the issues and why this approach is effective. Motivation and performance are sometimes used interchangeably. This is a consequence of motivation explaining what employees do, and how hard and far they are willing to go to do something, and therefore it is commonly confused with an employee's job performance (George & Jones, 2012).

CONCLUSION

Shortly, policies will continue to be reviewed by both organizations and legislation to focus on people-centered solutions that motivate employees, allow them to celebrate, recover, manage personal events, and take care of others. Reviewing holiday policies and adopting creative motivation solutions will give an organization a competitive advantage over top professionals from parts of the world with low unemployment while helping companies comply and be one step ahead of growing regulations. According to psychologists, self-realization is a very human thing. It is our basic nature to grow something and see it shine, it applies to most of the things we do in our daily lives. This applies to both social and societal spaces.

Motivation plays a very important factor in a man's life. Whether it's about improving us or our organization's performance. Motivated employees should not be told how to do things, they take initiative, they are eager to take on additional responsibilities, and they are innovators and good entrepreneurs. Therefore, motivation plays a very important factor and ensures that employees remain active and contribute the best things to their organization.

REFERENCES

- Allen, J., & McCarthy, M. (2017). How to engage, involve, and motivate employees: Building a culture of lean leadership with two-way commitment and communication. Productivity Press.
- Amabile, T.M. (1993). Motivational Synergy: toward new conceptualizations of intrinsic and extrinsic motivation in the workplace. *Human Resource Management Review*, 3(3), 185-201.
- Campbell, J.P., & Wiernik, B.M. (2015). The modeling and assessment of work performance. *Annual review of organizational psychology and organizational behavior*, 2(1), 47-74.
- Cerasoli, C.P., Nicklin, J.M. & Ford, M.T. (2014). Intrinsic motivation and extrinsic incentives jointly predict performance: A 40-year meta-analysis. *Psychological Bulletin*, 140(4), 980-1008.
- George, J.M. & Jones, G.R. (2012). *Understanding and Managing Organizational Behaviour*. 6th edition. Reading, MA: Prentice Hall.
- Giancola, F.L. (2014). Should HR Professionals Devote More Time to Intrinsic Rewards? *Compensation & Benefits Review*, 46(1), 25-31.
- Harari, M.B., Reaves, A.C., & Viswesvaran, C. (2016). Creative and innovative performance: A meta-analysis of relationships with task, citizenship, and counterproductive job performance dimensions. *European Journal of Work and Organizational Psychology*, 25(4), 495-511.
- Hulsheger, U.R., Anderson, N., & Salgado, J.F. (2009). Team-level predictors of innovation at work: a comprehensive meta-analysis spanning three decades of research. *Journal of Applied psychology*, 94(5), 1128.
- Lin, H.F. (2007). Effects of extrinsic and intrinsic motivation on employee knowledge sharing intentions. *Journal of information science*, 33(2), 135-149.
- Oldham, G.R., & Cummings, A. (1996). Employee creativity: Personal and contextual factors at work. *Academy of management journal*, 39(3), 607-634.
- Pace, V.L., & Brannick, M.T. (2010). Improving prediction of work performance through frame-of-reference consistency: Empirical evidence using openness to experience. *International Journal of Selection and Assessment*, 18(2), 230-235.
- Ryan, R.M. & Deci, E.L. (2000). Intrinsic and Extrinsic Motivations: Classic Definitions and New Directions. *Contemporary Educational Psychology*, 2000(25), 54- 67.

Received: 06-Jun-2022, Manuscript No. AMSJ-22-12133; **Editor assigned:** 09-Jun-2022, PreQC No. AMSJ-22-12133(PQ); **Reviewed:** 23-Jun-2022, QC No. AMSJ-22-12133; **Revised:** 27-Jun-2022, Manuscript No. AMSJ-22-12133(R); **Published:** 01-Jul-2022