

Economics and Business Review

Volume 1 (15) Number 4 2015

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Paper based publication

ISSN 2392-1641

POZNAŃ UNIVERSITY OF ECONOMICS PRESS
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postal address: al. Niepodległości 10, 61-875 Poznań, Poland

Printed and bound in Poland by:
Poznań University of Economics Print Shop

Circulation: 300 copies

The complex relationship between intrinsic and extrinsic rewards¹

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Abstract: This study aimed to determine the relationship between the two main components of the organizational rewards system; intrinsic and extrinsic rewards. Pay satisfaction was chosen to represent the extrinsic rewards whilst the Thomas et al. four intrinsic rewards represented the intrinsic rewards. A total of one hundred and fifty six self-administered questionnaires were collected from Israeli employees. Analysis using Pearson correlation indicated that there is no relationship between the two types of rewards. However, a regression analysis demonstrated that employees with temporary status, and outsourcers' employees, are experiencing less pay satisfaction than organizations' directly-employed staff. Another regression analysis established that a sense of choice predicted a positive correlation with pay satisfaction whilst a sense of competence predicted a negative correlation. Based on the findings it can be concluded that there is a downside to an organization's decision to reward employees by empowering and giving them autonomy. The empowerment process might increase the employees' sense of competence, which may lead to a decrease in pay satisfaction.

Keywords: employees' motivation, extrinsic rewards, intrinsic rewards, organizational rewards, performance, pay satisfaction.

JEL codes: J30, J31, J32, J33, M12, M50, M52, M54.

Introduction

Organizations spend significant parts of their budgets offering intrinsic and extrinsic rewards to members aiming to improve human resources outcomes [Mahaney and Lederer 2006]. Work rewards, meaning all the benefits that workers receive from their jobs [Bratton and Gold 2012], are considered one of the most important factors that encourage workers to invest extra effort and work more efficiently. When employees are rewarded, they get work done [Njanjal et al. 2013]. Due to its significant implications to the success of an

¹ Article received 10 April 2014, accepted 15 September 2015.

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organization, the reward system has been studied by numerous researchers. Yet there is some inconsistency in the literature regarding the effects of the different incentives on employees. The main debate has focused on the effect of extrinsic and intrinsic rewards on organizational outcomes and the interrelation between both types of rewards. Alfandi and Alkhasawneh [2014] discuss suitable incentives and claim that the absence of them may negatively affect employees' performance by weakening their motivation to attain the organization's goals. Therefore it is useful to understand the dynamic of the reward system and to identify the types of work rewards and their effect on employees' willingness to contribute to an organization's effectiveness and performance.

Hertzberg [1962] distinguishes between two groups of motivational factors: hygiene and motivation. The hygiene factors include rewards such as salary, company compensation policy, working conditions and security. The absence of hygiene rewards can de-motivate or cause dissatisfaction, however they do not necessarily create satisfaction when they are present. On the other hand, the motivation factors do motivate or create satisfaction and are rarely the cause of dissatisfaction. The Motivation rewards are based on an individual's need for personal growth. They include intrinsic rewards such as status, responsibility, gaining recognition and performing challenging work.

Following Hertzberg a number of scholars noted the importance of intrinsic rewards and their advantage as motivation drivers [Manz 1991; Senge 1990]. Extrinsic rewards played a dominant role in traditional organizations, where work was generally technical and bureaucratic and where obeying the rules and procedures was vital. Since this type of work offered employees few intrinsic rewards, extrinsic rewards were often the only motivational tools available to organizations [Thomas 2009]. Extrinsic rewards remain significant for workers, especially when making decisions regarding the acceptance of a new job, but according to Thomas extrinsic rewards are less important now, whilst day-to-day motivation is more strongly driven by intrinsic rewards. Other researchers such as Frey [2012] and Zhou, Zhang, and Sanchez [2009] go even further in their perceptions of the relationship between both groups of rewards. Zhou and his colleagues found that motivation is a result of the combination of the two groups of factors; some amount of extrinsic reward is necessary yet too much of it will decrease employees' motivation.

Frey's findings are more decisive; according to him, tangible rewards generally have negative effects on intrinsic motivation. The importance of further understanding the relationship between the two types of rewards is obvious when we are taking into account the importance of the reward system to an organization's success and the enormous cost of an inefficient one. If we can learn more about the effects of both types of rewards it will allow organizations to invest their resources in the right direction to maximize their effectiveness and reach the best results.

This paper is divided into four sections. The first section reviews the literature that deals with the elements at focus of this article: intrinsic rewards and pay satisfaction. The research also highlights the mixed approaches regarding the relationship between them. The second section describes the research methodology including the data collection procedure, the participants and the measures used by the researcher. The third section presents the results. Finally, the last section provides a discussion of the implications of the results and the contribution to the body of knowledge regarding employee rewards.

1. Literature

1.1. Intrinsic rewards

Intrinsic motivation is the human need to be competent and self-determining in relation to the environment, to engage one's interests and exercise one's capacities [Deci and Ryan 1985]. Intrinsic motivation is about passion and positive feelings that people get from their work. These feelings reinforce and energize employees' self-management efforts and make work personally fulfilling. Building intrinsic motivation helps to create an upward spiral of positive feelings and experiences [Thomas 2009]. Intrinsic motivation is experienced when a person is moved to act for the 'fun' or challenge entailed rather than because of external pressures or rewards. Employees are thought to be motivated to work hard to produce quality results when they have pride in their work, they believe their efforts are important to the success of the team and their jobs are fun, challenging, and rewarding [Mahaney and Lederer 2006]. Having intrinsically motivated employees can be the greatest asset for any organization [Masvaure, Ruggunan, and Prowse 2014].

Two of the most established intrinsic rewards' models are Hackman and Oldham's [1976] Job characteristic model and Deci and Ryan's Self-determination theory [1991]. Both made significant contributions to the study of motivation yet they also had some limitations which should be taken into consideration. Hackman and Oldham [1976] developed the job characteristics model, which has largely replaced Herzberg's theory on organizational settings. Their model describes the effects of five dimensions of job design: skill variety, task identity, task significance, autonomy and feedback. Research reviewed by Fried and Ferris [1987] shows that these five job dimensions generally have an impact on job satisfaction and other favourable outcomes. However there is less support for the motivational core of the model. That part of the model says that intrinsic motivation occurs when three "psychological states" are present: experienced meaningfulness of the work, experienced responsibility for outcomes of the work, and knowledge of the actual results of the work. Thomas [2009] claims that this list has two shortcomings. First, it focuses only on task outcomes (sim-

ilar to purposes) as a factor in intrinsic motivation, leaving out activity-related rewards. Second, only meaningfulness is clearly an intrinsic reward.

Deci and Ryan [1991] developed the Self-determination theory, the most widely known theory for intrinsic motivation. According to them motivation is intrinsic if activity is undertaken for the immediate satisfaction of a person's needs. The Self-determination theory is rooted in a set of assumptions about human nature and motivation [Ryan and Deci 2000]. Humans are inherently motivated to grow and achieve and will fully commit to and engage in even uninteresting tasks when their meaning and value is understood. Passive behaviour of employees is a learned behaviour, which has an undermining effect on inherent motivation [Stone, Deci, and Ryan 2008]. The Self-determination theory of motivation differentiates between autonomous or truly willing actions and imposed actions that are controlled by forces experienced as external to the self.

According to Deci and Ryan's view task activities are intrinsically rewarding when people experience a sense of self-determination (choice) and of competence, and thus they become motivated. The shortcoming of their view is that the model focuses only on task activities as sources of intrinsic rewards so that purposes are excluded [Wiersma 1992]. Due to the shortcoming of both classic theories, Thomas and Velthouse [1990] suggest the four intrinsic rewards' model, based on reducing Hackman and Oldham's three psychological states into two intrinsically rewarding states, a sense of meaningfulness and a sense of progress and then to add the missing activity-related rewards based on the Self-determination theory, a sense of choice and a sense of competence.

The Thomas, Jansen, and Tymon [1997] model emphasizes the relationship between self-management and intrinsic rewards. According to their view intrinsic motivation is derived from the self-management process and, in parallel, it reinforces and energizes continued self-management. According to the four intrinsic rewards model, each of the stages in the self-management process affects one's intrinsic rewards, and together and separately, they lead to employee engagement. A person who is allowed to self-manage can gain motivation and energy when he/she has a meaningful objective, has the freedom to choose the strategies to achieve that objective, feels competent whilst doing it and has a sense of progress. The four Intrinsic Rewards are:

- **Sense of meaningfulness** – this reward involves the meaningfulness or importance of the purpose the employee is trying to fulfill. The individual feels that he has an opportunity to accomplish something of actual value, something that matters in the larger scheme of things. He feels that he is on a path that is worth his time and energy, giving him a strong sense of purpose or direction. The feeling of meaningfulness occurs when an individual is progressing on a path that they believe is worth their time and energy.
- **Sense of choice** – the employee feels free to choose how to accomplish his work, to use his best judgment to select those work activities that make the

most sense to him and to perform them in ways that seem appropriate. The person feels ownership of his work, believes in the approach he is taking, and feels responsible for making it work. The feeling of choice occurs when an individual feels free to choose activities that make sense to him/her and is able to perform them in ways that seem appropriate.

- **Sense of competence** – the employee feels that he is handling his work activities well, that his performance of these activities meets or exceeds his personal standards and that he is doing good, high-quality work. The employee feels a sense of satisfaction, pride, or even artistry in how well he handles these activities. The feeling of competence, involves whether the individual feels skillful in performing the task activities that they have chosen. According to Bandura's social cognitive theory [1986, 1997] individuals are inherently motivated to perform if they feel confident in their ability.
- **Sense of progress** – the employee is encouraged by the feeling that his efforts are really accomplishing something. He feels that his work is on track and moving in the right direction. The individual sees convincing signs that things are working out, giving him confidence in the choices he has made and confidence in the future. The feeling of progress involves a person's sense that a task is moving forward and that their activities are really accomplishing something.

Stumpf et al. [2013] suggest a virtuous cycle of intrinsic rewards supporting the employees' positive work-related feelings. These feelings lead to work experiences that foster a greater sense of intrinsic rewards: the experience of work as meaningful, the ability to exercise some degree of choice, the experience of progress, and the development of a greater sense of competence. The senses of competence and progress result from the degree of accomplishment, and the qualities of the performance. These intrinsic rewards are based on monitoring events that occur late in the self-management process, following the task behaviour. Choice and meaningfulness in contrast are rewards based on events that take place prior to the occurrence of the task behaviour. They are derived from the task opportunities; the ability to use one's own judgment and to pursue a valuable purpose [Thomas 2009].

The literature suggests significant support for the four intrinsic rewards model. In this review some studies are found to be based on research which examined the model directly [Thomas and Velthouse 1990; Tymon, Stumpf, and Doa 2010]. Others test factors such as autonomy or competence which are considered to be intrinsic rewards [Conchie 2013; Harell and Daim 2010; Mundhra and Jacobs 2011]. The model was shown to be robust when considered from either perspective”.

Thomas [2009] reports that employees with high levels of intrinsic rewards become informal recruiters and marketeers for their organization. Such employees experience more positive feelings and fewer negative ones on the job. Their job satisfaction is higher, they report fewer stress symptoms and are more

likely to feel that they are developing professionally. A later study by Masvaure, Ruggunan, and Maharaj [2014] found similar results. Harell and Daim [2010] identified autonomy, responsibility, variety of task and sense of accomplishment as significant motivators. The studies of Mundhra and Jacob [2011] and Davis and Wilson [2000] show similar results. In this study the four intrinsic reward model has been adopted since it combines the two most popular models, and it fits the characteristics of the current employees. The view has been taken here that the Thomas et al. four intrinsic rewards model has not been given enough recognition in motivation and reward management theory and practice.

As has been discussed reward systems have usually included extrinsic rewards in addition to intrinsic rewards, therefore a complete review should include the extrinsic and intrinsic reward literature and a summary of the main finding regarding the relationships between them. Extrinsic rewards are rewards that result from external, non-job-related factors [Malhorta, Budhwar, and Prowse 2007]. Extrinsic rewards include elements such as pay, fringe benefits, job security, promotions, private office space, social climate [Ozutku 2012]. Mahaney and Lederer [2006] claim that of all the extrinsic rewards pay is the most significant to employees. They give some examples of types of pay as extrinsic rewards such as competitive salaries, pay rises, merit bonuses, and indirect forms of payment as compensatory time off. In the current research Mahaney and Lederer's view was adopted. Therefore the focus is on pay as the representative of extrinsic rewards.

1.2. Pay and pay satisfaction

The word pay refers to all forms of compensation, such as direct cash payments, indirect remuneration, non-cash payments and the amount of pay rises and the process by which the compensation system is administered [Williams, McDaniel, and Nguen 2006]. Harell and Daim [2010] identified pay and bonuses as the top tangible' motivators of employees. Heneman and Judge [2000] claim that Williams, McDaniel, and Nguen's [2006] definition of pay is too broad and recommended its replacement with a multi-dimensional conceptualization of pay, including the dimension of pay satisfaction, focusing on each dimension separately. They base this suggestion on their findings which, show a weak positive relationship between an employee's objective pay level and his/her subjective pay satisfaction. Miceli and Lane's [1991] definition fits Heneman's and Judge's suggestion. According to them, pay satisfaction is the amount of overall positive or negative sentiments that individuals have towards their pay. Employee pay dissatisfaction was found to be associated with undesirable outcomes such as turnover, absenteeism, reduced performance, decreased commitment and theft [Currall et al. 2005; Heneman and Judge 2000; Miceli and Mulvey 2000]. On the other hand employees' pay satisfaction was found to be related to favorable behaviour such as organizational citizenship [Nwankwo

et al. 2013] and successful adaptation to change [Smits and Bowden 2015]. Hence, rather than focus on level of pay, it may be useful to gain a deeper understanding of pay satisfaction.

Equity Theory [Adams 1963] is often used to show the relationship between pay and the employee's pay satisfaction. Adams claims that individuals want to be compensated fairly for their contribution; therefore employees seek the balance between what they invest in their jobs in terms of effort, knowledge, skills, and performance and what they get as an outcome through extrinsic and intrinsic compensation. Equity is achieved when the input-output ratio of the individual is perceived by that individual to be equivalent to that of relevant other employees in the organization or external to it [Adams 1963; Singh and Loncar 2010].

The empirical data regarding the Equity theory is inconclusive, mostly with regard to the overpayment condition [Gray 2000]. Some Scholars support the notion that employees evaluate their pay through social comparisons [Van Buren 2008; Williams, McDaniel, and Nguen 2006] whilst other found results that reject it. Ahmad et al. [2010] in a recent study found that employees are likely to feel 'rewarded', 'motivated' and satisfied when they know that they are able to get fair pay which reflects the amount of work that they do. They found that employees are particularly concerned with pay discrimination and that this may lessen their level of motivation to do their job well.

Harell and Daim [2010] identified pay and bonuses as the top tangible motivators of employees. According to Deci's self-determination theory; people generally see monetary incentives as a controller of their behaviour and this frustrates the need for autonomy and leads to less autonomous motivation and a decrease in their performance [Falk and Kosfeld 2006; Weibel, Rost, and Osterloh 2010]. Weibel, Rost, and Osterloh [2010] finding support this notion. They demonstrate that monetary compensation generally has a negative effect on performance with the exception of uninteresting tasks or ones that do not allow autonomy. When the task is boring and when the self-control is low, money will have a positive effect on the employees' motivation and performance. Ledford, Gerhart, and Fang [2013] accept Deci's data yet suggest a different explanation. According to Ledford et al. the employee interpretation of the extrinsic rewards shape his reaction to them. When the employee believes that the rewards provide positive information about their own competence and self-control over results, intrinsic motivation will increase. If the employee interprets the results as indicating external control, decreasing their feelings of self-control and competence, intrinsic motivation decreases. Gray [2000] suggests that performance based bonus payments are often perceived by the employee more as a risk to lose money, which he expects to receive, and not as an incentive. Therefore employees may perform less well in a cash-bonus condition.

Hertzberg [1962] examines another aspect of pay satisfaction, by suggesting that salary is mainly a hygienic factor but may also be a motivational factor when

the employee perceives it as an expression of his achievements. Gray [2000] in his summary of Herzberg's views of monetary rewards, states "it meant more than money; it meant a job well done; it meant that the individual was progressing in his job" [p. 16]. Ozutku [2012] accepts this notion. He claims that money is not always a motivational factor – today's workers wish to find internal satisfaction, rather than external compensation. These employees usually already receive better wages, therefore managers need to use inner motivators for the job in order to motivate them. Ozutku also suggests that even though it is generally thought that money plays an important role in the motivation of unqualified individuals with low wages, money may not always provide the expected motivation. For these individuals practices like the employee of the month, successful employee award ceremonies and sincere celebration of success can be more effective than monetary rewards.

Lawler [2003] suggests two factors which determine the reward's effect on employees: the first is the amount of reward that is given and the second is the importance attributed by an employee to each reward. Others focus on the employee's attitude to his rewards and claim that the importance of his rewards in general, and his pay specifically, is affected by national differences [Hofstede 2001; Adler and Gundersen 2008; Van de Vliert, Van Yperen, and Thierry 2008]. Van de Vliert, Van Yperen, and Thierry [2008] demonstrate that wages are perceived as more important in poor countries with cold climates, like Azerbaijan, than in rich countries with cold climates like Canada and in poor and rich countries with temperate climates like Uganda and Singapore. His explanation of the results regarding cold countries is that "increasingly cold residential areas result in increased needs for thermal comfort, nutrition, and health, as well as an increased need for money to satisfy these basic biological needs" [Van de Vliert, Van Yperen, and Thierry 2008: 81]. They rationalize their results using the Vroom [1964] expectancy theory, "money would be more important in poor countries where homeostatic goods are more significant and desirable (valence), and where pay enables employees to buy these goods (instrumentality)" [Van de Vliert, Van Yperen, and Thierry 2008: 81].

Based on this literature review is possible to summarize that pay satisfaction is a subjective attitude that develops based on both cultural and demographical aspects. Pay satisfaction has significant implications for both employees and organizations. Therefore there is a need to expand our understanding of pay satisfaction and its relationship to intrinsic rewards.

1.3. The connection between intrinsic rewards and pay satisfaction

The literature review regarding the connection between the two variables indicates a significant relationship but the direction of it is inconclusive. Williams et al. [2006] based on a meta-analysis of 28 correlations of pay satisfaction from 203 studies suggested the existence of a positive relation between perceived job

characteristics known to be intrinsic rewards such as autonomy, task feedback and skill variety and pay satisfaction. Khan et al. [2013] in a recent study on the relationship between rewards and performance of banking employees in Pakistan show a mix of extrinsic (monetary compensation, recognition, company policies, relationship with supervisor and co-worker and working conditions) and intrinsic rewards (ability utilization, variety, moral value, activity, authority, social service and security). Ledford, Gerhart, and Fang [2013] also claim, based on a large meta-analysis, that there is no trade-off between intrinsic and extrinsic rewards. They demonstrate that motivation is the sum of the two types of rewards. Extrinsic rewards such as pay could increase or decrease intrinsic rewards based on a variety of elements including the individual's relevant perceptions. Ruiz-Palomino et al., Saez-Martinez, and Martinez-Canas [2013] found a positive relationship between job characteristics which are known as intrinsic rewards and pay satisfaction. According to them employees perceive an enriched job as a reward in itself and a source of self-realization therefore they are less concerned with pay issues and feel content with their pay.

Nevertheless "The recurring theme in popular management literature is that extrinsic rewards diminish intrinsic motivation and this problem is so serious that it can render extrinsic incentives for performance of any kind as ineffective or even counterproductive" [Ledford, Gerhart, and Fang 2013: 17]. Kohn [1993] was one of the first to indicate extrinsic rewards as actually reducing intrinsic motivation. According to him the more closely we tie compensation (or other rewards) to performance, the more damage we do. Experiments have shown that, after inducing temporary states of extrinsic motivation, participants exhibit poorer concept attainment and impaired problem solving and lower creative output [Baer, Oldham, and Cummings 2003]. Thomas further claims that, when organizations wanted only compliance from workers, they bought it with money and other extrinsic rewards, whilst intrinsic motivation was found to drive employees to self-determination and job satisfaction and to try to make a difference, being innovative and more passionate towards the job [Thomas, Jansen, and Tymon 2009]. Zhou, Zhang, and Sanchez [2009] tested the impact of extrinsic and intrinsic rewards on employee creativity. They conclude that basic amounts of tangible rewards are necessary to encourage employee creativity yet too many rewards could decrease the employee's self-motivation and, as a result, his creativity. In addition they show that intrinsic rewards such as providing learning resources, job rotation and tutoring have a more significant effect on employees creativity performance than the extrinsic rewards. Their third and most important conclusion is that extrinsic and intrinsic rewards have an interference interaction effect on innovative behaviour. Frey [2012] based upon a literature review of 128 experiments discusses the "crowding out" effect of tangible rewards on intrinsic motivation. He claims that intrinsic motivation occurs when people choose to act in a certain way just for the pleasurable feeling that the act evokes in them or because they

internalized social norms. Providing monetary rewards for specific activities may crowd out both the self-esteem and the feeling of responsibility of the individual for his own fate. As a result a decrease in creativity, innovation and effort would be seen. Baer, Oldham, and Cummings [2003] in their study of the relationship between the types of rewards and creative performance describe a complex picture which is effected by the task and its level of difficulty. Extrinsic rewards will 'crowd-out' the intrinsic motivation and reduce the creative performance of employees. Yet, when intrinsic motivation is low since the job is simple, extrinsic rewards will give a certain degree of control to the employees which will lead to higher levels of creative performance. Based on the different data the current research aims to explore and determine the relationship between intrinsic rewards and pay satisfaction.

2. Research methodology

2.1. Data collection procedure

The population, for the purpose of the study, is composed of Israeli employees in general, with no specific focus on any professional or demographic group. The sampling used a convenience technique. An invitation to participate in an online survey was sent by Facebook and in addition the invitation included a request to share the survey with others. The data were collected during three months. One hundred and sixty responses were received but five were disqualified due to mistakes in their completion.

2.2. Participants

The total sample was 156 individuals from different organizations in Israel. Charts No. 1 and No. 2 demonstrate the sub-samples distributed according to demographic characteristics: The majority of the participants were women (62.8%) and employed (83.3%).

As shown in table 1, the average age of the participants is 32.9 (sd. 11.5). The age range is 20–73. It is clear that the percentage of young participants (aged 30 and under) is very high (59%) whilst the percentage of participants aged 50 and above is relatively low (11.5%).

The distribution of educational level demonstrates that the sample is heterogeneous: 21% of the participants have a high school education, 22% have a professional education, 39% have a Bachelor's degree and 18% have other higher education (Table 1).

Table 2 demonstrates that a little less than a quarter of the sample report that they are managers, as compared to 77% that have no management role. For the 32 managers the number of subordinates is 1–100, with an average of 18.4 and sd. of 24.0. The average time of the participant within their organization is 4.6

Table 1. The samples distribution according to demographic characteristics

Variables	Values	N	%
Gender	male	58	37.2
	female	98	62.8
Age	30 and under	92	59.0
	31 to 40	30	19.2
	41 to 50	16	10.3
Education	51 and up	18	11.5
	high school	33	21.2
	professional	34	21.8
	bachelor's degree	61	39.1
Type of employment	master's degree and above	28	17.9
	employed	130	83.3
	self-employed	26	16.7

Table 2. The sample's distribution by the occupational related variables

Variables	Values	N	%
Employment terms (N - 141)	outsourcer's and temporary employee	18	12.8
	company's employee	123	87.2
Field of occupation	service	27	17.3
	sales	19	12.2
	traditional manufacturing	13	8.3
	high-tech	20	12.8
	education	17	10.9
	administration	28	17.9
Number of employees in the organization	others	32	20.5
	10 and under	20	12.8
	10 to 50	37	23.7
	51 to 100	26	16.7
	101-500	31	19.9
Hierarchy (N = 156)	500 and up	42	26.9
	not in a managerial position	120	76.9
	manager	36	23.1

cont. Table 2

Number of subordinates (N = 32)	5 and under	11	34.4
	6 to 10	9	28.1
	11 to 50	8	25.0
	50 and up	4	12.5
Time with the organization (N = 140)	a year and under	41	29.3
	1.5 to 3 years	49	35.0
	3.5 to 5 years	19	13.6
	5.5 to 10 years	15	10.7
	10.5 and more years	16	11.4
Time in the position (N = 149)	a year and under	46	30.9
	1.5 to 3 years	55	36.9
	3.5 to 5 years	15	10.1
	5.5 to 10 years	10	6.7
	10.5 and more years	23	15.4

years (sd. 5.8) and in their position or a similar position in another organization 5 years (sd 7.4). The range of time in the organization is 1–30 years. The range of time in the role is between 1 to 50 years.

2.3. Measures

A self-administered questionnaire was used in order to achieve the objectives of the study. The questionnaire was chosen based on a comprehensive review of extant literature. The questionnaire is divided into two parts. Part I includes questions that aim at obtaining details regarding the level of intrinsic reward (and its four dimensions: meaningfulness, choice, competence, and progress) and pay satisfaction. Part II consists of questions seeking information about demographics (such as age, gender, educational qualifications, occupation). All the data were collected within the same time frame. The questionnaire includes the following tools:

2.3.1. *The Work Engagement Profile (WEP)*

Intrinsic reward was measured using the Thomas Work Engagement Profile (WEP) [Thomas, Jansen, and Tymon 2009]. The WEP is a 24-item questionnaire that measures intrinsic reward which individuals may receive directly from their work. The WEP tests four dimensions of intrinsic reward using a seven-point Likert response scale ranging from one (strongly disagree) to seven (strongly agree):

- Sense of meaningfulness is measured by items No. 3, 7, 10, 13, 18, 21 of the questionnaire. It consists of items such as ‘I care about what I’m doing’ and ‘what I am trying to accomplish is meaningful to me’.
- Sense of choice is measured by items No. 4, 8, 12, 16, 19, 22 of the questionnaire. It consists of items such as ‘I feel free to select different paths or approaches in my work’ and ‘I exercise a lot of choice in what I do’.
- Sense of competence is measured by items No. 2, 5, 11, 14, 17, 23 of the questionnaire. It consists of items such as ‘I am good at my work’ and ‘I am doing my work capably’.
- Sense of progress is measured by items No. 1, 6, 9, 15, 20, 24 of the questionnaire. It consists of items such as ‘I am making good progress on my projects’ and ‘My tasks are moving forward’.

The WEP is considered accurate with a reliability coefficient greater than 90 [Thomas and Tymon 1994]. Statistical relationships between the WEP scores and other variables provide strong evidence that the instrument is measuring what it was designed to measure [Thomas, Jansen, and Tymon 2009].

2.3.2. Pay Satisfaction – PSQ

Pay satisfaction was measured by the 4 – items (No. 36–39 in the questionnaire of the study) which consist of the “pay level satisfaction” dimension based on the PSQ – Pay Satisfaction Questionnaire of Heneman and Schwab [1985]. Participants are asked to indicate their satisfaction regarding items such as ‘Your take-home pay’ or ‘Size of your current salary’ on a 5-point Likert scale from 1 (very dissatisfied) to 5 (very satisfied). The efficient alphas for the satisfaction from the pay dimension exceed 0.90.

3. Results

3.1. Descriptive statistics

Table 3 demonstrates the measures of central tendency and variability of the independent variable, intrinsic rewards and its four dimensions; sense of meaningfulness, sense of choice, sense of competence and sense of progress – varied from 1 to 7. The mean values show a strong tendency toward the high scores of both the variable and its four dimensions (between 4.7 for sense of choice to 5.6 for sense of competence). This tendency is consistent with the distribution of WEP scores as published by Thomas, Jansen, and Tymon [2009].

The standard deviation ranged from 1.08 for sense of competence to 1.59 for sense of meaningfulness. The findings regarding pay satisfaction display average values which are not extreme in either direction were: mean 3.1, standard deviation 1.14.

Table 3. Measures of central tendency and variability of intrinsic rewards and its dimensions and pay satisfaction

	Mean	Median	Mode	S.D.	Min.	Max.
Intrinsic rewards	5.1	5.4	5.5	1.15	1.6	6.9
Sense of meaningfulness	5.1	5.5	7.0	1.59	1.0	7.0
Sense of choice	4.7	5.0	5.0	1.48	1.0	7.0
Sense of competence	5.6	5.8	6.7	1.08	2.5	7.0
Sense of progress	5.1	5.3	6.0	1.26	1.8	7.0
Pay satisfaction	3.1	3.0	4.0	1.14	1.0	5.0

3.2. Reliability

Cronbach's alpha coefficient is calculated to verify the internal reliability of the results for all the variables. High values of alpha indicate that the items are highly correlated with true scores [Collis and Hussey 2003]. Table 4, below shows the Cronbach's alpha coefficient of all the variables.

Table 4. The independent and the dependent variables: scales, items, serial number and Cronbach's alpha values

Variables/dimensions	Variable no.	Variable form	Items	Scale	Cronbach's alpha
Intrinsic rewards	Var1	Int_Rew	1–24	1–7	0.96
Sense of meaningfulness	Var2	Int_Rew1	3, 7, 10, 13, 18, 21	1–7	0.94
Sense of choice	Var3	Int_Rew2	4, 8, 12, 16, 19, 22	1–7	0.93
Sense of competence	Var4	Int_Rew3	2, 5, 11, 14, 17, 23	1–7	0.92
Sense of progress	Var5	Int_Rew4	1, 6, 9, 15, 20, 24	1–7	0.92
Pay satisfaction	Var6	Pay Sat	36–39	1–5	0.98

Nunnally [1994] suggests that instruments used in exploratory research should have a reliability of 0.7 or better. As can be seen in Table 4 the Cronbach's alpha estimated for the current study shows acceptable levels of reliability of 0.80 to 0.98.

3.3. Pearson's correlation between the variables

A Pearson's Correlation Coefficient was calculated between the intrinsic rewards and their four dimensions and pay satisfaction. Table 5, below, shows the relationship between pay satisfaction and the dimensions of intrinsic rewards.

Table 5. Pearson's correlation coefficient between the independent variable and its dimensions and the dependent variable

Dependent variable	Independent variable				
	Intrinsic rewards	Sense of meaningfulness	Sense of choice	Sense of competence	Sense of progress
Pay satisfaction	0.114	0.100	0.257**	-0.141	0.107

* p < 0.05.

** p < 0.01.

As shown in Table 5, no relationship was found between intrinsic rewards and three of their dimensions and pay satisfaction. Yet sense of choice has a positive significant relationship to pay satisfaction ($r = 0.257$; $p < 0.01$).

3.4. The two regression tests for the dependent variable

Following the testing of the Pearson coefficient correlations two prediction models were developed in order to test the relationship between the two kinds of reward using a multiple linear regression for the dependent variable. The first prediction formula includes the independent variable, intrinsic rewards and some of the control demographic variables. The model was developed in two stages: in the first stage, five control demographic variables were included in the regression: age, seniority in the employment position, type of employment (salaried/self-employed), employment terms (outsourcer's and temporary employee /organization's employee), hierarchy (manager/non-manager).

Table 6. First linear regression for pay satisfaction

Variable	The whole sample	
	Step 1	Step 2
Age	0.216	0.195
Type of employment	0.072	0.044
Employment terms	-0.152	-0.199*
Hierarchy	0.096	0.083
Seniority in the employment position	-0.131	-0.144
Intrinsic rewards		0.169
R ²	0.06	0.08
F	F(5,130) = 1.66ns	F(6,129) = 1.96ns

* p < 0.05.

** p < 0.01.

Table 7. Second linear regression of pay satisfaction

Intrinsic rewards dimensions	Beta
Sense of meaningfulness	-0.027
Sense of choice	0.297**
Sense of competence	-0.436**
Sense of progress	0.252
R ²	0.16
F	F(4,151) = 7.29**

* p < 0.05.

** p < 0.01.

Those variables were selected based on their relevance to the dependent variable according to the Pearson correlations. In the second stage the independent variable, intrinsic rewards added to the regression.

The findings, as shown on Table 6, indicate that the whole model is not significant and it predicts less than 10% of the variance of the pay satisfaction. Hence, Pay Satisfaction is not predicted by Intrinsic Rewards factors. However the control demographic variable, Employment Status, has a significant contribution to the prediction of Pay Satisfaction $F(6,129) = 1.99$; $p < 0.05$.

The second prediction formula includes the four independent dimensions; sense of meaningfulness, sense of choice, sense of competence. Table 7 indicates that the regression model is significant [$F(4,151) = 7.29$; $p < 0.01$] and explains 16% of the pay satisfaction variance. The two dimensions that are responsible for most of the explained variance are: sense of choice ($\beta = 0.30$; $p < 0.01$) with positive beta and sense of competence ($\beta = -0.44$; $p < 0.01$) with negative beta. As the sense of choice rises, the level of pay satisfaction increases. On the other hand, as the sense of competence rises the pay satisfaction decreases.

4. Discussion

4.1. The relationship between intrinsic rewards and pay satisfaction

In the current study, a recurring theme has been chosen and with it in mind, the expectation was that the relationship between intrinsic rewards and pay satisfaction is negative. Consistent with Herzberg's [1962] view, the results of this research show no significant relationship between intrinsic rewards and pay satisfaction. The following paragraphs present, some explanations for the results.

In this research pay satisfaction has been treated as a one-dimensional construct. Yet there is a growing body of research to support the notion that

pay satisfaction is a multi-dimensional construct [Heneman and Judge 2000; Williams, McDaniel, and Nguyen 2006; Ruiz-Palomino, Saez-Martinez, and Martinez-Canas 2013]. Ruiz-Palomino, Saez-Martinez, and Martinez-Canas [2013] found that the “supervisor Ethical Leadership” serves as a moderator variable which strengthens the positive influence of “job motivation potential” (autonomy, feedback, task significant etc.) on pay satisfaction. Their findings demonstrate that a supervisor who practises higher levels of ethical leadership makes a difference in terms of pay satisfaction and its effect is more significant to employees with high intrinsic rewards than to employees with low intrinsic rewards. Williams, McDaniel, and Nguyen [2006] suggest a more complicated model regarding pay satisfaction based on equity theory [Adams 1965] and discrepancy theory [Lawler 2003]. According to them pay satisfaction is a complex variable which been influenced by a variety of elements such as job characteristics, equity, organizational policies, actual payment and the employees perceptions. A study of pay satisfaction should regard as a multi-dimensional phenomenon. Hence we could assume that the one-dimensional attitude in the present research could be a limitation which could account for the insignificant results. Future research regarding the relationship between Intrinsic Rewards and Pay Satisfaction is recommended to measure Pay Satisfaction as a multidimensional construct.

Another possible explanation for these results could be derived from the focus on pay satisfaction and not on pay amount. Pay satisfaction entails the feeling of contentment one has with one’s pay [Nwankwo et al. 2013]. The rationale for measuring pay satisfaction instead of pay amount was that regardless of the actual amount an individual is earning his/her work-related attitude will be affected by satisfaction level. Employees react differently to the same pay amount and compensation according to their perceptions of equity, their pay expectations, prior pay experiences, nationality and culture and even gender [Nwankwo et al. 2013]. Hence focusing on the subject of pay satisfaction was thought to be an appropriate decision. However considering the insignificant finding a different approach would be recommended for future studies that includes testing the amount of pay as a dependent variable instead or in combination with pay satisfaction.

The interpretation of the these research results should take into consideration the age distribution of the sample. Fifty nine percent of the subjects were thirty years old or less. Another nineteen percent were between the ages of thirty-one to forty. This is a major deviation toward generation Y that could lead to some doubts regarding the validity of the current research results for older employees.

A fourth interpretation of the results would be that that they are accurate and reflect actual reality for Israeli employees. The literature review regarding the relationship between intrinsic and extrinsic rewards in general, and more specifically between the four intrinsic rewards and pay satisfaction, is based

mainly on research conducted in different countries such as the United States, Pakistan and Italy. None was conducted in Israel. Israel's culture, according to Hofstede's dimensions [2001] has a low long time orientation (38), very low power of distance (13), middle individualism (54) and masculinity (47) and a high long-term orientation (81). According to Hofstede Israeli society is characterized by a strong belief in the ideal of self-actualization which is strongly connected to the self-management process and the intrinsic rewards model. The low power of distance score of the Israeli culture also supports the importance of intrinsic rewards to its employees: they expect to have autonomy, to be consulted, and empowered. On the other hand Israelis masculinity characteristics give a significant importance to extrinsic rewards such as salary, working conditions and status symbols. Based on the current research results we can conclude that according to Hofstede's culture model and dimensions both types of rewards are relevant to Israeli employees yet intrinsic rewards have a stronger effect and that there are no significant relationships between the two type of rewards.

The current research demonstrates that there is no significant relationship between intrinsic rewards and pay satisfaction. Nevertheless the results identified other important relationships of both theoretical and practical relevance regarding employee reward. The implication of these results will be discussed in the next sections.

4.2. Pay satisfaction and employment terms

The research demonstrates that pay satisfaction is significantly predicted by the variable employment terms. The results of the study demonstrate that outsourcer's and temporary workers are less satisfied with their pay in comparison with the organization's employees. Business has massively reduced costs over the last twenty years by hiring temporary employees and contracting out its workforce [Hubbard 2012]. Foote [2004] describes the attitude of many of the temporary employees as "second class employees". Foote's findings demonstrate a higher tendency for voluntary turnover, less job satisfaction and a higher level of stress in comparison to in-house employees. In addition he shows that the outsourcers and temporary employees work fewer hours and earn lower wages than permanent workers. Foote's findings could help to explain the findings of this research that the employment terms significantly predict pay satisfaction.

4.3. The contrasted effect of sense of choice and sense of competence on pay satisfaction

The results of the prediction regression model indicate that the two intrinsic rewards which explained 16% of the pay satisfaction variance are sense of choice ($\beta = 0.30$; $p < 0.01$) and sense of competence ($\beta = -0.44$; $p < 0.01$). Accordingly,

employees with high autonomy in their jobs will feel more satisfied with their pay. On the other hand, employees with a high sense of competence will feel less satisfied with their pay regardless of the actual amount of their salary. This finding could be explained by the equity theory [Adams 1963]; a worker with a sense of competence feels that his input to the organization is high, therefore he expects higher pay (output) and tend to feels unsatisfied with his actual monetary compensation. Nonetheless an employee whose sense of choice and autonomy in his job is high will tend to perceive his job as a place that empowers him and enables self-actualization and the development of skills. Hence such an employee will consider the equity equation as balanced and will tend to feel satisfied with his actual pay since he receives so much non-monetary output for his efforts at work. Practitioners who base their compensation policies on those findings have to invest more resources in empowering employees and develop their sense of choice. Unfortunately, following this direction could lead to a paradox; the empowerment process might increase the employees' sense of competence which will lead to a decrease of pay satisfaction. Stumpf et al. [2013] findings support this notion. They demonstrated that employees who are empowered with choice might begin to assume their capabilities exceed their current position's expectations, and as a result, their engagement level decreases and they show a higher tendency to leave.

4.4. Generation Y and rewards

The interpretation of the current search results should take into consideration the age distribution of its sample; Fifty nine percent of the subjects were thirty years old or less. Another nineteen percent were between the ages of thirty-one to forty. This is a major deviation toward generation Y that could explain the results in general and the finding regarding Sense of Progress particularly.

Today's workforce is known to include four generations that work together side by side. A generation is a group of people born during the same period, usually about two decades. Because they live through the same experiences, such as economic recession, war, crises and upheavals, they tend to share similar values and behaviour [Schullery 2013]. Today's four generations are; Traditionalists (1925–1945); Baby Boomers (1946–1964); Generation X (1965–1981); and the Generation Y or the Millennials (1982–1999). Generation Y tends to want an intellectual challenge, needs to succeed, strives to make a difference, and seeks employers who will further their professional development [Meier and Crocker 2010]. Accordingly to the current study's findings, setting and achieving personal goals matters to employees from Generation Y, as does performing meaningful work that has the potential to contribute to a better world [Allen 2004]. Furthermore Generation Y's employees are accustomed to being involved in family decisions, consequently they expect

a similar amount of authority and choice in their work [Hurst and Good 2009]. As we can see Thomas' two dimensions; sense of meaningfulness and sense of choice are a fundamental component of Generation Y's nature. However The Millennial has other attributes, as people who grew-up playing computer video games they expect work to be fun [Tapscott 2009]. An expectation that could explain the results of this research regarding sense of progress. Progress is fulfilling but it also usually involves a delay of gratification. Delay of gratification is known to be frustrating since it is usually a long process, which requires patience and willingness to defer the needs and pleasures of today for the success and advancement of tomorrow [Frostmeier, Drobotz, and Maercker 2011]. It is often the opposite of enjoyable activities and, as such, it could be unrewarding especially to Generation Y.

It is important to remember that generation Y's characteristics are broad trends of this specific population and that individuals sharing the same generation are shown to have a large diversity in their values, characteristics and behaviours.

4.5. Limitation and further research

There is no single, best research strategy and limitations always exist. The results of this study should be analyzed in the light of its main limitations, such as the use of self-reporting measures. Furthermore, participation in the research was voluntary; self-selection may have contributed to a response bias. The integration of objective measures, such as absenteeism and real turnover, would increase confidence in the validity of the resulting data [Goffin and Gellatly 2001].

Another limitation is the lack of experimental and longitudinal design. As a result, it is impossible to draw inferences about causality [Mathieu and Taylor 2006]. Future studies should consider experimental methods, and test long-term effects on the relationships examined in the present study and on outcomes such as actual turnover behavior and absenteeism, peer or supervisor review, employees' performance and organizational membership.

Further research is required in order to learn more about the influence of the two intrinsic rewards types on pay satisfaction in order to build a rewards system which will encourage employees to be both less dependent and more skillful without diminishing their motivation and satisfaction from their salaries. It may be suggested that additional value can be derived from focusing on this subject in the context of virtual teams which Kauffmann [2015] suggests are becoming one of the main solutions of organizations addressing the competitive demands of the twenty first century business reality. In addition, as discussed, there is a need to further explore the relationship between intrinsic rewards and pay satisfaction in order to conclude that there are no significant relationships between those two important variables.

Conclusions

The results imply that the subject of rewards is a complicated and that the relationship between intrinsic rewards and pay satisfaction is complex and therefore there is a need for further exploration. Meanwhile managers may need to tailor a motivational strategy whenever possible. They need to make sure that they are in tune with their employees' motivators and not just blindly following a motivational theory. Asking employees what motivates them, listening and acting based on their responses is very important for shaping organizational reward policies and achieving the right balance between extrinsic and intrinsic rewards.

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Aims and Scope

Economics and Business Review is the successor to the Poznań University of Economics Review which was published by the Poznań University of Economics Press in 2001–2014. The Economics and Business Review is a quarterly journal focusing on theoretical and applied research work in the fields of economics, management and finance. The Review welcomes the submission of articles for publication dealing with micro, mezzo and macro issues. All texts are double-blind assessed by independent reviewers prior to acceptance.

Notes for Contributors

1. Articles submitted for publication in the Economics and Business Review should contain original, unpublished work not submitted for publication elsewhere.
2. Manuscripts intended for publication should be written in English and edited in Word and sent to: review@ue.poznan.pl. Authors should upload two versions of their manuscript. One should be a complete text, while in the second all document information identifying the author(s) should be removed from files to allow them to be sent to anonymous referees.
3. The manuscripts are to be typewritten in 12' font in A4 paper format and be left-aligned. Pages should be numbered.
4. The papers submitted should have an abstract of not more than 100 words, keywords and the Journal of Economic Literature classification code.
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6. Footnotes should be listed consecutively throughout the text in Arabic numerals. Cross-references should refer to particular section numbers: e.g.: See Section 1.4.
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