

## Extrinsic motivation and incentives

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<p>Motivation is a term everyone heard about but not everyone can explain how to use motivation and implement it in daily life. This thesis analyses extrinsic motivation and several aspects of motivating employees.</p> <p>It explains about motivation, what kind of advantages and threats it possess. The research method is quantitative. Most of research I have done at the time of August, September and October 2016. First, I chose the subject of research and then started to look for right literature.</p> <p>There were analyzed different sides of motivation and represented different theories that describe extrinsic motivation. Motivating is an important tool today because many companies are looking for good managers who can influence on staff positively and lead company to progress. There are threats, which can occur with wrong use of motivation, that have to be avoided.</p> <p>There are explained how people must be motivated, what kind of attitudes there and given some new ideas. There are described ways to build friendly relationship with subordinates in order to make them happy at work and seek more productivity from them.</p> <p>At last part there are for both sides: managerial and subordinates advantages they will get with right cooperation and using impulse.</p>	
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### **3. Incentive types**

Extrinsic motivation includes different theories that describe psychological behavior and different methods of motivating. This chapter explains detail these theories and include some examples and experiments that are done to prove the theories.

#### **3.1 Extrinsic motivation rewards and incentives**

Extrinsic motivation drives by external rewards. All people might want to deserve rewards like fame, money, grades and etc. Competition is also a part of extrinsic motivation because it predicts that competitor's wish is extrinsic as they compete with each other to achieve more money or fame or marketing recognition.

The answer on this question is very complicated. Researchers have found that in some cases external rewards do increase motivation. But there has to be limit of rewards. Excess of praises can lead to decrease of intrinsic motivation and to overjustification effect.

Intrinsic and extrinsic for achieving and belongs to different classes of rewards. However, some researchers think conversely. According to everyday experience, a positive use of intrinsic and extrinsic motivations influence positively and complement. For example, when somebody is fond of football and dream to play in top clubs. Giving 50 Euros cannot make this guy a professional footballer or increase his skills with a ball. But it can sustain his interest to football. Extrinsic rewards can increase his intrinsic interest and sustain personal interest even if his initial interest will vanish. (Covington & Muller 2001)

#### **3.2 Incentive theory of motivation**

Incentive for a greater act or promise to receive better results in condition to special behavior or act in the right way. Incentive can be a good push for employees to increase performance at work.

In fact, this is a natural instinct inside humans that nobody act without purpose behind. Besides, hope about receiving rewards is a powerful incentive to motivate employees. The most common reasons of why people would need incentive are:

- To raise efficiency
- To manage and induce a stimulus work
- To reinforce obligations at work
- Psychologically fulfill worker who guides to job satisfaction

- To graft employees enthusiasm at work
- To use the maximum of their facilities to increase labor productivity (Management study guide)

Besides there are two main categories that divide incentive on two types. These are:

### **3.2.1 Monetary incentive**

This is probably the most common method in modern organizations how to motivate employees. The main reward in this method is money. Money is recognized as the main chief to satisfy people needs. Money wages and bonuses are so universal tool that it satisfy different needs such as security, social and psychological. (Management Study guide 2015)

Nelson and Kepner say that monetary incentive are used by employers to keep the best brains in company and also to reward them in order to show that they have done their work well and superiority. In addition, incentives are made included in incentive-payment plans. At the same time, incentive-payments plans are bonded directly or indirectly to productivity standard. (Olubusayoa, Stephenb & Maxwell 2014)

However, some researchers found out that using monetary incentives can drive to developing competition among colleagues and destroy relationship and positive environment in a company.(Motivation through non-monetary incentives)

### **3.2.2 Non-monetary incentives**

Beside, financial rewards there are non-financial ones. In other wards these are needs that cannot be measured. To non-monetary incentives relate satisfying psychological needs, security and also self-actualization, ego, providing flexible working hours, trainings and education, pleasant work environment.(The Role of Monetary and Non-monetary Incentives in the Workplace as Influenced by Career Stage 2003)

Non-monetary incentives also divided on several types:

Security of service. Security is may be the first important non-financial condition at work. If an employee does not feel secure at working place, he cannot concentrate and think about job responsibility. He will think about danger. However, if the job is secured he can do his best effort and to achieve the objects.

Praise or recognition.

Suggestion scheme. A good organization has to use this tool. For example, it can be cooking competition, some articles that are published in special magazines and etc. This tool can enhance employees participation and feel them important for organization.

Job enrichment. This tool is created to improve employees utility. Employer can develop his subordinate by giving him more responsibilities. It is helpful for both sides. On the one hand, the worker become to grow and know more about organization and work where he works. Besides, getting challenges in a company the worker can prove his worth. And on the other hand, employer can be sure that he has a worker who knows more about working process and whom he can delegate some important work tasks.

Promotion opportunities. This is probably an effective instrument if a company is in concern. Employees will feel more satisfied and contented if they are provided opportunity to growth and development in advance. (Management study guide 2015)

Work environment. Good working conditions have become a useful non-monetary nowadays. With developing of modern technologies and IT services employers are able now to offer coffee machines, rest-rooms, air-conditioning, washrooms and others. These conditions increase employees' morale and influence positively in work performance. (Motivation through non-monetary incentives)

People are looking for security and the main needs are fundamental to people's existence. Only when these needs are satisfied employees will concentrate on job productivity. Social aspects are also important, so sociability cannot be skipped. At the last personal growth and self-actualization are also take significant role on influencing of developing company's effectiveness.(Dobre 2013)

Non-monetary incentives are more intrinsic in nature. According to statistic, they are more effective because employees feel more satisfied and fulfilled by the activity they undertake. With these kind of circumstances managers are more supporter than controllers. So managers should concentrate more on giving non-monetary incentive instead of monetary one because it will help to ensure high participation of employees at work. (Motivation through non-monetary incentives 2015)

Beside, monetary and non-monetary incentives, there are positive and negative incentives that also play a big role in motivational process.

### **3.3 Positive incentive**

Positive incentive are those which render impact in a positive manner, that employees feel comfortable and bring more advantage to organization. With optimistic attitudes they satisfy psychological requirements of workers.(Management study guide 2015)

Mostly leaders use positive incentive method because it increases efficiency and equalizing toboth managers and subordinates.(Gürerk, Irlenbusch & Rockenbach 2009)

### **3.4 Negative incentives**

These incentives are made to punish mistakes or wrong behavior that are done by subordinates. Usually, negative incentives are used when positive ones are useless and do not bring the right effect. For instance, to negative incentives relate demotion, penalties, transfer and etc.(Management study guide 2015)

Fear to receive penalty or be fired from a company can bring to a negative conclusion. The effect of lasting such wat of motivation will not last for a long time. In that case “motivated” people will either try to escape or will be so distracted that they will not listen to messages.(Breckler, Olson & Wiggins 2006, 288)

Negative incentives are for useful to incite employees to induce efforts and at the same time it is an effective tool to punish free-ridings behavior. These kind of incentives are more beneficial for managers as they receive more payoffs.(Gürerk, Irlenbusch, & Rockenbach 2009)

According to several experiments which are described by Özgür Gürerk, Bernd Irlenbusch and Bettina Rockenbachthere are some conclusions that prove influence of positive and negative incentives on changing in working process and between colleagues & colleagues relationship and managers & subordinates relationship. For example, managers who changed from positive incentive to negative one had a bad results in the last period of experiments (totally there are 3 periods).However, in the first period teammates have shown good performance to contribution. This effect happened because of potential punishment has already positive effect and drives to work performance. On the other hand, negative incentive scheme (NEG) is more profitable only for managers while positive incentive scheme (POS) is better for teammates. Joint profit is higher in POS and the most successful way is when POS is implemented for the whole periods.

So concluding, more self-centered managers should concentrate in NEG, whereas efficiency-oriented should use more POS.(Gürerk, Irlenbusch, & Rockenbach 2009)

### **3.5 Overjustification effect**

The overjustification effect is a phenomenon in which being rewarded for something is actually reducing intrinsic motivation. In other words, worker becomes less interested in doing that job because he has already received what he wanted and does not see any purposes to do it again. This effect can drive to decreasing of productivity and outcome of complete work. Quality of service and product can become worse if an employee does not do work properly.

Each of us has a hobby. These can be gym, football, playing computer games, knitting and etc. What drives people to be fond of hobbies? Is that intrinsic or extrinsic reasons? Normally, we engage in these activities because we enjoy of that purely and do it with pleasure but not for any outside gains. These activities are reward for you.(Cherry 2016)

To prove the overjustification effect, Fishbach and Choi in 2012 made an experiment. Several participants had to describe their favor from treadmill, for example losing weight. Then during these exercises they continued to represent their benefits. Another group of participants had to describe experience they got like activities they need to undertake and feelings they tolerate.

Before the exercises participants we asked to predict the duration of exercises they supposed to do. The participants who focused on benefits predicted that they will be more diligent but actually they were less persistence. Presumably, when employees focus their benefits they feel to their exercise not substantially engaging. That happened because they feel engaging to achieve of benefits. Consequently, the task feels hard.(Fishbach,& Choi 2012)

In 2005 James showed how overjustification effect can conform with usefulness functions. James explains when tangible incentives are offered to employees, excluding intrinsic motivation, actually increases their general satisfaction.

In fact, any actions that fulfill the basic needs like competence, autonomy,- tend to raise intrinsic motivation. Very often incentives can destroy autonomy, relatedness, competence and decrease intrinsic motivation. But if any sensitivity or awareness of intrinsic motivation is neglected, the harmful effect of incentives reduces. (The overjustification effect 2016)

The facts when extrinsic motivation should be avoided:

- The person has found the activity that intrinsically rewarded for him or her

- When worker relates to his job more as a “play” instead of “work” (Management study guide 2015)

### **3.6 Advantages of successful motivation**

Implementing productive motivation system will bring positive effect in business. In fact, succeed motivation can be helpful not only for one side but for both, as for employer, as for employee.

#### **3.6.1. For business**

Right use of motivation will lead inevitably to success. Here are indicated what pluses will appear for both sides: for employer and for employee.

Declining employees turnover. The success of organization is affected by employees turnover. Financial department waste a lot of money and managers time to teach new employees for a new job. It creates big problems for the whole organization and can become a cause of loss.

But organization which possess good team management and motivation strategy can be sure that employees will be loyal to organization where they work.

Reducing absenteeism at work. There are some companies where percentage of absent employees are very high. The causes for it can be very different from poor work conditions to bad relationships with colleagues. Manager's responsibility is to survey this fact as soon as he can and do actions to decrease absenteeism percentage at work.

Change negative relationship. Sometimes employees can think negatively. For example, an employee might think that his efforts at work will not bring any money and he wastes time by spending it working hard.

Manager has to assure the employee that he is wrong. For example, a good argument for his words can be a premium to a salary.

Decreasing in resistance to change. Normally, people do not like to accustom to new responsibilities. They prefer continue to do routine job. However, it can be inexorably changes because of demand time.

Employees can be prepared to these changes in the right way. So, that they will accept these changes and will be happy to perform it if they would know what kind of benefits will come with those changes and how working process will improve.



Improves participation(Management study guide 2015)

### **3.6.2 For employees**

Achieve personal goals. Motivated employees who are willing to work hard and enjoy of what they do will get high personal goals.

Job satisfaction. If an employer build so good work conditions that worker is able to stay at this organization for a long time this means he if satisfied with his job. Job satisfaction means that employee is happy to be at the work place and thankful to the employer. This fact makes him valuable because if he is satisfied with the job he will do everything to make his employer happy.

Self-development. Self-development is an important self-actualization part of Maslow's hierarchy.

Work reinforcement with a dynamic team. A good team consists of qualified members who are very good at what they do is a very strong power. Employees enjoy going to work because they know that every day they build a strong team, enrich each other with new experience and become unit. A good atmosphere in the team is a good condition for them to work with pleasure. (Management study guide 2015)