Intrinsic and extrinsic incentives to support motivation and performance of public organizations

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Abstract. In management, incentives are a reward to motivate people and create favorable conditions directed to achieve specific goals and support organizational development. This conceptual paper analyses differences between intrinsic and extrinsic incentives to suggest management implications directed to support motivation and performance of employees in public organizations.

Keywords. Rewards, Motivation, Compensation, Pay, Reputation.

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1. Introduction

The concept of incentive in management and economics is developed from behavioral research in psychology to analyze and explain what motivates people in organizations and/or in competition (Mullins, 1999). In general, the concept of incentive is associated with motivation, which indicates the forces that energize, direct and sustain behavior (Perry & Porter, 1982). Management uses systems of incentive to motivate employees to work, to achieve strategic goals, to improve organizational and managerial behavior of firms in markets (Armstrong, 2007; Brockner & Vasta, 1981; O'Reilly & Caldwell, 1980; Prendergast, 2008; Pritchard et al., 1977; Reif, 1975). Incentives can be categorized as: intrinsic and extrinsic incentives that have different characteristics and generate different organizational effects (Fig. 1).

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2. Intrinsic versus extrinsic incentives

Intrinsic incentives exist in the job itself and give personal satisfaction to individuals, such as autonomy, reputation, trust, empowerment, expense preference (e.g., leeway to invest monetary resources), etc. O’Reilly et al., (1991) have suggested that intrinsic incentives may be important for affective commitment, job involvement and motivation in organizations to support satisfaction of employees. Intrinsic incentives can satisfy personal needs directly by creating an intrinsic reward for those who perform the tasks (Frey & Jegen, 2001; George, 1992). Moreover, intrinsic incentives tend to emphasize pleasure and enjoyment. Wright (2007, p.60) using goal theory argues that: “the intrinsic rewards provided by the nature or function of the organization may be more important to public sector employees than … performance-related extrinsic rewards”. Hence, public organizations perceive better organizational support and satisfaction from intrinsic incentives that generate positive contributions to both job involvement and affective commitment (O’Driscoll & Randall, 1999).

An example of intrinsic incentive is awards that are given to a person in recognition of excellence and best performance in certain fields or positions, increasing reputation (it is the general belief or opinion held by other people regarding a person’s specific characteristics or abilities in certain public positions). Intrinsic incentives can be awards associated with trophy, title, certificate, commemorative plaque, medal, badge, pin, or ribbon. Intrinsic incentives may also simply be a public acknowledgment of excellence, without any tangible token or prize (cf., Benati & Coccia, 2018).

Extrinsic incentives include elements, such as pay and fringe benefits, gifts, promotion, advancement opportunities, etc. Extrinsic incentives are
more likely to be important in relation to continuance commitment to organizations (O’Reilly et al., 1991). Extrinsic incentives play a relatively small role in the prediction of job involvement and affective commitment (O’Driscol & Randall, 1999). Some extrinsic incentives are (Benati & Coccia, 2018):

Compensation can include basic categories: a) guaranteed pay – a fixed monetary incentive paid by organizations to employees. The most common form of guaranteed pay is the base salary. Guaranteed pay also includes cash allowances (housing allowance, transport allowance, etc.), differentials (shift differentials, holiday differentials) and premiums (overtime, etc.); b) Variable pay is anon-fixed monetary incentive paid by organizations to employees. It is contingent on discretion, performance, and/or results achieved; c) Benefits are programs that organizations use to supplement employees’ compensation, such as paid time off, medical insurance, and more.

Allowance is an amount of money given or allotted at regular intervals for a specific purpose. Allowances may be travel expenses, daily allowance (also called ‘subsistence allowance’), general expenditure allowance, medical costs, end-of-term allowance, etc.

3. Relations between intrinsic and extrinsic incentives in public organizations

Incentives have a powerful effect on performance, motivation, commitment and satisfaction of employees in organizations (Bowman, 2010; O’Reilly et al., 1991). Lincoln & Kalleberg (1990) argue that incentives offered by organizations may have a powerful effect on employees’ attitudes and motivations towards their job and the company for which they work (cf., O’Driscol & Randall, 1999).

In general, the relationship between intrinsic and extrinsic motivation can generate positive, negative, or neutral relationship (Frey & Jegen, 2001; Staw, 1976). Relevant theories analyze whether extrinsic rewards are positively associated with job satisfaction (Judge et al., 2010). Scholars argue that pay-for-performance applied to compensate and motivate public officials can produce, by itself, only minimally productive performance in public sector (cf., Benati & Coccia, 2017). In fact, the literature of public administration suggests that performance-based pay incentives are only marginally related to public service satisfaction and motivation (cf., Benati & Coccia, 2018; Judge et al., 2010).

Intrinsic motivation, under certain conditions, can be undermined by pay for performance (i.e., extrinsic incentives): in fact, a performance-contingent monetary incentive to do something employees already enjoy can decrease their motivation to do it because the person is likely to view its action as externally driven rather than as internally appealing. In fact, extrinsic incentives can produce crowding-out effect (Frey & Oberholzer-Gee, 1997) and thus may negatively impact performance of employees and,

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as a consequence, of organizations (Weibel et al., 2009). Frey & Jegen (2001, p. 592) confirm that extrinsic incentives, such as performance pay can crowd out intrinsic motivation to do a good job. Most scholars argue that crowding-out effects exist because public service motivation is associated with intrinsic motives and the love of money is related to extrinsic motives (Deci et al., 1999).

Frey & Jegen (2001) summarized the two main premises of motivation crowding theory: (1) all interventions originating from rewards and regulations accompanied by negative sanctions may affect intrinsic motivation, and (2) external interventions may crowd out or crowd in intrinsic motivation (or leave it unaffected).

Self-determination theory (Deci & Ryan, 1985) suggests that extrinsic rewards are demotivating and dissatisfying to individuals. In fact, extrinsic motivations can undermine perceived autonomy because they have a negative effect on intrinsic interest in a task or job (Deci & Ryan, 2000). In general, it is possible that extrinsic incentives may crowd out intrinsic motivation (Titmuss, 1970). Deci & Ryan (2004) posit that a variety of tangible contingent rewards undermine intrinsic motivation, but unexpected and task-non-contingent rewards have no effect on intrinsic motivation. In general, scholars claim that the explicit incentives of performance-related pay may crowd out intrinsic motivations (Green & Heywoodz, 2008). Experimental research inspired by self-determination theory reveals that monetary (extrinsic) incentives generate two opposite effects (Weibel et al., 2010): a) they enhance extrinsic motivation (the price effect); b) they threaten the need for autonomy, competence, and relatedness, lowering intrinsic motivation (the crowding-out effect). In short, financial incentives are likely to generate a greater crowding out of intrinsic motivation in public organizations than in private ones because there is more intrinsic motivation in the public sector and more of it can, therefore, be destroyed. Overall, with all other things equal, the crowding-out effect can be greater among civil servants with stronger intrinsic motivation at the baseline (cf., Belle & Cantarelli, 2015).

In the context of incentive management, the goal theory suggests that motivation and incentive can increase organizational performance. The premise of goal theory is that people’s goals play an important role in determining behavior. Goals direct work behavior, motivation and performance and lead to certain consequences or feedback. People with specific level of performance, or a given deadline for completion a task, will have a higher motivation to perform better than people with no set goal. Moreover, people having difficult goals will perform better than people with easier goals (Mullins, 1999). Locke (1968) pointed out that goal-setting is more appropriate viewed as motivational technique rather than a formal

\footnote{An example of public organization is public research institutions that produce new technology and knowledge in a context of national system of innovation (cf., Coccia, 2005a, 2015b, 2016, 2017b, 2018e, 2018f).}
theory of motivation. Overall, then, the theory of goal setting provides a useful approach to work motivation, incentive and performance. Goal theory has a variety of managerial implications: specific performance goals should systematically be identified and set in order to direct behavior and maintain motivation and motivation; goals should be set at a challenging but realistic level; difficult goals lead to higher motivation and performance; employee participation in the setting of goals may also lead to higher motivation to work and performance (Mullins, 1999, p.439; Miner, 1980).

Studies in public administration also show that extrinsic and intrinsic incentives can reduce corruption in public service. However, the empirical evidence is still mixed (Georgellis et al., 2010). Studies suggest that bureaucrats are led to corruption partly because their public service efforts on the job are not properly rewarded extrinsically or intrinsically. Kwon (2012) argues that PSM (public service motivation) can be an important intrinsic incentive for public service. Generally speaking, extrinsic motivation for public service (e.g., performance-based pay or promotion) or intrinsic motivation (e.g., public service motivation, or PSM) can channel bureaucrats’ time and energy into public service and consequently reduce corruption (cf., Tang et al., 2008; Tang & Chen, 2008; Liu & Tang, 2011). In short, PSM as well as other intrinsic incentives appear to be important deterrents to corruption. Evidence reveals that PSM increases public service performance (Petrovsky, 2009), and Kwon (2012) suggests that intrinsic incentives based on PSM can reduce corruption. Many studies have confirmed that extrinsic rewards can reduce (or crowd out) intrinsic motivation (e.g., Frey & Jegen 2001; Georgellis et al., 2010; Houston 2006; Ryan & Deci 2000; Titmuss 1970). However, the evidence suggests that both extrinsic and intrinsic motivations are effective in deterring corruption. In particular, Kwon (2012) presents empirical evidence that promoting intrinsic motivation with appropriate incentives can be effective in deterring corruption, possibly more than extrinsic motivation (such as performance pay). In brief, PSM can be an anti-corruption best practice for public organizations. Finally, Kwon (2012) also suggests that although discretion (or delegation of authority) generally increases corruption, but when performance pay is strong, the bureaucrats use their discretion to increase their public service performance rather than to pursue corruption.

4. Conclusion

Overall, then, the domain of incentive systems can generate a variety of effects in organizations. In general, the crowding-out effect suggests that external incentives undermine intrinsic motivation (Frey & Jegen 2001). A good match in public organizations between personal values (high public service motivation) and the nature of the task (providing services to general public) leads to high intrinsic motivation and likely high performance (Liu & Tang, 2011) and low corruption (Kwon, 2012). To conclude, the public sector is less dependent on financial incentives and for increasing efficiency.
and performance of public organizations it is vital to find a balance between extrinsic incentives (e.g., pay) and intrinsic incentives related to job satisfaction and involvement of personnel (cf., Coccia, 2001; Crewson, 1997, 504; Perry et al., 2010; Rainey, 1982).
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