EFFECTS OF REWARD SYSTEM ON EMPLOYEES’ SATISFACTION: 
THE CASE OF ASSOSA UNIVERSITY

Ermias Tasew Eyasu
Lecturer in Department of Management College of Business and Economics, Assosa University
E-mail: ermitaw22@gmail.com Tel: +251921115460

ABSTRACT: There is a general consensus that employee satisfaction and commitment is affected by total rewards. The prime intention of this study is to examine the effect of intrinsic and extrinsic rewards on employee’s job satisfaction level in Assosa University. The study has employed both descriptive and explanatory research design and the primary data is collected from 218 academic staff employees in Assosa University. The study results revealed that, the mean employee’s satisfaction level is not too much satisfactory which indicates that academic staff employees are not satisfied with the reward system of Assosa University. It is found that the contribution of extrinsic reward for employee’s job satisfaction is more than intrinsic reward. Based on these results, Assosa University was strongly recommended to do more on to improve employees’ satisfaction toward their job by restructuring the intrinsic rewards that are being in place in the institution. Employees do get more satisfaction when they get good psychological treatment from the institution than just receiving monetary rewards.

Key words: Employees job satisfaction, intrinsic reward and extrinsic reward.

I. INTRODUCTION: Nowadays many companies use some incentive system to motivate and reward their employees. Oni-Ojo et al. (2015) stated that the concept of incentive has become the cornerstone for attracting, encouraging and retaining efficient employees in the organization. Every worker receives a pay or reward in exchange for the work they do. Traditionally, organizations often believe that pay is the greatest motivating factor for higher performance from employees. Economically, man works and earns money which is then used more directly to satisfy physiological needs, by purchasing food, shelter, and clothing as well as for acquiring other things required for life. Employers also have the ideology that to get the best from employees it is pertinent to offer them more money. However, some workers believe in money, while others believe in other incentives like recognition, job security, group cohesiveness, enabling environment, training, etc.
Bennett and Minty (2005) suggest that incentives can be viewed from two broad perspectives. They are financial incentives and non-financial incentives. The main purpose of an incentive system is to affect the behavior of those who should be rewarded and guide them to work towards some common goals, which can increase efficiency and profitability (Caroline and Emelie, 2012). Hence, the aim of this study is to research how different incentive systems of Assosa University (ASU) may affect performance and employees satisfaction level. In this study, the effects of recognition, participation, feedback, monetary incentives, non-monetary tangible incentives and benefits on performance and job satisfaction have been observed. It is found that different incentives have different effects on performance and job satisfaction. Therefore, the main idea is to find a balance between different types of incentives which generate job satisfaction and improve employee performance. Extrinsic rewards are majorly related to the monetary benefits whereas the intrinsic rewards are related to acknowledgement of employee efforts by recognition and appreciation. The recognition and appreciation of employees' contribution to the organization. Employees engage in organizational work more intensively when they are motivated by the recognition that the organization is showing towards their contribution. The organizations that treat their employees well will get the best effort from their employees towards the accomplishment of organizational work (Rhoades et al., 2001). However, the well treated employees are more satisfied in their work and more committed to their work and the organizations whose employees are treated in not good way will be less committed to their work.

Employees' commitment for their job depends on perceived organization support which is also affecting employees' attitude. Employees found positive relationship between organizational rewards and employee attitude. Most of the Assosa University employees are complaining on the reward system, as it is not transparent or it is not clear. The implementation of the reward system is depending on the interest of the leaders and not on the prescribed rules and regulations. This is hence leading to lacking of clarity, inappropriate implementation, lack of transparency, and creation of dissatisfaction among staffs. Therefore, the researcher has taken up a research study to suggest a good strategy to improve the reward system of the institution.

The study considered the following objectives:

- To identify the effects of intrinsic and extrinsic rewards on employees satisfaction.
- To measure the level of employees job satisfaction.

II. LITERATURE REVIEW

This part highlights the major issues relating to rewards (intrinsic and extrinsic) and employee satisfaction. The study reviewed the theoretical review and empirical review concerning rewards and employee satisfaction.

a. Theoretical Review

According to Mary (2011), there are some motivation theories that are the basis for effective use of rewards in the organizations. Such theories include Maslow’s hierarchy of needs theory, Equity Theory, Expectancy Theory, and Herzberg’s two factors theory. These theories try to explain the role of rewards in motivating and satisfying employees.
Maslow’s Hierarchy of Needs Theory:

Maslow’s need hierarchy theory of motivation is the most commonly known theory of motivation according to which there are five fundamental needs of a person i.e., physiological, security, affiliation, esteem, and self-actualization (Mary, 2011). The first level of Maslow’s Hierarchy of needs theory is the basic human needs. It is therefore paramount that organizations provide financial rewards to their employees to meet these fundamental needs. The second level of the theory addresses itself to the safety needs where the desires for security and stability are key. In this sense therefore, organizations help to satisfy employee’s safety needs through a package of benefits and thus motives employees. In the third level, employees need a friendship stimulating environment and one that creates a sense of belonging. The fourth level focuses on self-respect and respect from and for others. In this sense, organizations ought to ensure that employees secure self-respect as well as respect from others. Lastly, the fifth level is the self-actualization needs whereby the supervisor may help fulfill an employee’s self-actualization needs by assigning tasks that challenge employees’ minds while drawing on their aptitude and training.

Expectancy Theory:

The states - employee is motivated to exert high level of efforts when he believes that efforts will lead to good performance and therefore organizational rewards that will satisfy achievement of personal goals. There are three elements in this theory. 1) Expectancy (efforts - performance relationship). It is related to the probability perceived by individual that exerting a given amount of efforts will lead to performance. 2) Instrumentality (performance - reward relationship) - the degree to which the individual believes that performing a particular level will lead to attainment of desired outcome. 3) Valence (reward-personal goal relationship) - the degree to which an organizational reward will satisfy individual needs and its attractiveness for the individual.

Equity Theory:

Equity theory focuses on people’s feelings of how fairly they have been treated in comparison with the treatment received by others. People expect certain outcomes in exchange for certain contributions, or inputs. People feel there is equity when the ratio of a person’s total outcomes to total inputs equals the perceived ratio of other people’s total outcomes to total inputs. The person experiences a sense of inequity when there is an unequal comparison of ratios. The feeling of inequity might arise when an individual’s ratio of outcomes to inputs is either less than, or greater than, that of other people. This theory is of the view that both under and over rewards lead to dissatisfaction. While the under-reward causes feelings of unfair treatment, over reward leads to feelings of guilt and discomfort (Edward, 1973).

Herzberg Two-Factor Theory:

This theory classifies factors into hygiene factors and motivators. Hygiene factors include achievement, advancement, possibility of growth, recognition. These factors have positive effect on morale, productivity, and job satisfaction and overall efficiency of the organization. On the other hand, motivators include company policy and administration, salary, supervision, interpersonal relationship with superiors, peers and subordinates, job security, personal life, working condition, status, work itself, and responsibility. These factors are not an intrinsic part of a job. When they are absent they dissatisfy employees.

Job Characteristics Theory:

Job characteristics model explains that job satisfaction occurs when the work environment
encourages intrinsically motivating characteristics. The theory states that there are a number of core job characteristics that impact on job outcomes. These are: Skill Variety (the degree to which a job requires a variety of different activities in carrying out the work and involves the use of different skills and talents of the individual), Task Identity (the degree to which the job requires completion of a ‘whole’ and identifiable piece of work – that is, one that involves doing a job from beginning to end with a visible outcome), Task Significance (the degree to which the job has substantial impact on the lives or work of people in other departments in the organization or in the external environment), Job Autonomy (the degree to which the job gives the employee substantial freedom, independence, and discretion in scheduling the work and in determining the procedures to be used in carrying it out) and Job Feedback (the degree to which carrying out the work activities required by the job results in the individual obtaining direct and clear information on the results of his performance).

These core job characteristics impacts three critical psychological states - experienced meaningfulness, experienced responsibility for outcomes of the work and knowledge of actual results of the work activities which in turn influence work outcomes (job satisfaction, absenteeism, work motivation and so on). The theory also recognizes that the core characteristics do not affect all employees in the same way. They affect more those in growth-need strength, that is, the employee’s desire to achieve a sense of psychological growth in his work (Dugguhn, 2008).

b. Empirical Review

This section includes empirical reviews related to rewards and employee satisfaction. The reviews include employee satisfaction, extrinsic rewards and intrinsic rewards. The relationship between total reward and employee satisfaction has been critically assessed by researchers in a variety of organizational settings. Probst and Brubaker (2001) concluded that, difference between job satisfaction and dissatisfaction lie in the amount and type of rewards provided or given to the employees and the amount and the type of rewards that the employee expects he/she deserves.

Kiviniemi et al (2002) found that job satisfaction of the employees increased by the rewards they receive from the organization. Milne (2007) indicates that rewards have positive relationship with employee satisfaction and their organization. Fareed et al (2013) in their study in telecommunication sector of Okara City, Pakistan confirmed that extrinsic and intrinsic rewards positively change the employee job satisfaction. It is likely that the higher the job satisfaction that an employee experience, the more positive the attitudes towards the job (Sarwar and Abugre, 2013).

Nazir et al (2013) conducted research to ascertain relationship between rewards and employees performance in 23 UK universities. According to their research, UK Higher Education gaining high competitive advantage by offering extrinsic and intrinsic rewards to faculty and makes them more satisfied and competent. Ahmed and Ali (2008) carried out a research on the impact of reward and commission programs on employee motivation and satisfaction in Unilever companies. They found out that there is a positive relationship between rewards and work satisfaction as well as motivation. They on the research findings conclude that there is a positive relationship between extrinsic rewards and employees satisfaction for their performance and the level of their productivity. They also stated that giving of rewards to the best performing employees motivates them to increase their satisfaction as well as encouraging the other employees to enter into a competitive performance for them to be rewarded too. The above theories and studies have dealt with intrinsic rewards and extrinsic rewards in organizations and their relationship with employee satisfaction. Overall the theories and studies show rewards have a positive effect on employees’ satisfaction the finding of
this study was also in line with the above theories and empirical findings, meaning that both intrinsic and extrinsic reward were positively and significantly affecting employees job satisfaction in ASU.

Figure 1: Research conceptual framework

Hypothesis:

A1: Statistically there is positive and significant relationship between intrinsic reward and employees satisfaction in ASU

A12: Statistically there is positive and significant relationship between extrinsic reward and employees satisfaction in ASU

III. RESEARCH METHODOLOGY

This part deals with the type of data use and the methods employed to assess the Effects of Reward System on Employees’ Satisfaction in the case of Assosa University.

a. Research Design and Approach

As stated in Kothari (2004), designing a research is making a road map to a study which leads all functions and steps undertaken. As the conceptual structure with which research is conduct, it consists of the blue print for the collection, measurement and analysis of data. It is also a strategy of describing procedures about sample size, data sources, means of data collection and methods of data processing, analyzing and presenting based on available. This study used a mixed approach of both qualitative and quantitative research methods for better understanding of the contextual variables of employee’s satisfaction. The qualitative method provides a depth of understanding of issues that is not possible through the use of quantitative statically based investigations, whereas quantitative enables to use numeric explanation, thus, helps to provide breadth to the findings. The researcher employed qualitative method by using interviews and open-ended questionnaire, whereas quantitative method is used by making use of statistical analysis of questionnaires.

b. Sampling

The study was conducted in Assosa University academic staff on the effects of reward system on employee’s satisfaction. Hence, the targets populations of the study was 476 from thus the researcher selected 218 employees for the study based on Yamane (1969) sample size determination formula and determined the required sample size at 95% confidence interval and 5% significant level.
c. Data Analysis

Both descriptive and inferential statistical analysis was employed. The data collected through questionnaire was analyzed using Statistical Package for Social Sciences (SPSS) Version 20.

The close-ended data was first analyzed with a descriptive statistical analysis. Qualitative data analysis and content analysis method was used to analyze and describe the data obtained through open-ended questions.

In the inferential statistical analysis, reliability measurement was used to ensure that the developed scales measured consistently what were intended to be measured. Ordinary Least Squares (OLS) regression model was used to identify the effects of rewards on employee’s satisfaction. OLS regression is a generalized linear modeling technique that may be used to model a single response variable which has been recorded on at least an interval scale (Polhman, 2003).

IV. RESEARCH FINDINGS

In this part of the study, some important statistical methods are used to analyze the collected data. As such reliability statistics, frequency analysis and most importantly correlation and regression analysis are used.

Reliability test: according to Cronbach (1951), to provide a measure of the internal consistency of a test or scale of multi item variables; it is expressed as a number between 0 and 1, the acceptable values of alpha, is greater than or equals to 0.70. Internal consistency describes the extent to which all the items in a test measure the same concept or construct and hence it is connected to the inter-relatedness of the items within the test. The values of Cronbach’s alpha for intrinsic rewards, extrinsic rewards and employee’s satisfaction is presented in Table 1.

Table 1: Reliability coefficients

<table>
<thead>
<tr>
<th>Variables</th>
<th>Cronbach’s Alpha coefficient</th>
<th>№ of items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intrinsic Rewards</td>
<td>0.865</td>
<td>9</td>
</tr>
<tr>
<td>Extrinsic Rewards</td>
<td>0.783</td>
<td>8</td>
</tr>
<tr>
<td>Employee’s Satisfaction</td>
<td>0.798</td>
<td>12</td>
</tr>
</tbody>
</table>

Source: Own survey data 2018

Based on results presented in Table 1, the values of Cronbach’s alpha for intrinsic rewards, extrinsic rewards and employee’s satisfaction are: 0.865, 0.783, and 0.798 respectively indicating the alpha values. The Cronbach’s Alpha coefficient must be more than 0.7. Therefore, for this study all of variables are reliable.

Multicollinearity: Maddala (1992) said that, multicollinearity means an exact relationship between the explanatory variables. When there is a perfect or exact relationship between the predictor variables it’s impossible to see the effect of one independent variable on dependent variable. Based on Polhman (2003), OLS models show the linear relationship between a dependent variable and a combination of independent variables. Before estimating any model, it is a must to check the validity of the model properly. For testing the existence of
multicollinearity problem among the explanatory variable the researcher has used a method of Variance Inflation Factor (VIF) of Maddala (1992), if the VIF is less than 10 there is no multicollinearity. For this finding the value of VIF is 1.788 which is less than 10. Therefore, there is no multicollinearity problem meaning that independent variables are not exactly correlated each other.

**Satisfaction Level on Extrinsic and Intrinsic Rewards**

The respondents were requested to provide their opinion on the level of satisfaction with the general reward they get from their institution in a five point Likert scale. The scores of strongly dissatisfied at all and dissatisfied have been taken to represent a variable which had approaches a mean score of 0 to 3 on the Likert scale, and the score of both satisfied and strongly satisfied have been taken to represent a variable which had a mean score of above 3 up to 5. The standard deviation also shows the deviation between the individual respond and the mean value

Table 2: Mean and standard deviation of independent variables

<table>
<thead>
<tr>
<th>Item</th>
<th>N</th>
<th>Mean</th>
<th>Sta. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extrinsic</td>
<td>149</td>
<td>2.74</td>
<td>1.09</td>
</tr>
<tr>
<td>rewards</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intrinsic</td>
<td>149</td>
<td>2.92</td>
<td>1.00</td>
</tr>
<tr>
<td>rewards</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Own survey data 2018

, sampled respondents rated their level of agreement on both intrinsic and extrinsic reward affecting their job satisfaction, (See Table 2). From the above table it is observed that majority of the respondents are dissatisfied towards the reward system of the assosa university. it is also described for the above table that the mean of employees job satisfaction score is more for intrinsic reward (mean = 2.92) than the mean

for intrinsic reward was (mean = 2.74). This implies that the mean value was approaches to the lowest scale in level of agreement (disagree and neutral). Therefore, ASU could strongly suggested to improve its intrinsic and extrinsic reward for employees to satisfied employees on their current job.

**Effect of Intrinsic Reward on Employees Satisfaction**

Table 3 shows results of linear regression analysis. The results provide evidence that intrinsic reward and employee job satisfaction has acceptable correlation of ($\beta = 0.648, P< 0.01$) meaning that intrinsic reward has statistically significant effect on employees’ satisfaction at 1% significant level. This finding is also in line with the study of Ajmal et al (2015), the intrinsic reward shows more significant relation with employees job satisfaction.

Table 3: Effect of Intrinsic Rewards on Employees Satisfaction

<table>
<thead>
<tr>
<th>Variable</th>
<th>$\beta$</th>
<th>t</th>
<th>P</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intrinsic</td>
<td>0.648</td>
<td>10.176</td>
<td>0.000</td>
</tr>
<tr>
<td>rewards</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Dependent Variable: Satisfaction  
Source: Own survey data 2018

**Effect of extrinsic Reward on Employees Satisfaction**
Results on Table 4 show that, the coefficient of regression for extrinsic reward is (0.799, P < 0.01). That means a one unit refinement in extrinsic reward will increase employee satisfaction by 0.799 units and is significant at 1% significance level. The study shows that extrinsic reward has a significant contribution for employees’ satisfaction in ASU. However, based on the finding the relationship between extrinsic reward and employee satisfaction is direct.

Table 4: Effect of Extrinsic Rewards on Employees Satisfaction

<table>
<thead>
<tr>
<th>Variable</th>
<th>β</th>
<th>t</th>
<th>P</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extrinsic</td>
<td>0.799</td>
<td>14.293</td>
<td>0.000</td>
</tr>
</tbody>
</table>

Dependent Variable: Satisfaction
Source: Own survey data 2018

Effect of Intrinsic and Extrinsic Rewards on Employees Satisfaction

Table 5 shows results of linear regression analysis. The results provide evidence that intrinsic rewards and extrinsic rewards have a statistically significant effect on employees’ satisfaction at 1% significant level.

According to Nancy et al (2005), the adjusted R² tells what proportion of the variation in the dependent variable is explained by the explanatory variables based on this the adjusted coefficient of determination shows the degree at which; intrinsic rewards and extrinsic rewards can explain the employees’ job satisfaction in ASU.

The amount of the variation that explanatory variables are explained the explained variable which is about 0.610 (61%). F-test is significant at 1% significant level. The significant level (0.000) indicates that the combination of these variables significantly (p<.001) predicts the dependent variable.

Table 5: Effect of Intrinsic and Extrinsic Rewards on Employees Satisfaction

<table>
<thead>
<tr>
<th>Variables</th>
<th>β</th>
<th>t</th>
<th>P</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>0.454</td>
<td>2.60</td>
<td>0.010</td>
</tr>
<tr>
<td>Intrinsic rewards</td>
<td>0.246</td>
<td>4</td>
<td>0.000</td>
</tr>
<tr>
<td>Extrinsic rewards</td>
<td>0.629</td>
<td>3.55</td>
<td>0.001</td>
</tr>
<tr>
<td>F- Statistics</td>
<td>F(2, 146) = 8.74</td>
<td>55.323³</td>
<td></td>
</tr>
<tr>
<td>R² (R² adj.)</td>
<td>0.615 (0.610)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Dependent variable: Employee’s satisfaction
Note: ³ is significant at 1%.
Source: Own survey data 2018.

Based on Table 5 the unstandardized coefficient of regression for intrinsic rewards is (0.246, P < 0.01). That means a one unit improvement in intrinsic rewards will improves employee job satisfaction by 24.6% and is significant at 1% significance level.

Porter et al (1974) paying attention on employee attitude and their engagement in work and also emphasized the magnitude of intrinsic and extrinsic rewards in organizational accomplishment, organizations are comprised of range off assets, each sort of asset require importance and significant level
of investment, while human capital is most important advantage in any organization among all competitive advantages.

Table 5 above presents, the unstandardized coefficient of regression for extrinsic rewards is (0.629, P < 0.01). That means a one unit adjustment in extrinsic rewards will improves employee job satisfaction by 62.9% and is significant at 1% significance level. The study of Ajmal et al (2015) support that, the extrinsic rewards has the great influence on employee perception about organization support and in results the organizational loyalty and attachment of employees also increases by adding every unit of some amount of variable.

V. CONCLUSIONS & RECOMMENDATIONS

a. Conclusions
The research finding concludes that both intrinsic and extrinsic rewards plays vital role to having a satisfied employee in organization. The study shows the current satisfaction level of employees by considering intrinsic and extrinsic rewards as main variable. Therefore, the mean general employee’s satisfaction level is 2.97 which is not too much satisfactory this may indicates that majority of the sampled respondents are not satisfied in the reward system of ASU. Because the mean value is approaches to neutral and disagree in the Likert scale. The relationship between intrinsic rewards was stronger with employee’s satisfaction comparing with extrinsic rewards.

The study found that amount of the variation that independent variables (intrinsic and extrinsic rewards) are explained the dependent variable (employee’s satisfaction) in 61% and the remaining 49% of variation in employee’s satisfaction is predicted by other variables.

Based on employee’s response, the criteria which the ASU used to select best performers were not directly related with major task assigned to employees. The reward given to employees was not enough comparing with their job performance. The problem in relation to providing reward is about the lack of confidence of leaders and commitment to do with the issues.

b. Recommendations
The employee’s satisfaction in Assosa University was being affected by the intrinsic and extrinsic rewards which the employees were being given. It is therefore recommended that the management of the institution should work to ensure that rewarding system of the organization is fair and equitable, there being fairness and equity in the organizations compensation practices, the rewards received from employer is much to work hence job satisfaction and the incentive strategies actuality offered by the organization is satisfactory.

Human capital is most important opportunity in any organization among all factors of productions. The ultimate objective of any organization is to achieve the better performance which could only be possible by employee’s job satisfaction. Hence, the managers of ASU are expected to do more in creating the balance between the intrinsic and extrinsic rewards to get better performance from employees.

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