Chapter Outline

- From Theory to Practice: The Role of Money
- Creating Effective Reward Systems
- Caveat Emptor: Apply Motivation Theories Wisely
- Can We Just Eliminate Rewards?
- Job Redesign
- Creating More Flexible Workplaces
- Motivation: Putting It All Together
Motivation in Action

1. Is money an important motivator?
2. What does an effective reward system look like?
3. What kinds of mistakes are made in reward systems?
4. Are rewards overrated?
5. How can jobs be designed to increase motivation?
6. How can flexible workplaces increase motivation?
7. Can we simplify how we think about motivation?
From Theory to Practice: The Role of Money

- Money is the most commonly used reward in organizations.
  - Money certainly helps needs get met.

- But, money is not the top priority for many employees
  - Many emphasize relationships in the workplace.

- Developing rewards programs is a complex process
  - Consider the value individuals place on specific rewards
Creating Effective Reward Systems – Employee Recognition

• Employee recognition programs use multiple sources and recognize both individual and group accomplishments.
  – recognizing an employee’s superior performance often costs little or no money
What to Pay: Establishing a Pay Structure

• Setting pay levels requires a balance between external and internal equity
  – **Internal Equity** - the worth of the job to the organization (job evaluation)
  – **External Equity** - the competitiveness of an organization’s pay relative to industry standards

• Setting pay levels (above, at, or below market rates) is a key strategic decision with important trade-offs
How to Pay: Rewarding Individuals Through Variable Pay Programs

• Many firms are moving towards Variable-Pay Programs
  – A portion of an employee’s pay is based on some individual and/or organizational measure of performance.

• Individual-based
  • Piece-rate wages, merit-based pay, bonuses, skill-based pay

• Group-based
  • Gainsharing

• Organizational-based
  • Profit sharing
  • Employee stock ownership plans (ESOPs)
### Individual-Based Incentives

- **Piece-rate pay plans**
  - Pay a fixed sum for each unit of production completed.

- **Merit Based**
  - Pay is based on performance appraisal ratings

- **Bonuses**
  - One-time rewards for defined work rather than ongoing entitlements.

### Group-Based Incentives

- **Gain sharing**
  - Focus on productivity gains
  - Improvements in group productivity determine the rewards to be shared.
Variable Pay Programs: Organizational-Based Incentives

• Profit-Sharing Plans
  – Organization wide programs that distribute compensation based on some established formula designed around a company’s profitability.

• Employee Stock Ownership Plans (ESOPs)
  – Company-established benefit plans in which employees acquire stock as part of their benefits.
Challenges to Pay-for-Performance Programs

• What constitutes performance and how is it measured?

• Other barriers:
  – Rate of inflation raises
  – Salary scales keyed to competitors
  – Traditional compensation systems
  – Appraisal practices that inflate evaluations and expectations
Other Challenges to Pay-for-Performance Programs

• The challenges for pay-for-performance programs can be affected by how and where they are implemented.
  – Teamwork
  – Unions
  – Public Sector Employees

• Ethical Considerations
Skill-Based Pay: An Alternative to Job Based Pay

- Pay levels are set based on how many skills employees have or how many jobs they can do
  - Also known as competency-based or knowledge-based pay
- Skill-based pay helps to increase workforce flexibility
  - Filling staffing needs is easier when employee skills are interchangeable
  - Communication can also be improved
- On the other hand skill-based pay can lead to problems
  - Does not address the level of performance
  - Employees may acquire skills for which there is no immediate need.
Flexible Benefits: Developing a Benefits Package

- A Flexible Benefits plan permits each employee to create a package to suit their individual needs
  - Replaces the “one-benefit-plan-fits-all” approach
  - Selections based on marital status, age, number of dependents etc.

- Three most popular benefit plans:
  - Modular Plans
  - Core-Plus Plans
  - Flexible Spending Plans
Intrinsic Rewards: Employee Recognition Programs

• Employee recognition programs
  – from private “thank you” to high profile recognition

• According to Expectancy Theory the key component of motivation is the link between:
  – Performance and Reward

• Using Reinforcement Theory, providing recognition immediately following positive behaviour leads to repetition.

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Caveat Emptor: Apply Motivation Theories Wisely

- Motivation Theories Are Culture-Bound
  - Canadian and US firms rely on extrinsic rewards more than firms in other countries.
  - Japanese and German firms rarely use individual incentives.
  - Chinese firms are more likely to give bonuses to everyone.
  - Mexican employees prefer immediate feedback on their work; therefore, daily incentives work better.

- Consider the internal norms of a country when developing incentive plans.
### Exhibit 5-3 Reward Preferences in Different Countries

<table>
<thead>
<tr>
<th>GLOBE/Hofstede Cultural Dimension</th>
<th>Reward Preference</th>
<th>Examples</th>
</tr>
</thead>
</table>
| High uncertainty avoidance        | Certainty in compensation systems:  
|                                   | • Seniority-based pay  
|                                   | • Skill-based pay | Greece, Portugal, Japan |
| Individualism                     | Compensation based on individual performance:  
|                                   | • Pay for performance  
|                                   | • Individual incentives  
|                                   | • Stock options | Australia, United Kingdom, United States |
| Humane orientation (Hofstede’s masculinity vs. femininity dimension) | Social benefits and programs:  
|                                   | • Flexible benefits  
|                                   | • Workplace child-care programs  
|                                   | • Career-break schemes  
|                                   | • Maternity leave programs | Sweden, Norway, the Netherlands |


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Beware the Signals That Are Sent By Rewards

- Often reward systems do not reflect organizational goals:

  1. Individuals are stuck in old patterns of rewards and recognition.
     - Stick to rewarding things that can be easily measured.

  2. Organizations don’t look at the big picture.
     - Subunits compete with each other.

### Exhibit 5-4
Management Reward Follies

<table>
<thead>
<tr>
<th>We hope for:</th>
<th>But we reward:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Teamwork and collaboration</td>
<td>• The best individual team members</td>
</tr>
<tr>
<td>• Innovative thinking and risk taking</td>
<td>• Proven methods and no mistakes</td>
</tr>
<tr>
<td>• Development of people skills</td>
<td>• Technical achievements and accomplishments</td>
</tr>
<tr>
<td>• Employee involvement and empowerment</td>
<td>• Tight control over operations, resources</td>
</tr>
<tr>
<td>• High achievement</td>
<td>• Another year’s efforts</td>
</tr>
<tr>
<td>• Long-term growth</td>
<td>• Quarterly earnings</td>
</tr>
<tr>
<td>• Commitment to total quality</td>
<td>• Shipment on schedule, even with defects</td>
</tr>
<tr>
<td>• Candour</td>
<td>• Reporting good news</td>
</tr>
</tbody>
</table>

Providing Performance Feedback

• Why are managers often reluctant to provide feedback?
  – Managers might be nervous pointing out weaknesses
  – Employees can get very defensive
  – Employees often have inflated opinions of their performance

• Managers must be trained to conduct constructive feedback sessions

• What are the key to effective feedback sessions?
  – Sincere managers
  – A constructive climate
  – Employee perception of fair treatment
Can We Just Eliminate Rewards?

• Alfie Kohn suggests that organizations should focus less on rewards, more on creating motivating environments:
  – Abolish Incentive Pay
  – Re-evaluate Evaluation
  – Create Conditions for Authentic Motivation
  – Encourage Collaboration
  – Enhance Content
  – Provide Choice
Job Redesign

• **Job Rotation**
  - Periodic shifting of workers from one task to another.
  - Reduces boredom, increases motivation

• **Job Enlargement**
  - Increasing the number and variety of tasks performed
  - Attacks the lack of diversity in overspecialized jobs
  - Does little to instill challenge or meaning to a worker’s activities.
Job Redesign

- **Job Characteristic Model (JCM)** identifies five core job dimensions and their relationship to personal and work outcomes.
  - Skill Variety, Task Identity, Task Significance, Autonomy, Feedback

- **Job Enrichment**
  - The vertical expansion of jobs
    - Employee completes a full activity
  - Expands the employee’s freedom and independence
  - Increases responsibility, and provides feedback.
Exhibit 5-5 Examples of High and Low Job Characteristics

<table>
<thead>
<tr>
<th>EXHIBIT 5-5 Examples of High and Low Job Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Skill Variety</strong></td>
</tr>
<tr>
<td>High variety</td>
</tr>
<tr>
<td>Low variety</td>
</tr>
<tr>
<td><strong>Task Identity</strong></td>
</tr>
<tr>
<td>High identity</td>
</tr>
<tr>
<td>Low identity</td>
</tr>
<tr>
<td><strong>Task Significance</strong></td>
</tr>
<tr>
<td>High significance</td>
</tr>
<tr>
<td>Low significance</td>
</tr>
<tr>
<td><strong>Autonomy</strong></td>
</tr>
<tr>
<td>High autonomy</td>
</tr>
<tr>
<td>Low autonomy</td>
</tr>
<tr>
<td><strong>Feedback</strong></td>
</tr>
<tr>
<td>High feedback</td>
</tr>
<tr>
<td>Low feedback</td>
</tr>
</tbody>
</table>


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JCM – Critical Psychological States

• The five core job dimensions link to three critical psychological states:
  – Experienced meaningfulness
  – Experienced responsibility for outcomes
  – Knowledge of the actual results


EXHIBIT 5-6 The Job Characteristics Model

<table>
<thead>
<tr>
<th>Core job dimensions</th>
<th>Critical psychological states</th>
<th>Personal and work outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Skill variety</td>
<td>Experienced meaningfulness of the work</td>
<td>High internal work motivation</td>
</tr>
<tr>
<td>Task identity</td>
<td>Experienced responsibility for outcomes of the work</td>
<td>High-quality work performance</td>
</tr>
<tr>
<td>Task significance</td>
<td>Knowledge of the actual results of the work activities</td>
<td>High satisfaction with the work</td>
</tr>
<tr>
<td>Autonomy</td>
<td>Employee growth-need strength</td>
<td>Low absenteeism and turnover</td>
</tr>
<tr>
<td>Feedback</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


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Exhibit 5-7 Computing a Motivating Potential Score

**EXHIBIT 5-7  Computing a Motivating Potential Score**

\[
\text{Motivating Potential Score (MPS)} = \left[ \frac{\text{Skill variety}}{3} + \frac{\text{Task identity}}{3} + \frac{\text{Task significance}}{3} \right] \times \text{Autonomy} \times \text{Feedback}
\]

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Creating More Flexible Workplaces

- **Compressed Workweek**
  - Employees work 4 days a week, 10hrs a day
  - Or employees work 9 days over two weeks

- **Flextime**
  - Employees work a set amount of hours but have some flexibility
  - Core period for all + flexible set of hours determined by workers

- **Job Sharing**
  - Two or more people splitting a 40 hour a week job

- **Telecommuting**
  - Employees complete their work at home
  - Computer is linked to their office
Exhibit 5-8 Example of a Flextime Schedule

<table>
<thead>
<tr>
<th>Flexible hours</th>
<th>Common core</th>
<th>Lunch</th>
<th>Common core</th>
<th>Flexible hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>6 a.m.</td>
<td>9 a.m.</td>
<td>12 noon</td>
<td>1 p.m.</td>
<td>3 p.m.</td>
</tr>
</tbody>
</table>

Time during the day
### Telecommuting: Pros and Cons

<table>
<thead>
<tr>
<th><strong>Pros</strong></th>
<th><strong>Cons</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Increased productivity</td>
<td>• Miss important meetings and informal contact</td>
</tr>
<tr>
<td>• Decreased stress</td>
<td>• Feelings of isolation</td>
</tr>
<tr>
<td>• Leads to better service</td>
<td>• Risk of burnout</td>
</tr>
<tr>
<td>• Reduced turnover</td>
<td>• Not conducive to team building</td>
</tr>
<tr>
<td>• Reduced absenteeism</td>
<td>• Can lead to decreased commitment to the organization</td>
</tr>
</tbody>
</table>
Motivation: Putting it All Together

1. What motivates people?
2. How can we use this information to make sure that the organizational processes motivate our employees?

- Four basic emotional drives (needs) guide people:
  - **Drive to Acquire**
    - Met through organizational rewards
  - **Drive to Bond**
    - Promoted through commitment to teamwork, friendship & openness
  - **Drive to Comprehend**
    - Based on effective job design
  - **Drive to Defend**
    - Based on performance management & resource allocation process
### Exhibit 5-9: How To Fulfill the Drives that Motivate Employees

<table>
<thead>
<tr>
<th>DRIVE</th>
<th>PRIMARY LEVER</th>
<th>ACTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquire</td>
<td>Reward System</td>
<td>• Sharply differentiate good performers from average and poor performers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Tie rewards clearly to performance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Pay as well as your competitors</td>
</tr>
<tr>
<td>Bond</td>
<td>Culture</td>
<td>• Foster mutual reliance and friendship among co-workers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Value collaboration and teamwork</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Encourage sharing of best practices</td>
</tr>
<tr>
<td>Comprehend</td>
<td>Job Design</td>
<td>• Design jobs that have distinct and important roles in the organization</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Design jobs that are meaningful and foster a sense of contribution to</td>
</tr>
<tr>
<td></td>
<td></td>
<td>the organization</td>
</tr>
<tr>
<td>Defend</td>
<td>Performance Management and Resource</td>
<td>• Increase the transparency of all processes</td>
</tr>
<tr>
<td></td>
<td>Allocation Processes</td>
<td>• Emphasize their fairness</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Build trust by being just and transparent in granting rewards,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>assignments, and other forms of recognition</td>
</tr>
</tbody>
</table>

Summary and Implications

1. **Is money an important motivator?**
   - Money is the most commonly used reward. However, there is varying opinion as to how large a role it plays in motivating different employees.

2. **What does an effective reward system look like?**
   - An effective reward system links pay to performance, which is consistent with expectancy theory predictions.

3. **What kinds of mistakes are made in reward systems?**
   - Often reward systems do not reward the performance that is expected. Also, systems sometimes do not recognize that rewards are culture-bound.

4. **Are rewards overrated?**
   - Individuals often motivate themselves intrinsically and can achieve quite high levels of performance.
Summary and Implications

5. How can jobs be designed to increase motivation?
   - Employers can use work design to motivate employees. Jobs that have variety, autonomy, feedback, and similar complex task characteristics tend to be more motivating for employees.

6. How can flexible workplaces increase motivation?
   - Alternative work schedules has become a popular tool to motivate employees by accommodating employees’ need for flexibility.

7. Can we simplify how we think about motivation?
   - Recent research suggests that we should match organizational processes to four basic individual drives: acquire, bond, comprehend, and defend.