

“Motivation: Reward system and the role of compensation”

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Rewards and employee satisfaction

Gaining an employee's satisfaction with the rewards given is not a simple matter. Rather, it is a function of several factors that organizations must learn to manage:

1. The individual's satisfaction with rewards is, in part, related to what is expected and how much is received. Feelings of satisfaction or dissatisfaction arise when individuals compare their input – job skills, education, effort, and performance - to output - the mix of extrinsic and intrinsic rewards they receive.

2. Employee satisfaction is also affected by comparisons with other people in similar jobs and organizations. In effect, employees compare their own input/output ratio with that of others. People vary considerably in how they weigh various inputs in that comparison. They tend to weigh their strong points more heavily, such as certain skills or a recent incident of effective performance. Individuals also tend to overrate their own performance compared with the rating they receive from their supervisors. The problem of unrealistic self-rating exists partly because supervisors in most organizations do not communicate a candid evaluation of their subordinates' performance to them. Such candid communication to subordinates, unless done skillfully, seriously risks damaging their self-esteem. The bigger dilemma, however, is that failure by managers to communicate a candid appraisal of performance makes it difficult for employees to develop a realistic view of their own performance, thus increasing the possibility of dissatisfaction with the pay they are receiving.

3. Employees often misperceive the rewards of others; their misperception can cause the employees to become dissatisfied. Evidence shows that individuals tend to overestimate the pay of fellow workers doing similar jobs and to underestimate their performance (a defense of self-esteem-building mechanism). Misperceptions of the performance and rewards of others also occur because organizations do not generally make available accurate information about the salary or performance of others.

4. Finally, overall satisfaction results from a mix of rewards rather than from any single reward. The evidence suggests that intrinsic rewards and extrinsic rewards are both important and that they cannot be directly substituted for each other. Employees who are paid well for repetitious, boring work will be dissatisfied with the

lack of intrinsic rewards, just as employees paid poorly for interesting, challenging work may be dissatisfied with extrinsic rewards.

Rewards and motivation

From the organization's point of view, rewards are intended to motivate certain behaviors. But under what conditions will rewards actually motivate employees? To be useful, rewards must be seen as timely and tied to effective performance.

One theory suggests that the following conditions are necessary for employee motivation.

1. Employees must believe effective performance (or certain specified behavior) will lead to certain rewards. For example, attaining certain results will lead to a bonus or approval from others.

2. Employees must feel that the rewards offered are attractive. Some employees may desire promotions because they seek power, but others may want a fringe benefit, such as a pension, because they are older and want retirement security.

3. Employees must believe a certain level of individual effort will lead to achieving the corporation's standards of performance.

As indicated, motivation to exert effort is triggered by the prospect of desired rewards: money, recognition, promotion, and so forth. If effort leads to performance and performance leads to desired rewards, the employee is satisfied and motivated to perform again.

As mentioned above, rewards fall into two categories: extrinsic and intrinsic. Extrinsic rewards come from the organization as money, perquisites, or promotions or from supervisors and coworkers as recognition. Intrinsic rewards accrue from performing the task itself, and may include the satisfaction of accomplishment or a sense of influence. The process of work and the individual's response to it provide the intrinsic rewards. But the organization seeking to increase intrinsic rewards must provide a work environment that allows these satisfactions to occur; therefore, more organizations are redesigning work and delegating responsibility to enhance employee involvement.

Equity and participation

The ability of a reward system both to motivate and to satisfy depends on who influences and/or controls the system's design and implementation. Even though considerable evidence suggests that participation in decision making can lead to greater acceptance of decisions, participation in the design and administration of reward systems is rare. Such participation is time-consuming.

Perhaps, a greater roadblock is that pay has been of the last strongholds of managerial prerogatives. Concerned about employee self-interest and compensation costs, corporations do not typically allow employees to participate in pay-system design or decisions. Thus, it is not possible to test thoroughly the effects of widespread participation on acceptance of and trust in reward system.

Compensation systems: the dilemmas of practice

A body of experience, research and theory has been developed about how money satisfies and motivates employees. Virtually every study on the importance of pay compared with other potential rewards has shown that pay is important. It consistently ranks among the top five rewards. The importance of pay and other rewards, however, is affected by many factors. Money, for example, is likely to be viewed differently at various points in one's career, because the need for money versus other rewards (status, growth, security, and so forth) changes at each stage.

National culture is another important factor. American managers and employees apparently emphasize pay for individual performance more than do their European or Japanese counterparts. European and Japanese companies, however, rely more on slow promotions and seniority as well as some degree of employment security. Even within a single culture, shifting national forces may alter people's needs for money versus other rewards.

Companies have developed various compensation systems and practices to achieve pay satisfaction and motivation. In manufacturing firms, payroll costs can run as high as 40% of sales revenues, whereas in service organizations payroll costs can top 70%. General managers, therefore, take an understandable interest in payroll costs and how this money is spent.

The traditional view of managers and compensation specialists is that if the right system can be developed, it will solve most problems. This is not a plausible assumption, because, there is no one right answer or objective solution to what or how someone should be paid. What people will accept, be motivated by, or perceive as fair is highly subjective. Pay is a matter of perceptions and values that often generate conflict.

Management's influence on attitudes toward money

Many organizations are caught up in a vicious cycle that they partly create. Firms often emphasize compensation levels and a belief in individual pay for performance in their recruitment and internal communications. This is likely to attract people with high needs for money as well as to heighten that need in those already

employed. Thus, the meaning employees attach to money is partly shaped by management's views. If merit increases, bonuses, stock options, and perquisites are held out as valued symbols of recognition and success, employees will come to see them in this light even more than they might have perceived them at first. Having heightened money's importance as a reward, management must then respond to employees who may demand more money or better pay-for-performance systems.

Firms must establish a philosophy about rewards and the role of pay in the mix of rewards. Without such a philosophy, the compensation practices that happen to be in place, for the reasons already stated, will continue to shape employees' satisfactions, and those expectations will sustain the existing practices. If money has been emphasized as an important symbol of success, that emphasis will continue even though a compensation system with a slightly different emphasis might have equal motivational value with fewer administrative problems and perhaps even lower cost. Money is important, but its degree of importance is influenced by the type of compensation system and philosophy that management adopts.

Pay for performance

Some reasons why organizations pay their employees for performance are as follows:

- under the right conditions, a pay-for-performance system can motivate desired behavior;
- a pay-for-performance system can help attract and keep achievement-oriented individuals;
- a pay-for-performance system can help to retain good performers while discouraging the poor performers.

In the US, at least, many employees, both managers and workers, prefer a pay-for-performance system, although white-collar workers are significantly more supportive of the notion than blue-collar workers.

But there is a gap, and the evidence indicates a wide gap, between the desire to devise a pay-for-performance system and the ability to make such a system work.

The most important distinction among various pay-for-performance systems is the level of aggregation at which performance is defined - individual, group, and organizationwide. Several pay-for-performance systems are summarized in the exhibit that follows.

Historically, pay for performance has meant pay for individual performance. Piece-rate incentive systems for production employees and merit salary increases or bonus plans for salaried employees have been the dominant means of paying for performance. In the last decade, piece-rate incentive systems have dramatically

declined because managers have discovered that such systems result in dysfunctional behavior, such as low cooperation, artificial limits on production and resistance to changing standards. Similarly, more questions are being asked about individual bonus plans for executives as top managers discovered their negative effects.

Meanwhile, organizationwide incentive systems are becoming more popular, particularly because managers are finding that they foster cooperation, which leads to productivity and innovation. To succeed, however, these plans require certain conditions. A review of the key considerations for designing a pay-for-performance plan and a discussion of the problems that arise when these considerations are not observed follow.

Individual pay for performance. The design of an individual pay-for-performance system requires an analysis of the task. Does the individual have control over the performance (result) that is to be measured? Is there a significant effort-to-performance relationship?

For motivational reasons already discussed such a relationship must exist. Unfortunately, many individual bonus, commission, or piece-rate incentive plans fall short in meeting this requirement. An individual may not have control over a performance result, such as sales or profit, because that result is affected by economic cycles or competitive forces beyond his or her control. Indeed, there are few outcomes in complex organizations that are not dependent on other functions or individuals, fewer still that are not subject to external factors.

Choosing an appropriate measure of performance on which to base pay is a related problem incurred by individual bonus plans. For reasons discussed earlier, effectiveness on a job can include many facets not captured by cost, units produced, or sales revenues. Failure to include all activities that are important for effectiveness can lead to negative consequences. For example, sales personnel who receive a bonus for sales volume may push unneeded products, thus damaging long-term customer relations, or they may push an unprofitable mix of products just to increase volume. These same salespeople may also take orders and make commitments that cannot be met by manufacturing. Instead, why not hold salespeople responsible for profits, a more inclusive measure of performance? The obvious problem with this measure is that sales personnel do not have control over profits.

These dilemmas constantly encountered and have led to the use of more subjective but inclusive behavioral measures of performance. Why not observe if the salesperson or executive is performing all aspects of the job well? More merit salary increases are based on subjective judgments and so are some individual bonus plans. Subjective evaluation systems though they can be all-inclusive if based on a thorough analysis of the job, require deep trust in management, good manager-subordinate relations, and effective interpersonal skills.

Unfortunately, these conditions are not fully met in many situations, though they can be developed if judged to be sufficiently important.

Group and organizationwide pay plans. Organizational effectiveness depends on employee cooperation in most instances. An organization may elect to tie pay, or at least some portion of pay, indirectly to individual performance. Seeking to foster team-work, a company may tie an incentive to some measure of group performance, or it may offer some type of profits or productivity-sharing plan for the whole plant or company.

Gains-sharing plans have been used for years in many varieties. The real power of a gains-sharing plan comes when it is supported by a climate of participation. Various structures, systems, and processes involve employees in decisions that improve the organization's performance and result in a bonus throughout the organization.

Russian management's approach to motivation.

Nowadays, top managers at Russian companies don't pay much attention to the employee motivation. Not only is it the result of the long communist background of the country, but it also is somewhat affected by the national traditions, customs and mentality.

Many of the recently "commercialized" enterprises believe that employees are to be satisfied with their salary only, and a pay-for-performance system is, therefore, of no need. However, the failure to observe the different motivation factors, such as money, respect, promotion and others, can lead to a worsening performance and, as a result, to a lower efficiency organizationwide.

On the other hand, money is not considered to be the most influencing motivation factor by the employees themselves. Though it may be a more vital need of most Russian workers in comparison with their Western colleagues, at the same time they put more value on the cooperative atmosphere in the organization, rather than on the money side. And, thus, it is reasonable for the management to base the performance incentive system on some other factors, such as work security, pension etc. It's hard to predict the situation in the long-run, however one can expect that the value put on money as a performance motivation factor will rise.

Bibliography

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