Effect of Compensation and Other Motivational Techniques on Organizational Productivity

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Abstract:
This article will discuss the importance of understanding the effect of motivation and compensation on employee’s performance in organizations.

Literature review:
Motivation is set of desires, needs and wishes that drive humans to attain their targets and goals. There are two types of motivation, implicit and explicit. Explicit motives are totally influenced by society and their social norms and pressures. Explicit motives are directly connected with a person’s behavior, decisions, judgment and attitudes. Implicit motives are connected to basic or primary motives. Moreover, implicit motives are behavioral dispositions that are subconsciously awakened and lead to affective preferences. Simply put, explicit motives relate to rational thinking or cognitive influenced behavior, while implicit motives relate to subconscious responses linked to affect. It is important for managers to understand and difference between implicit and explicit motives as each category has a role in distinguishing levels of motivation in the workplace. Managers can better motivate their staff if they were able to distinguish between employees that are implicitly motivated and those who were explicitly motivated. Example: Managers can inspire implicitly motivated employees by giving them new challenges, recognition and more responsibility. Moreover, managers can inspire explicitly motivated employees by giving them promotions, celebrity lunches or bonuses.
McClelland conducted a needs-based motivation model. He identified three types of motivation.
1- Need for achievement (achievement motivation)
2- Need for power (power motivation)
3- Need for affiliation (affiliation motivation)
A mix of the above needs makes each manager and employee unique in his motivational skills and ability to motivate others. If an individual has strong affiliation needs, this could affect a manager’s objectivity and fairness and hence affect his decision-making abilities. On the other hand, an individual with strong needs for power will have a strong commitment and work ethics for the organization but at the same time may not have the required flexibility and social skills.
What attracted Mclelland the most was the need for achievement; individuals with strong achievement motives tend to be the best leaders with high leadership skills. These people usually are risk takers and they tend to be very successful businessmen and entrepreneurs. Achievement motivated people usually set a goal and they employ all their efforts and capabilities to reach this goal. Mcleeland discussed other characteristics for achievement motivated individuals and some of them are:

- Achievement is much more important than monetary reward
- Financial reward is not considered means to an end but rather a measure of success
- Achieving the goal gives these individuals more satisfaction than praise and recognition
- These individuals consider feedback important not for praise but as a measure of success

Another workplace and behavioral psychologist, John Stacey Adams worked on job motivation and put forth the **Equity Theory**. The Adams’ Equity Theory model goes beyond the individual self, and integrates influence and comparison of other people's situations in forming a comparative view and awareness of Equity. In his theory Adams used two terms, output and input.

**Input** is everything individuals put into their work.

**Outputs** are what individuals take out in return.

Adams also used the term “referent” which describes the point or people with whom they compare their situations with others. Adams equity theory goes deep and assesses more than just effort and reward.

According to the Equity theory pay and conditions is not enough to determine motivation. Equity doesn’t only depend on individual’s input/output ratio alone but also on the comparison between individual’s ratio and their ratio to others. According to the equity model the balance of the ratio is more important than the amount of reward or effort. For example, people could be motivated at work one day and satisfied but they could easily become unmotivated if they knew that a colleague is enjoying a better reward-effort ratio. Moreover, giving a promotion or raise to one person could also demotivate others.

Adams used the terms inputs and outputs to cover all the aspects of what the person gives and what he entirely gets out of it.

So inputs include: effort, loyalty, hard work, commitment, skill, ability, adaptability, enthusiasm, trust in their boss and many others.

Outputs include: Financial rewards such as: pay, salary, expenses, benefits, perks, pensions, commission and bonuses. Nonfinancial incentives such as: praise, recognition, thanks, achievement, promotion, travel and sense of security.

**How to achieve Equity:**

People have to sense the fair balance between the inputs and outputs. Usually fairness is measured by comparing one’s own ratio between inputs and outputs with the ratio enjoyed by the referent others.

If people feel that inputs are fairly rewarded by outputs then they are happier and more motivated to work.
However, if employees feel inequitable they tend to reduce their input, ask for more outputs, compare their situation with others, change their perception and in some cases leave the field or quit their jobs.

Another new theory on motivation was developed in 2002 by Harvard Business School professors Paul Lawrence and Nitin Nohria. It’s called the four-drive theory. It states that everyone has the drive to acquire, bond, learn and defend.

The drive to acquire and achieve is the drive to seek, control and keep objectives and personal experiences. It goes beyond the basic needs, such as water and shelter, to enhance one’s relative status and social recognition. It is the drive to achieve a higher position than others and not just to satisfy the basic or physiological needs.

The drive to bond is the drive to form social relationships and shared affection with others. This drive helps motivate people to cooperate and is important in the success of organizations.

The drive to learn is the drive one has to satisfy their curiosity, understand themselves and the surrounding environment. It belongs to the higher-order needs of growth and self-actualization.

The drive to defend is the drive humans have to defend themselves physically and socially. It generates a “flight or fright” response in the face of personal danger.

These drives are universal and are found in all human beings. There are no hierarchy and these drives are independent of each other.

The four-drive theory draws from neuroscience knowledge and it explains how these drives lead to goal-directed efforts. Drives produce emotions that motivate people to act and set actions that are approved by society and one’s moral compass. Emotions translate into goal-directed needs that change into decisions and behavior.

Lots of scholars studied and tried to define motivation since it is the key to performance improvement.

Job performance = f(ability)(motivation)

So for employees to be productive and efficient they have to be able to perform the job and be motivated.

Lots of theories discussed on motivation yet it’s still harder to comply in the workplace.

Compensation also is known to motivate employees. How much should an organization offer to keep the employee motivated and satisfied? It’s very complex. Is money the only incentive to motivate people?

Rewarding people with money is one of the oldest and widespread applied practices. Money is more than just a form of compensation for an employee’s effort to an organization. Money is related to one’s needs, emotions and self-concept. Monetary reward is a symbol of achievement; it reinforces employees and reduces anxiety. Studies show that money can be considered as a symbol of prestige, source of income and security or as a source of anxiety.

One large-scale study showed that money generates a variety of emotions, such as depression, anxiety helplessness and on the other hand it can symbolize respect, achievement and power. This difference in attitudes towards money may influence the individual’s ethical conduct, organizational citizenship, and many other behaviors and attitudes. The meaning of money
differs with gender. Men attach more influence to money since it provides status and power. Many experts nowadays believe that money is a much more important motivator than it used to be believed. Studies reveal that people who are highly paid have higher job performance because they feel more valued in the organization. Others believe that the symbolic value of money and rewards motivate people when they believe they are compensated more than others. Money is more than just a means of exchange between an organization and employee. Money fulfills the individual’s needs, affects emotions and builds up an individual self-concept. Financial Reward Practices can be organized into four objectives: Membership and seniority, job status, competencies and performance.

**Membership and seniority-based awards** present the biggest part of a paycheck. This type of reward attracts applicants that desire a predictable income and it reduces employee’s turnover. On the other hand this type of reward doesn’t motivate job performance. This reward discourages those who perform poorly from trying to seek a better performance that fits their abilities and the good performers are tempted to better paying-jobs. Moreover, golden handcuffs may weaken performance.

**Job status-based rewards**: every organization rewards their employees according to the worth of the job they apply. Job evaluation is used as an assessment of an employee’s worth of job. Jobs that involve more skill and effort have higher value. Employees that have high valued jobs usually get paid more; have larger offices and other benefits. These rewards motivate employees to compete for promotions and do maintain internal equity. However these rewards tend to be the opposite when companies are trying to be cost-efficient and responsive to external factors or environment since they can encourage hierarchy. Furthermore, status-paid jobs tend to motivate employees to compete against each other for promotions by exaggerating their job duties and saving resources.

**Competency-based rewards**: Many companies have moved rewards priorities form job-status to skills and knowledge that lead to excellent performance. This type of reward gives employees with a group a higher pay rate as they increase their competency. These competencies include: leadership, adaptability, team orientation, technical expertise, superb knowledge and many others. Competency-based pay doesn’t pay employees for the job they perform, but for their skills and knowledge they have if or if they don’t use these skills in their job duties. This reward plan is known to broad-banding since many jobs with narrow pay ranges are grouped with the much broader pay range. Skills-based pay is a specific variation of the competency-reward system where employees are paid on their mastery of measurable skills. Competence-based reward motivate employees to learn new skills and hence improve organizational effectiveness by building a more flexible workforce; multi-skilled employees for performing a variety of tasks and adapting to new practices in a dynamic environment. Moreover, multi-skilled employees tend to improve service and product quality. However, competency-based plans are often

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overdesigned which makes it hard to communicate these plans with employees. Employees find defining competence vague and so this could raise questions about fairness. Furthermore, skill-based pay systems measure specific skills so they are more objective. Employees spend time learning new skills and tasks that turn out to be expensive.

**Performance-Based Rewards:** the most popular type of rewards includes individual, team and organizational performance based rewards.

**Individual Rewards:** a lot of employees receive individual bonuses for completing a specific task or exceeding performance goals.

**Team Rewards:** many organizations have moved from individual focus to teams. Consequently, employees working for these organizations find that a big part of their paycheck is determined by team performance. Gain-sharing plans are a form of team-based compensation that calculates bonuses from the work unit’s cost savings and productivity improvement. Gain-sharing plans tend to improve team dynamics, knowledge sharing and pay satisfaction. Moreover, gain-sharing forms a strong bonded link between effort and performance since the team controls the cost reduction and labor efficiency.

**Organizational rewards:** Many organizations rely on organizational rewards to motivate their employees. Many firms reward all their staff members for achieving sales goals. These types of rewards are financial bonuses but some reward their employees with travel. Another form is **employee stock ownership plans (ESOPs).** This type of reward is when the organization encourages employees to buy company stock, usually at a discounted price or through a no interest loan. This financial incentive occurs as dividends and market appreciation of the stock. Most ESOPs are designed as retirement plans. While ESOPs involve purchasing company shares, **stock options** give employees the chance to buy shares from the company in the future at a predetermined price up to a limited fixed expiration date. Stock option is used to motivate employees to make the company more profitable hence increasing the company’s stock price and so secure the value above the exercise price of stock options.

**Profit-sharing plan** is another level of organizational reward that calculates bonuses from previous year’s level of corporate profits. Employees earn profit-sharing bonus on top of their fixed pay and team bonuses.

Are organizational level rewards effective? Studies show that ESOPs and stock options create ownership culture and hence employees feel associated with the company’s success. Profit sharing creates less ownership culture but has the advantage of automatically adapting employee compensation with the firm’s prosperity and therefore diminishing the need for layoffs or negotiated pay reductions during recessions. The main disadvantage with ESOPs, stock options and profit sharing is that employees perceive a weak connotation between individual efforts and company profits or the value of company shares. The company’s stock price is affected by
economic conditions, competition and other factors that are beyond the employee’s control. This low individual performance to outcome expectancy can weaken the employee’s motivation. Another con is that some organizations use the ESOP in replacement for employee pension plan. This is risky since if the company goes bankrupt employees loose both their jobs and a large part of their retirement.

How to improve reward effectiveness? Performance-based rewards can discourage creativity, distance management from employees, distract employees from the meaningfulness of the job and ignore the true cause of poor performance. So how to improve the effectiveness of rewards

1- **Rewards should be linked to performance.** Both the Behavioral modification theory and the expectancy theory recommend that employees be rewarded on good performance and that they should be rewarded more than those who perform poorly. Unfortunately this simple principle could be difficult to implement. Applying gain-sharing ESOPs, stock options, and other plans, that are objective performance measures, can minimize inconsistencies and biases. If companies use subjective measures of performance they should depend on multiple sources of information. Moreover, companies need to reward employees directly after their performance and in large amounts so that employees receive positive emotions when they receive the reward.

2- **Ensure that rewards are relevant.** Companies need to associate rewards with performance within the employee’s control. The more the employees see a connection between their daily actions and rewards the more they are motivated to improve their performance. Moreover, rewards systems should be adjusted to go with some situational factors, such as economic factors.

3- **Use team rewards for interdependent jobs.** When employees work in highly interdependent jobs, team rewards should be used instead of team rewards. The latter should be used since it is really hard to appraise individual performance. Furthermore, team rewards increase cooperation, which is very important for interdependent jobs. Another benefit of team reward is that tend to encourage employee preference to work in a team. However, one downside to team rewards is that employees sometimes prefer their award on their individual performance rather than team performance.

4- **Ensure that rewards are valued.** Rewards work best when they are valued. It is important to ask employees what they value. In some cases employees might value things that cost less to companies.

5- **Watch out for unintended consequences.** Sometimes performance-based rewards can have an undesired effect on employee behaviors. Hence the solution would be for companies to think carefully of the consequences of rewards and test incentives in a pilot project before applying them in the organization.

Financial rewards come in many forms but it is not the only way to motivate people. Employees can be motivated through job design practices. **Job design** is the process of assigning tasks to a job, including the interdependence of those tasks with other jobs. Job design efforts can better improve work efficiency through job specialization. **Job specialization** is the result of division of labor in which work is divided into
separate jobs that are assigned to different people. Companies divide work into separate jobs since it increase work efficiency. Efficiency is high since employees have less tasks to handle and hence less time spending activities. The second reason is that job specialization requires fewer physical and mental skills to do the assigned work; which leads to less time and few resources needed for training. A third reason is that employees accomplish their jobs frequently and quickly with shorter work cycles. However there are some problems with job specialization. Job specialization can adversely affect employee’s attitudes and motivation. Some of the jobs are so specialized that they tend to be tiring, trivial, and socially secluded. Specialized jobs with short work cycles can also lead to high employee turnover and absenteeism; therefore, companies will have to pay higher wages to attract job applicants. Moreover, job specialization reduces job quality as the employees see a small part of the task. Specialized jobs could be demotivated since it’s easier for employees to perform the job and hence it becomes less interesting.

To maximize job performance, employees have to perform the job efficiently and still find it interesting. There are three main strategies that can increase the motivational potential of jobs: job rotation, job enlargement and job enrichment.

**Job rotation:** is the practice of moving or rotating employees from one job to the other. Job rotation supports multiskilling, which increase work place flexibility in staffing the production process and in finding replacements for employees on vacation. Another advantage of job rotation, it reduces boredom of highly repetitive jobs.

**Job enlargement:** is the practice of adding tasks to an existing job. Job enlargement tends to increase skill variety since they are more tasks to complete. Moreover job enlargement improves significantly work efficiency and flexibility. On the other hand studies show that giving employees more tasks won’t affect motivation, performance or job satisfaction. Motivation, performance and job satisfaction are ensured when skill variety is combined with more autonomy and job knowledge. Employees are motivated when complete a variety of tasks and have the knowledge and freedom to structure to achieve the highest satisfaction and performance. The latter job characteristics are what make up job enrichment.

**Job enrichment:** is the practice of giving employees more responsibilities for scheduling, coordinating, and planning their own work. Employees in enriched jobs feel higher job satisfaction and work motivation, along with lower turnover and absenteeism. When task identity and job feedback are improved, productivity is higher. Job enrichment tends to improve product and services quality because the jobholder feels a sense of responsibility and sense of ownership over the product or service. We could increase job enrichment by combining highly interdependent tasks into one job. This approach is called natural grouping. Another approach of job enrichment is establishing client ownerships, involves placing employees in direct contact
with their clients rather than the supervisor. This causes employees to have more information from their clients that can affect their decisions regarding those clients. Establishing client relationships leads to increase in task significance.

**Conclusion:**
Motivation, compensation and job productivity are very complicated, interdependent subjects that attracted lots of scholars from the beginning of time. Motivation is the drive that keeps people on edge to achieve their goals. When people are highly motivated the outcome could be superior and outstanding. When employees are well compensated for the efforts they put into the organization, then they are highly motivated. And that will definitely lead to a higher organizational performance.

**References:**

Dr. Jalal K. Armache received a Ph.D. in Human Resources Management: Leadership and Education from Barry University, Miami Shores Florida, and a Masters of Science in Management Information Systems, from Saint Thomas University, Miami Florida, and a Bachelor of Science in computer Science from Lebanese American University, Beirut Lebanon. Dr. Armache served as a Human Resources Manager in many prestigious organizations in Lebanon and in the U.S. He served also as an H.R. consultant for many international companies.
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