

## Financial and non-financial rewards

A number of theories have tried to explain the factors that motivate people at work. Some of these theories stress that money is the most important factor. The scientific approach, in particular, argues that workers respond to financial rewards. It is argued that such rewards are necessary to motivate a reluctant workforce. Employees see work as a means to an end. As a result they are far more likely to be interested in **financial rewards**. In contrast, the human relations view argues that workers are motivated by a variety of factors. An employee working in a car assembly plant, for example, may be highly motivated by working as part of a team. Poor pay may lead to employees being dissatisfied, which can make other **non-financial rewards** less effective in motivating them. The next two units examine how financial and non-financial rewards can be used.

## Salaries and wages

For nearly all workers, the main reason for going to work is to earn money to buy goods and services. Most workers in the UK are either paid a wage or a salary.

**Wages** WAGES tend to be associated with lower paid workers and **BLUE COLLAR WORKERS** (i.e. **MANUAL WORKERS**). Wages are typically expressed as hourly **TIME RATES** of pay, such as £5.50 an hour or £12.75 an hour. This then forms weekly rates of pay, such as £250 a week, for a fixed number of hours work, such as 38 hours. The 38 hours would then be the basic working week. Time rates are useful when a business wants to employ workers to do specialist or difficult tasks that should not be rushed. Employees can ensure that work is of a high quality without worrying about the time they take.

Waged employees often have the opportunity to work **OVERTIME**. These are hours worked over and above the basic working week. To motivate workers to accept overtime, employers often pay higher rates of pay. If the basic wage is £10 an hour, overtime might be paid at time and a quarter (£12.50 an hour) or time and a half (£15 an hour). Saturday or Sunday overtime working might be paid at higher rates than weekday overtime, to encourage people to work at weekends.

**Salaries** SALARIES tend to be associated with better paid workers, particularly **WHITE COLLAR WORKERS** (i.e. **NON-MANUAL WORKERS**). Salaried staff are typically paid each month. Some salaried staff might earn overtime because they are only expected to work a fixed number of hours per week. However, most salaried staff are paid to do a particular job. There might be a recommended number of hours work per week, like 38 hours. But they are often expected to work as many hours as it takes to complete the job. A yearly salary is usually higher than that which could be earned by workers if they were

in a less senior job and paid a wage.

The main long-term factors which determine the level of wages and salaries are the forces of demand and supply. Businesses have to pay the 'market rate' for the job if they want to retain existing staff and recruit new staff. Paying below the market rate can also demotivate staff. They might feel that they are not valued by their employer. Paying above the market rate can be motivating. Workers might feel that their contribution is being rewarded by higher pay.

Workers are sometimes paid a basic wage or salary and a **BONUS** at the end of the year or other period if **targets** are reached, or for attendance or punctuality. Sometimes the 'best employee' over a period may be rewarded with a bonus. This is usually a money payment, although Richer sounds, the electronics retailer, has rewarded the retail outlet that performed best over a period with the use of a classic car such as a Rolls Royce. A problem with regular bonuses is that they are often seen as part of the employee's basic pay. As a result, they may no longer act as a motivator.

Many employers have found that payment based on a fixed working week can be inflexible. For example, half the year employees may be idle after 3 p.m. every day, but are still paid for a 'full day's' work. The other half of the year they may work into the evening and be paid overtime. To cater for fluctuations in demand some employers pay staff on the basis of a certain number of hours to be worked in a year. These are known as **ANNUALISED HOURS CONTRACTS**. For annualised hours contracts, the number of hours to be worked each year is fixed. However, the daily, weekly or monthly hours are flexible. So employees may have a longer working day at peak times and work less when demand is slack. An employee's pay is calculated on the basis of an average working week, for example 35 hours, which is paid regardless of the actual number of hours the employee works. There are certain advantages of annualised hours. An employee has a guaranteed income each week. Employers often see this as a way of avoiding overtime, reducing costs, increasing flexibility and improving efficiency.

## Piece rates, commission and fees

Not all workers are paid wages or salaries. Some are paid piece rates, commission or fees.

**Piece rates** Piece rates are payments for each unit produced. They are an example of **PAYMENT BY RESULTS**. For example, a worker might be paid £0.50 per parcel delivered or £1.00 per kilo of strawberries picked. **PIECE RATES** were recommended by Frederick Taylor, founder of the scientific management school. He thought they were an ideal way to motivate workers. Workers who produced more were more highly paid. However,

## Question 1.

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- Compare the different payment systems shown in the advertisements.
- What fringe benefits were being offered?
- Discuss what might happen if any of the employers advertising were offering a remuneration package which was below the market rate for the job.

piece rates are only suitable for jobs where it is easy to identify the contribution of an individual worker. It would be difficult to devise a piece rate system for, say, secretaries or managers. Piece rates have been criticised on health and safety grounds. They might encourage workers to take dangerous short cuts in a bid to reduce the amount of time taken for each item. Rushing production might also affect the quality of the product.

**Commission** COMMISSION is a payment system mainly used with white collar workers. Commission, like piece rates, is a payment for achieving a target. For example, car salespeople may get a commission of £100 for each car they sell. Some white collar workers are paid entirely on commission. A salesperson, for example, may be paid entirely on the basis of their sales record. Alternatively, a worker may be paid a basic salary and then receive commission on top. Commission based pay systems are intended to 'incentivise' workers by tying in pay with output.

**Fees** Fees are payments made to people for 'one-off' tasks. Tasks tend to be geared towards the needs of the client, rather than a standard service or product. The amount paid will depend on a variety of factors. These might include the time taken to finish the task or the difficulty of the task. Often fees are paid to people providing services, such as solicitors, performers etc.

## Fringe benefits

FRINGE BENEFITS are benefits received over and above that

received from wages or salaries. Fringe benefits are payments 'in kind' rather than in cash. Typical examples of fringe benefits include contributions to pensions, a company car, private health insurance, subsidised meals including luncheon vouchers, and subsidised loans or mortgages.

One reason why fringe benefits are given is because they are a tax-efficient way of rewarding employees. It may cost a business less to give the fringe benefit than the equivalent sum of money needed to buy it by the employee. Some fringe benefits help the running of the business. For example, private health care might reduce the number of days off sick by employees and give the business greater control about when an employee has an operation.

Businesses also give fringe benefits as a way of motivating staff. They can act as a motivator in two ways.

- Many satisfy the basic physiological and safety needs of workers, as outlined by Maslow. They also meet the hygiene factors as outlined in Herzberg's two-factor theory.
- The awarding of fringe benefits can be linked to achievement and promotion. Free private medical health care insurance, for example, is sometimes only available to more senior members of staff within an organisation.

## Performance related pay

PERFORMANCE RELATED PAY (PRP) is a pay system designed specifically to motivate staff. Introduced in the 1980s and 1990s, it is now used widely in the UK among white collar workers,

Table 1 Examples of fringe benefits that have been used by businesses

Company	Function	Fringe benefit
Dyson Appliances	Vacuum cleaner manufacturer	Dyson cleaner at reduced rate for new employees
Text 100	PR Agency	2 'Duvet days' (unscheduled holidays) a year
Air Products	Industrial gas supplier	Free exercise classes and subsidised gym and yoga classes, free annual medical checks
Saatchi & Saatchi	Advertising agency	Company pub - 'The Pregnant Man'
Virgin Group	Travel, entertainment, media, retail and financial services	24 hour parties
Body Shop	Cosmetics manufacturer and retailer	£100 a year to 'buy' a training course in new skill of their choice
Tesco	Food retailer	SAYE tax-free share option scheme
Google	Internet search engine provider	Free meals for staff

especially in the financial services industry, such as banking, and in the public sector.

PRP gives workers extra pay for achieving targets. The extra pay may be a lump sum such as £1,000 or it could be a percentage of salary. Some PRP systems make distinctions between levels of achievement. For example, one worker may be rated 'excellent' and receive a 10 per cent bonus, another 'good' and receive a 5 per cent bonus, another 'satisfactory' and receive no bonus.

The targets are likely to be set through a system of **appraisal**. This is where the performance of individual staff is reviewed against a set of criteria. These criteria could include factors such as arriving for work on time, ability to get on with other workers, improving skills through training or achieving a particular task within the job. Staff are likely to have a performance appraisal interview where someone more senior, such as their line manager, conducts the appraisal.

PRP is widely used because it directly links performance with pay. According to the scientific management school, it should motivate workers to achieve the goals set for them by the organisation.

However, PRP and performance appraisal have been widely criticised for a number of reasons.

- The bonus may be too low to give workers an incentive to achieve their targets.
- Achieving the targets may have far more to do with the smooth running of machinery or technological systems, or how a group of workers perform than the performance of an individual. For example, a worker may set a goal of increasing forms processed by 5 per cent. But the number of forms she receives may depend on how many are processed by other members of her team or whether the printing machines are working smoothly. Where

teamworking is an important management tool, it is likely to be better to give bonuses based on the output of a team rather than an individual.

- Targets may be difficult or even impossible to achieve in the eyes of workers. If this is the case, then they are unlikely to make any effort to achieve them.
- Few staff see appraisal as an independent objective procedure. Staff are quite likely to put their failure to achieve a grade in an appraisal interview down to the unfairness of the interviewer. This is particularly true when there are already problems in the relationship between, say, a worker and his or her boss. Staff who do achieve highly in appraisal interviews may be seen by others as 'favourites' of the interviewer.

Failure to receive a high enough grade in the appraisal process may act as a demotivator

of staff. Instead of staff wanting to improve their performance, they may simply give up attempting to change their behaviour and attitudes. Failure to receive a PRP bonus could challenge the physiological needs of staff in Maslow's hierarchy of needs because it deprives them of money. It could also make them feel less 'loved' by the organisation, challenging their need for love and belonging. It will almost certainly knock their self-esteem.

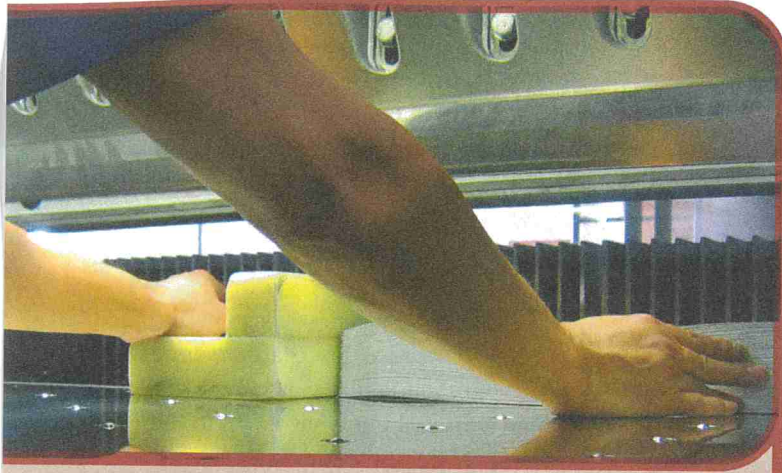
## Profit sharing

Some businesses have PROFIT SHARING schemes. In a company, profits would normally be distributed to shareholders. Profit sharing occurs when some of the profits made are distributed to workers as well as shareholders.

Profit sharing can motivate workers to achieve the objectives of the business. Shareholders want higher profits. So too do workers if they are to receive a share of them. Profit sharing therefore unites the goals of both owners and workers for extra money. Profit sharing can also be a way of showing staff that they are appreciated. In Maslow's hierarchy of needs, it may help satisfy the need for love and belonging.

However, most individual workers will have little or no control over how much profit their company makes. If they make extra effort to raise sales or reduce costs, the benefit of that extra effort will be shared between all the other workers. There is no link between individual effort and individual reward in profit sharing. Profit sharing is also unlikely to motivate financially if the amount received is fairly small.

A UK business which uses profit sharing is the John Lewis Partnership, which owns the John Lewis department stores and the supermarket chain Waitrose. The John Lewis Partnership is owned in trust for its workers. So all the profits after tax and retentions are distributed to its workers. The amount given varies according to the salary of the worker. In a good year,



## Question 2.

Nick Barnes runs a small printing company in Norwich. It prints cards, leaflets and catalogues for local businesses. It has three design staff and two staff who work as printers. The business pays all its staff the same salary, although at peak times it might ask employees to work overtime. The business is a limited company and all the shares are owned by Paul and his brother, Wes, who is the company secretary and handles the marketing.

Recently the business has expanded into printing larger posters and designs for exhibitions. Nick has asked Natalie, his longest serving employee, if she will take responsibility for this. He knows that it will be a very profitable venture and wants someone who is experienced and motivated. He is concerned, however, that if he pays her more for the work than other staff they could become demotivated.

Paul has suggested that if this area of the business expands, Natalie could be given a small part-ownership of the business. She would be allowed to buy shares and benefit in future. Nick is still concerned that others in the business may feel that they also deserve shares, as they have all worked for a number of years, although not as long, currently, as Natalie. Nick wonders whether he should involve others in exhibition design and hopes that the revenue gained will generate enough so that he can raise all wages.

- Outline one advantage and one disadvantage of Nick paying his staff overtime.
- Explain why a financial rewards system at the business can be a problem.
- Discuss whether Nick should use share ownership as a means of financial incentive.

Waitrose workers will receive a profit share handout of more than 20 per cent of their salary. This is a substantial sum. Whether it motivates John Lewis Partnership workers to work harder is debatable.

## Share ownership

Some have argued that workers would be motivated by owning a share of their business. They would then have an incentive to work hard because their efforts would contribute to profit. They would benefit from high profits because they would get part of

those profits. The value of their shares in the business would also rise if the business were successful.

There are many ways in which employees might acquire shares. One is through **save-as-you-earn schemes**. Here, employees are able to save a regular amount of money from their pay over five years. At the end of five years, they are able to buy shares in the company at the price that they were five years previously. If the share price has gone up over the five years, the saver will make a capital gain.

The granting of **share options** has become a common way of rewarding senior managers and chief executives of large companies. A member of staff is given the option to buy shares in the company at a fixed point in the future, say three years, at a price agreed today. This price may be below, above or at the same level as today's share price. Share options are supposed to be an incentive to senior management to act in a way which will raise the share price significantly. This means that senior management have the same objective as shareholders.

Share options have been controversial. Some chief executives have been able to earn millions of pounds from **exercising** their share options (i.e. buying the shares at the end of the period and then, usually, selling them immediately, make a large capital gain). But when the stock market is rising, the performance of a company can be average and still its share price will rise. So chief executives can earn large amounts even though their company has not done particularly well.

## Measured daywork

The idea of measured daywork may provide the answer to the problems of piece rate schemes. Instead of employees receiving a variable extra amount of pay depending on their output, they are paid a fixed sum as long as an agreed level of output is maintained. This should provide stable earnings and a stable output, instead of 'as much as you can, when you can, if you can'.

The first major agreement based on the principles of measured daywork was the National Power Loading Agreement in coal mining in 1966. London Docks and British Leyland both reverted to more traditional 'payment by result' methods in the late 70s. Although productivity gains may not have been great, most surveys found that measured daywork improved industrial relations and that less expenditure was spent on dealing with grievances. Furthermore, measured daywork seemed to give management a greater control over such payment schemes. In practice, the need for flexibility in reward schemes has meant that measured daywork is rarely used as an incentive scheme today.

## Profit-related pay

Profit-related pay involves employees being paid a cash 'bonus' as a proportion of the annual profits of the company. In previous years a certain amount of profit-related pay has been exempt from taxation. However, this was no longer to be the case after the year 2000. Profit-related pay has a number of

problems for employees. It is not linked to individual performance and rewards can fluctuate from year to year depending on the performance of the business.

## Incentive schemes

The pay that employees receive often reflects the nature of the job. However, some payment systems try to relate pay to the performance or commitment that an employee makes to the business, known as incentive schemes. Businesses attempt to induce high commitment and performance from employees with high pay in order to gain the maximum output.

### Incentive schemes for manual and non-manual employees

Incentive payments have been widely used in the management of manual workers in the past. Today incentives are being used for administrative workers and in service industries.

Productivity agreements are a form of bonus payment, where rewards are paid providing workers achieve a certain level of 'productivity'. They are usually agreed between employees' groups and management to 'smooth over' the introduction of new machinery or new techniques that workers need to learn. Incentive schemes fall into three categories.

- Individual schemes. Individual employees may be rewarded for exceeding a target. The benefit of this scheme is that it rewards individual effort and hence employees are more likely to be motivated by this approach.
- Group incentives. In some situations, like assembly lines, the need is to increase group output rather than individual output. Where one worker relies on the output of others, group incentives may also have benefits. They can, however, put great pressure on all group members to be productive. It can also be difficult for a new recruit to become part of the group, as existing members may feel they will have to compensate for his inexperience.
- Factory-wide schemes. Employees are given a share of a 'pool' bonus provided the plant has reached certain output targets. The benefit to management is that incentives are related to the final output rather than sections of the plant. Furthermore, in theory at least, employees are more likely to identify with the company as a whole. The difficulty with this type of scheme is that there is no incentive to work harder, as there is no direct link between individual effort and reward. Some employees who work hard may have their rewards reduced by others who do not – the same problem that arises with group incentives.

**Incentive schemes for managers and directors** Incentive schemes for managers and directors are usually linked to how well the company has performed. Share ownership schemes can be useful in motivating managers. There is evidence to suggest that management perform better if they 'own' part of a business, for example after an internal buyout. However, other research indicates that incentive schemes may not necessarily be the most important motivator at work for many managers. The Ashridge

Management Index is an indicator of managers' attitudes based on a survey of 500 middle and senior managers. When asked what motivates them, 61 per cent of managers placed challenging work first. Other high-scoring motivators included 'letting people run their own show' and 'seeing the impact of decisions on the business'. These factors, along with high basic salary (35 per cent), topped the motivation league table.

## Employer objectives for pay

There is a number of objectives employers will have when paying their workforce.

**Motivation** It has been argued that workers are motivated by money. This may be a rather simple view of workers' behaviour. Yet it is clear from the way that employers use money incentives that they believe employees react positively to the prospect of increasing their earnings. For example, many firms are attempting to link pay with performance because they believe that employees care about pay.

Employers must give consideration to any system they use. For example, if payments are made when targets are achieved, these targets must be realistic. Payment systems are often negotiated between groups, such as company representatives and trade unions.

**Cost** Employers are interested in the profitability or cost-effectiveness of their business. Any system that is used by the business must, therefore, attempt to keep the cost of labour as low as possible in relation to the market wage in that industry. This should enable the firm to increase its profits.

**Prestige** Managers often argue that it is a 'good thing' to be a good payer. Whether high pay rates earn an employer the reputation of being a good employer is arguable. What seems much more likely is that the low-paying employer will have the reputation of being a poor one in the eyes of employees.

**Recruitment and labour turnover** Payment rates must be competitive enough to ensure that the right number of qualified and experienced employees stay within the business. This will prevent a high level of labour turnover. This is also true of vacant posts. A business must pay rates which encourage the right quality and quantity of applicants.

**Control** Certain methods of payment will reduce costs and make the control of labour easier. These are examined later in this unit.

## Employee objectives for pay

Employees will have their own objectives for the payment they receive.

**Purchasing power** A worker's standard of living is determined by the level of weekly or monthly earnings. The purchasing

power of those earnings is affected by the rate of inflation. Obviously, in periods of high inflation workers are likely to seek higher wages as the purchasing power of their earnings falls. Those whose earnings fall behind the rate of inflation will face a decline in their purchasing power.

**Fair pay** Employees often have strong feelings about the level of payment that is 'fair' for a job. The employee who feels underpaid may be dissatisfied and might look for another job, be careless, or be absent a great deal. Those who feel overpaid may simply feel dishonest, or may try to justify their pay by looking busy.

**Relativities** Employees may be concerned about how their earnings compare with those of others. 'How much do I get relative to ...' is an important question for a worker. Workers with a high level of skill, or who have trained for a long period, will want to maintain high wages relative to less 'skilled' groups. Flat rate pay increases, such as £10 a week for the whole workforce, would erode differences. A 5 per cent increase would maintain the differences.

**Recognition** Most people like their contribution to be recognised. Their pay gives them reassurance that what they are doing is valued.

**Composition** Employees often take into account the way their earnings are made up. It is argued that younger employees tend to be more interested in high direct earnings rather than indirect benefits like pensions. Incentive payments are likely to interest employees who want to increase their pay. Married women and men are generally less interested in overtime payments, for example, and regard other factors more highly.

## Problems with financial rewards

There is a number of problems that financial incentives schemes have.

**Operating problems** For financial incentives to work, production needs to have a smooth flow of raw materials, equipment and storage space, and consumer demand must also be fairly stable. These conditions cannot be guaranteed for long. If raw materials did not arrive or ran out, for example, the worker may not achieve a target and receive no bonus for reasons beyond his control. If this happens the employee is unlikely to be motivated by the scheme, and may negotiate for a larger proportion of earnings to be paid as guaranteed 'basic' pay.

**Fluctuating earnings** A scheme that is linked to output must result in fluctuating earnings. This might be due to changes in demand, the output of the worker or machinery problems. As in the case above, the worker is likely to press for the guaranteed part of pay to be increased, or store output in the 'good times' to prevent problems in the 'bad'. Alternatively, workers may try to

'slow down' productive workers so that benefits are shared out as equally as possible.

**Quality** The need to increase output to gain rewards can affect quality. There is an incentive for workers to do things as quickly as possible and this can lead to mistakes. Workers filling jars with marmalade may break the jars if they work too quickly. This means the jar is lost and the marmalade as well, for fear of splinters. For some businesses, such as food processing, chemicals or drug production, errors could be disastrous.

**Changes in payment** Because of the difficulties above, employers constantly modify their incentive schemes. Improved financial reward schemes should stop workers manipulating the system and may give renewed motivation to some workers. However, constant changes mean that employees do not always understand exactly how to gain rewards.

**Quality of working life** Financial rewards based upon payment by results require a certain type of job design. This often means tight control by management, routine and repetition. The scientific management school argues that production will only be efficient if workers know exactly what to do in any situation and their activities are tightly controlled by management. The result of this is that boredom and staleness may set in and the worker's 'standard of life' at work may be low.

**Jealousy** Individual workers may be jealous of the rewards earned by their colleagues. This can lead to problems in relationships and a possible lack of motivation. Increasingly, businesses are using group or plant-wide incentives to solve this.

**Measuring performance** For incentives to work effectively it must be possible to measure performance. For example, a business must be able to measure the number of components made by a worker if she is paid a bonus after 20,000 are made a month.

**Team-based rewards** Problems may take place if rewards are based on the performance of a team, but some workers are more productive than others in the team.

Given these problems, why are financial incentive schemes still used by many firms? Managers may find a use for a certain scheme. For example, financial rewards may be used to overcome resistance to change. A business introducing new technology, such as computers, may offer an incentive for staff to retrain or spend extra time becoming familiar with the new system. Employees often see benefits in such systems of payment. They may feel that they are gaining some control over their own actions in the workplace, being able to work at their own pace if they so wish. Furthermore, many businesses believe that financial rewards ought to work as it is logical to assume that employees work harder if they are offered more money.

## KEY TERMS

**Annualised hours contracts** – a payment system based on a fixed number of hours to be worked each year, but a flexible number of hours each day, week or month.

**Blue collar (or manual) workers** – workers who do mainly physical work, like assembly line workers.

**Bonus** – an extra payment made in recognition of the contribution a worker has made to the company.

**Commission** – payment made, typically for achieving a target such as a sales target.

**Fringe benefits** – payment in kind over and above the wage or salary paid, such as a company car or luncheon vouchers.

**Overtime** – time worked over and above the basic working week.

**Payment by results** – payment methods that reward workers for the quantity and quality of work they produce.

**Performance related pay (PRP)** – a payment system, typically where workers are paid a higher amount if they achieve certain targets set for them by their employer.

**Piece rates** – a payment system where employees are paid an agreed rate for every item produced.

**Profit sharing** – where workers are given a share of the profits made by the company which employs them.

**Salary** – pay, usually of non-manual workers, expressed as a yearly figure but paid monthly.

**Time rates** – rates of pay based on an amount of time, usually per hour.

**Wages** – payments made to employees for work done, usually given weekly to manual workers.

**White collar (or non-manual) workers** – workers who do non-physical work like office workers or teachers.

## KNOWLEDGE

1. Explain the difference between payment systems frequently found for blue collar workers and white collar workers.
2. Explain the difference between piece rates and commission.
3. Why might fringe benefits motivate workers?
4. Explain the role of targets in performance related pay systems.
5. How might profit sharing schemes motivate workers?
6. Explain the difference between a save-as-you-earn scheme for buying shares and share option schemes.
7. State four employee objectives for pay.
8. State four employer objectives for pay.
9. Identify five problems of financial reward schemes.

## Research

How effective are incentive schemes according to research?

- Pearce's and others' (1985) research into merit pay amongst managers in US Social Security Administration found little effect on organisational performance. The Institute of Personnel Development (1999) suggested that managers view merit pay as having only a modest effect on employee commitment. In a study, 53 per cent said that there had been 'no change' in such commitment.
- Gerhard and Milkovich (1992) found the use of bonuses for managers had a positive effect on the rate of return on capital employed in business.
- Kruse and Weitzman (1990) found that profit sharing schemes had a positive effect on productivity and company performance, although whether such schemes led to improved performance or whether such performance allows business run such schemes is debatable.

### Question 3.

In 2007 two multimillion-pound pay deals were being put in place for the chief executives of major UK retailers. It was reported that the chief executives of WH Smith could earn £5 million as a result of a lucrative new incentive plan. Blacks Leisure appointed a new chief executive with an option package that could generate £1.8 million on top of a salary by 2011.

WH Smith said the plans had been put in place 'following concerns which had been raised by some of the company's major shareholders regarding retention of the current management team'. Under the terms of the plan, WH Smith's chief executive would be able to invest a proportion of her salary in WH Smith shares and the company would match that investment fivefold, with shares which would be handed over if targets were met over the following three years. That gave the potential to receive £3.75 million shares at current prices. Salary payments plus annual bonuses and benefits would take the total to more than £5 million.

Blacks Leisure lured its new chief executive with options over 1 million shares. The options would be payable in three equal tranches at the end of the second, third and fourth years if the share price rose above 350p, 425p and 500p respectively. The chief executive would be able to acquire the shares at about 238p, meaning his share option gains could total £1.79 million within four years. He would also be paid £300,000 a year plus bonuses.

Source: adapted from *The Guardian*, 3.12.2007.

- (a) Explain why the financial rewards in the article are examples of: (i) management incentives and (ii) performance related pay.
- (b) Why might the businesses use these management incentives?
- (c) Discuss whether a chain of five health and fitness centres in Yorkshire should introduce performance related pay for its managers.

### The need for non-financial rewards

Financial rewards have often been used in the past by firms in an attempt to motivate employees to improve productivity.

However, increasingly businesses have realised that:

- the chance to earn more money may not be an effective motivator;
- financial incentive schemes are difficult to operate;
- individual reward schemes may no longer be effective as production has become organised into group tasks;
- other factors may be more important in motivating employees.

If other factors are more important than pay in motivating workers, it is important for firms to identify them. Only then can a business make sure its workforce is motivated. Figure 1 shows some of the factors that employees might consider important in their work environment. Many of these have been identified by the **human relations approach**. A business may consider introducing non-financial incentives to help employees satisfy these needs.

### Job design and job redesign

The dissatisfaction with financial incentive schemes reached its peak in the 1960s and 1970s. In response the 'Quality of Working Life Movement' began to develop ideas which were based around the **human relations school**, as first outlined by the Hawthorne studies. It was argued that workers were likely to be motivated by non-monetary factors and that jobs needed to be **DESIGNED** or **REDESIGNED** to take these factors into

account. Five principles were put forward which any incentive scheme needed to consider.

- The principle of closure. A job must include all tasks necessary to complete a product or process. This should ensure that work is meaningful for employees and that workers feel a sense of achievement.
- Control and monitoring of tasks. Jobs should be designed so that an army of inspectors is not needed. The worker, or the team, should take responsibility for quality.
- Task variety. There should be an increase in the range of tasks that a worker carries out. This should allow job rotation to occur and keep the workers interested in their work.
- Self-regulation. Employees should have control of the speed at which they work and some choice over work methods and sequence.
- Interaction and co-operation. The job structure should allow some social interaction and the chance for an employee to work in a group.

Various methods were devised to try and put these principles into practice. They included job enrichment, job enlargement, job rotation, quality control circles and employee participation in groups. These are examined in this unit.

Poor job design may mean that employees do not achieve their full potential. This means that the firm's output may suffer as a result. For example, an architect who is constantly having her work checked for accuracy is unlikely to be as productive as possible, due to constant interruptions. Also, jobs that do not meet workers' needs are likely to lead to poor motivation,

Figure 1: Employees' needs from the work environment





Table 1: Problems of job redesign

- Employees may be familiar with the old approach to doing a job and may resent new changes. They might not want the extra duties that result from job redesign.
- Job redesign may be expensive. New methods often require extra training. In addition, redesigned jobs might lead employees to claim extra pay for new responsibilities. There is no guarantee that the redesign of jobs will increase productivity in the long term.
- The introduction of new machinery can make job redesign more difficult. Certain jobs have had to be redesigned almost totally as new technology has changed production processes. In some cases employees have had to learn totally new skills, such as when newspaper page design on computer screens replaced old methods of cutting and pasting type onto pages. At other times skills may be made redundant.
- Effects on output and productivity. Redesigned jobs need to be evaluated to gauge whether they have actually motivated the workforce to increase output.

absenteeism and a lack of quality in work. The process of redesigning existing jobs is often difficult to carry out in practice for a number of reasons, as shown in Table 1.

### Job enlargement

JOB ENLARGEMENT involves giving an employee more work to do of a similar nature. For example, instead of an employee putting wheels onto a bicycle he could be allowed to put the entire product together. It is argued that this variety prevents boredom with one repetitive task and encourages employees' satisfaction in their work, as they are completing the entire process. Job enlargement is more efficient if workers are organised in groups. Each worker can be trained to do all jobs in the group and job rotation can take place. Other forms of job enlargement include job rotation and job loading.

Critics of this method argue that it is simply giving a worker 'more of the same'. It is often called the problem of **horizontal loading** - instead of turning five screws the worker turns ten. In many businesses today such tasks are carried out more effectively by machines, where repetitive tasks can be completed quickly and efficiently without strain, boredom or dissatisfaction. It could even be argued that allowing employees to complete the entire process will reduce efficiency. This is because the fall in productivity from carrying out many tasks more than offsets any productivity gains from increased worker satisfaction.

### Job rotation

JOB ROTATION involves an employee changing jobs or tasks from time to time. This could mean, for example, a move to a different part of the production line to carry out a different task. Alternatively, an employee may be moved from the personnel to

the marketing department where they have skills which are common to both. From an employee's point of view this should reduce boredom and enable a variety of skills and experience to be gained. An employer might also benefit from a more widely trained workforce.

Although job rotation may motivate a worker, it is possible that any gains in productivity may be offset by a fall in output as workers learn new jobs and take time to 'settle in'. Worker motivation is not guaranteed if the employee is simply switched from one boring job to another. In fact some workers do not like the uncertainty that job changes lead to and may become dissatisfied. Although used by firms such as Volkswagen in the past, where employees carried out a variety of production tasks, job rotation has been less popular in the last decade.

### Job enrichment and job loading

The idea of JOB ENRICHMENT came from Herzberg's two factor theory. Whereas job enlargement expands the job 'horizontally', job enrichment attempts to give employees greater responsibility by 'vertically' extending their role in the production process. An employee, for example, may be given responsibility for planning a task, quality control, work supervision, ordering materials and maintenance.

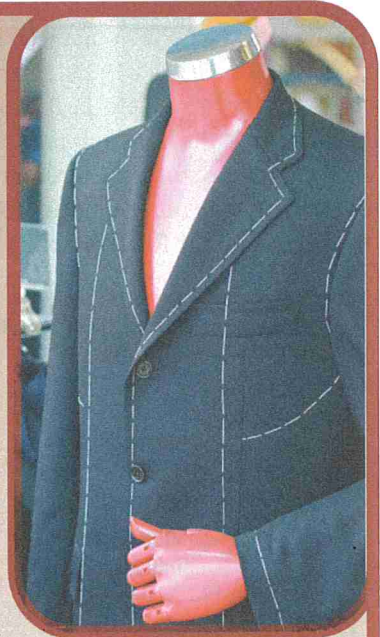
Job enrichment gives employees a 'challenge', which will develop their 'unused' skills and encourage them to be more

#### Question 1.

Instyle is a fashion design company. It has placed an advertisement on a recruitment website. Part of the advertisement included the following.

Instyle is a modern fashion design company. We want a tailor with at least one year's experience to help with making up our bespoke fashion designs. The main duties will include making up clothing such as suits, shirts, dresses and trousers, including sewing parts together, adding buttons and pressing. You will also work as part of a small team dealing directly with customers. This will involve measuring clients, making a draft of a master pattern and altering patterns to fit customers.

- Explain the term 'job design' using an example from the advertisement.
- How might the business be making use of job enlargement?
- Discuss how the business might make use of job enrichment techniques.



## Non-financial methods of motivation

productive. The aim is to make workers feel they have been rewarded for their contribution to the company. Employees will also be provided with varied tasks, which may possibly lead to future promotion. It is not, however, without problems. Workers who feel that they are unable to carry out the 'extra work', or who consider that they are forced into it, may not respond to incentives. In addition, it is unlikely that all workers will react the same to job enrichment. Trade unions sometimes argue that such practices are an attempt to reduce the labour force, and disputes about the payment for extra responsibilities may arise. In practice, job enrichment has been found to be most successful in administrative and technical positions.

**Job loading** is where workers are given extra tasks when colleagues are off sick or if they have left and not been replaced. It can be particularly important in manufacturing, where absence can disrupt an assembly line for example.

## Empowerment

Delegated decision making can be more successful if employees were empowered. EMPOWERMENT of employees involves a number of aspects.

- Recognising that employees are capable of doing more than they have in the past.
- Making employees feel trusted, so that they can carry out their jobs without constant checking.
- Giving employees control of decision making.
- Giving employees self confidence.
- Recognising employees' achievements.
- Developing a work environment where employees are motivated and interested in their work.

Many businesses now recognise the need to empower employees. There is a number of advantages of this for a business and for employees.

- Employees may feel more motivated. They feel trusted and feel that businesses recognise their talents. This should improve productivity and benefit the business in the long term, for example by reducing absenteeism.
- Employees may find less stress in their work as they have greater control over their working lives. This could reduce illness and absenteeism.
- Decisions may be made by those most suited to make them. Also, employees may feel less frustrated that senior staff who are less equipped to make decisions are making them.
- There may be greater employee skills and personal development.
- Businesses may be able to streamline their organisations and delegate decision making.
- Workers may feel less frustrated by more senior staff making decisions which they feel may be incorrect.

However, empowerment is sometimes criticised as simply a means of cutting costs and removing layers from the business. Passing decision making down the hierarchy might allow a company to make managers redundant. Employees are given more work to do, but for the same pay. Some businesses argue that they want to empower workers, but in practice they are unable or

## Question 2.

St Luke's Communications is a London Advertising Agency owned by its staff. It was formed on St. Luke's day 1995 and has expanded from 35 to 75 staff. It is renowned for its innovative approach to stimulating staff. Teams are a core part of what the advertising agency does. People can sit anywhere and work anytime, but it is their personal responsibility to see that their behaviour doesn't damage the team. In a more traditional structure, empowerment means the handing down of power. If the organisation is owned by everyone, then everyone can 'rise to true freedom from the concepts of authority and power'. Asserting power would seriously damage this concept, so that discipline is through peers, not from above.

Staff are encouraged to contribute to projects other than those to which they have been specifically assigned. Everyone has the right to stumble into meetings. At meetings staff can mention incomplete ideas. It is argued that such thoughts may inspire others. There is also no owned space. Computers are available to all, and if there are not enough to go around, staff may bring in their own. It has been suggested that business has a turnover rate of around 10 per cent, although only around 1 per cent go to competitors. A turnover rate of 25 per cent is typical for advertising agencies.

Source: adapted from [www.flexibility.co.uk](http://www.flexibility.co.uk), [harvardbusinessonline.com](http://harvardbusinessonline.com), [www.fastcompany.com](http://www.fastcompany.com), *The Sunday Times*.

- Using examples from the article, explain how the business motivates employees.
- Explain how this will benefit (i) employees and (ii) the business.

unwilling to do this. For example, a manager may feel insecure about subordinates making decisions that might affect his position in the business. Feeling that they may 'make the wrong decision' might lead to constant interruptions which are counter-productive. A further problem is the cost involved to the business, such as the cost of training employees or changing the workplace.

## Team working

The Swedish car firm Volvo is a well quoted example of a company that has effectively introduced 'teamwork'. In both its plants at Kalmar and Uddevalla, it set up production in teams of eight to ten highly skilled workers. The teams decided between themselves how work was to be distributed and how to solve problems that arise. It is arguable whether these practices led to an increase in productivity, but the company firmly believed that this method of organisation was better than an assembly line system. A similar system has been used at Honda UK. Team working has a number of benefits.

- Productivity may be greater because of pooled talents.
- People can specialise and draw on the skills and knowledge of others in the team.
- Increasingly businesses are finding that the abilities of teams are needed to solve difficult business problems.
- Responsibility is shared. People may be more prepared to take risks.
- Ideas may be created by brainstorming.
- It allows flexible working.

However, in practice team work does not always produce the desired results. Part of the problem may lie in the way teams are organised. Members may fail to work well together for several reasons, from lack of a sense of humour to clashing goals. Studies of teams in the US have shown a number of problems with team work.

- Too much emphasis on harmony. Teams probably work best when there is room for disagreement. Papering over differences sometimes leads to vague or bland recommendations.
- Too much discord. Tension can destroy team effectiveness.
- Poor preparation. It is important that team members prepare for meetings by focusing on the facts. Members should have a detailed knowledge of the issues at hand and all work with the same information.
- Too much emphasis on individualism. For example, teams may fail to deliver results if the emphasis of the company is placed on individualism.
- A feeling of powerlessness. To work well, teams must be able to influence decisions.
- The failure of senior management to work well together. This creates problems because team members may walk into meetings with different priorities.
- Meeting-itis. Teams should not try to do everything together. Too many meetings waste the team's time.
- Seeing teams as the solution for all problems. Some tasks are better accomplished by individuals, rather than groups.

### Quality control circles

QUALITY CONTROL CIRCLES or QUALITY CIRCLES are small groups of workers (about 5-20) in the same area of production who meet regularly to study and solve production problems. In addition, such groups are intended to motivate and involve workers on the shopfloor. Unlike job enlargement and job enrichment, they allow the workforce directly to improve the nature of the work they are doing.

Quality control circles started in America, where it was felt workers could be motivated by being involved in decision making. The idea gained in popularity in Japan and was taken up by Western businesses. Examples of their use can be found in Japanese companies setting up plants in the UK in the 1990s. Honda at Swindon has had 52 teams of six people looking at improvements that can be made in areas allocated to the groups, for example, safety.

Quality control circles are only likely to work if they have the support of both management and employees. Businesses have to want worker participation and involvement in decision making, and set up a structure that supports this. Workers and their representatives also need to support the scheme. Employees must feel that their views within the circle are valued and must make a contribution to decisions.

### Multiskilling

MULTISKILLING is a term used to describe the process of

enhancing the skills of employees. It is argued that giving individuals the skills and responsibilities to deal with a greater variety of issues will allow a business to respond more quickly and effectively to problems. So for example, a receptionist might have been trained to pass on calls to other people in a business. Multiskilling this job could mean that the receptionist now deals with more straightforward enquiries himself. This would result in a quicker response to the customer's enquiry. It would also free up time for other people to work on more demanding activities.

Certain motivation theories suggest that giving individuals more skills and responsibilities can improve their work performance. A criticism of multiskilling is that individuals are only given more skills so that they are expected to work harder without any extra pay. Problems may also result if workers are not trained adequately for their new roles.

### Achieving a work-life balance

Recently there has been a stress on the need for employers to deal with the work-life balance of employees. Life is becoming faster and more complex, but without the support of communities or extended families. It is suggested that unless employers are sympathetic and supportive of employees' external needs, there could be an increase in health related absences such as stress. This could affect the operation and efficiency of the business.

### Organisational structure, financial and non-financial rewards

There is a link between the motivational techniques used by managers in business and the organisational structure of a business. For example, a business with a traditional and rigid hierarchy will often make use of financial rewards. Each level of the hierarchy will have an associated level of financial reward, which is clear to employees in the organisation. Employees can see this and be motivated into working to achieve promotion or move through the levels of the business.

In a hierarchy non-financial rewards may also be motivating in certain circumstances. As workers achieve a certain living standard with which they are comfortable, they may find that other factors are more motivating, such as the ability to make their own decisions or to have flexibility in their work. These factors can be motivating for higher level posts. Job enrichment and empowerment further down the hierarchy may also be motivating to employees, especially if their jobs are repetitive and boring. However, a manager must take care when empowering workers as not all employees want to or feel able to take extra responsibility.

In other forms of organisational structure non-financial rewards may be particularly motivating. For example, in a matrix structure workers are working in teams. The support of other members of the team or respect from colleagues may be important as a motivation factor. Managers may have to generate a sense of team belonging to motivate staff. In an independent structure the ability to make decisions is likely to be very motivating to employees.

## Employee involvement schemes in practice

The non-financial methods so far in this unit are examples of EMPLOYEE INVOLVEMENT SCHEMES. They can be categorised according to how involved employees are. For example, in teamworking employees are encouraged to extend the range and type of tasks undertaken at work. Employees are less involved perhaps through quality circles. This is an example of an upward problem solving scheme, designed to tap into employee's knowledge and opinions. However, studies seem to indicate that downward communication schemes are more popular. They are designed to inform and educate employees and include informal and formal communication. The level of active employee involvement here tends to be minimal. Surveys have shown that employee involvement schemes have been increasingly used by UK businesses over the last 20 years. But they have had problems. Sometimes they contradict each other and they are rarely part of a human resource strategy. Managers often lack the enthusiasm and commitment and many employers have not given enough time and resources to training supervisors to run them.

## Goal setting and management by objectives

Goal setting is part of a more general theory of management by objectives (MBO). MBO was put forward by Peter Drucker in 1954 and is covered in the unit titled 'Management and Leadership'. It suggests that a business should define objectives or targets for an individual to achieve and revise those targets after assessing the performance of the worker. In 1984 Ed Locke wrote *Goal Setting: A motivational technique that works*. According to Locke, the idea that in order to improve job performance you need to motivate workers by making jobs more satisfying is wrong. He argued that satisfaction comes from achieving specific goals. In addition, the harder these goals are, the greater the effort and satisfaction. His message was for businesses to set specific goals that people can achieve and that have been negotiated. 'Do your best', he argued, is not specific. Employees must also have feedback on the progress they are making and then they will perform. The assumption behind the theory is that people will do what they say they will do, and then will strive hard to do it.

## Organisation behaviour modification

Businesses have used the theory of organisation behaviour modification (OBMod) with management by objectives when motivating employees. OBMod assumes that workers' behaviour is determined by the consequences of their actions. For example, a worker who receives a reward as a result of increasing productivity is likely to work harder. Similarly, workers try to avoid behaving in ways that produce no reward or lead to punishment.

OBMod is based on the work of psychologists such as Thorndike and Skinner, who argue that since we cannot observe people's attitudes we should observe their behaviour. Managers

should therefore observe how employees' behaviour is affected by the consequences of their actions. These consequences can be broken down into four categories.

- The employee receives something he likes.
- Something the employee dislikes is taken away.
- Something the employee likes is taken away.
- Something the employee dislikes is given.

The first two categories are known as **reinforcers**, as they lead to an increase in the behaviour that precedes them. If a junior manager gives a good presentation and receives praise (something he likes), then the behaviour that resulted in praise (the good presentation) will be reinforced. This is an example of positive reinforcement. If something the employee dislikes is taken away, this is called **negative reinforcement**.

The other two categories are kinds of **punishment**. They tend to reduce the behaviour that precedes them. For example, if a worker is constantly late and is fined (something he dislikes), he may try to reduce the number of times he is late. Examples of positive reinforcement include:

- employees in Xerox's personnel department being given 'X certificates' to pass to others in the company that they felt deserved reward. Each certificate was redeemable for \$25;
- passengers being given coupons on American Airlines which they can pass on to staff who they feel deserve recognition;
- an American factory in Mexico where 15 per cent of the workforce arrived late. Management decided to reward good timekeeping by paying workers two pesos (16 cents at the time) a day extra if they started work early. Lateness fell from 15 per cent to 2 per cent, at little extra cost to the company.

## Employee assistance programmes

Employee assistance programmes (EAPs) started in America in the 1950s. They began to appear in the UK in the 1990s. These schemes have been developed to help staff cope with difficulties. They may include help in areas such as drug and alcohol rehabilitation, abusive households, career planning and financial advice, housing and relocation, retirement planning; child or elder care, legal aid and advice, grief and loss of relatives and friends and workplace stress. An EAP usually consists of confidential counselling on an issue for employees and their families, paid for by employers. Employers are aware that life for individual employees is becoming more demanding. They recognise that if they want to motivate employees, they need to provide support services that cater for their more general needs. Sometimes such services are provided directly by employers, but it is more common to use a third-party supplier. Staff can then be assured of privacy and neutrality.

## KEYTERMS

**Employee involvement schemes** – systems used to motivate employees through their participation in decision making of the business.

**Empowerment** – to give official authority to employees to make decisions and control their own activities.

**Job design** – the process of organising the tasks and activities required to perform a job.

**Job redesign** – changing the tasks and activities of a job, perhaps in an attempt to motivate workers.

**Job enlargement** – giving an employee more work to do of a similar nature.

**Job enrichment** – an attempt to give employees greater responsibility and recognition by ‘vertically’ extending their role in the production process.

**Job rotation** – the changing of jobs or tasks from time to time.

**Multiskilling** – the processes of enhancing the skills of employees.

**Teamworking** – Employees working in small groups with a common aim.

**Quality control circles or Quality circles** – small groups of workers in the same area of production which meet regularly to study and solve all types of production problems.

## KNOWLEDGE

1. State five possible non-financial rewards that may be an incentive for individuals.
2. What principles would a ‘good’ job have according to the ‘Quality of Working Life Movement’?
3. State four methods of job redesign.
4. ‘Job enlargement is simply a method of horizontal loading.’ Explain this statement.
5. Under what circumstances might job rotation not lead to an increase in productivity?
6. Suggest four problems of working in teams.
7. Why is job enrichment said to extend an employee’s role in the firm vertically?
8. What are the advantages to an employee of quality control circles?
9. State three features of empowerment.
10. What is meant by achieving a work-life balance?
11. Show, using an example, how positive reinforcement can motivate a worker.
12. Why might a business have an employee assistance programme?

### Case Study: Zinx

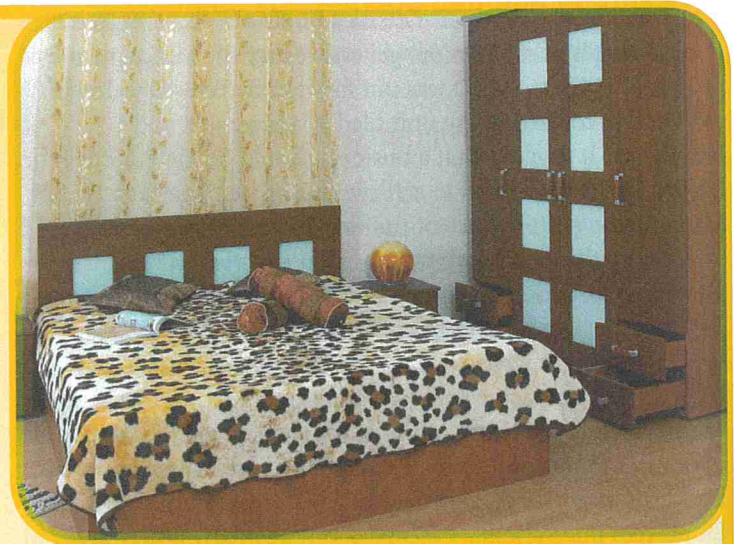
Zinx is an independent boutique hotel and restaurant in the South East of England. It employs 60 staff. It has always had a very traditional organisation with senior managers, departmental managers, supervisors, head waiters, bar staff, cleaners and administrators. It has read the following article about staff in independent hotels and is considering changing its operations to increase staff motivation.

‘Empowerment is a frequently used buzzword, not just in the hospitality industry. Empowerment means staff can make decisions. If hotels want to remain successful, they need to be driven by their staff on customer service. Independent hotels have to go “above and beyond” and work harder in a competitive environment. This helps to ensure survival through a high percentage of repeat business, while fostering growth of new clients.

Guests appreciate dealing with people who are empowered. The last thing an arriving guest needs is to be given the runaround, going through “layers” of management to get what they need. Empowerment means, rather than becoming defensive, staff assume accountability mistakes and put them right.

Essential to empowerment is the practice of “trust, but verify”. A balance is necessary because empowerment can backfire especially in the wrong application or misguided interpretation. Owners and managers cannot give responsibility to staff without empowering them. But attention should be given to training staff to be ensure empowerment works. Empowerment can work against you if you have a staff member too empowered without direction.

In the hotel industry employees should be seen as part of a team. The terms employee and management create divisions. Such a divide in organisational structure does not foster a sense of teamwork. It’s a



“them and me” situation rather than a “we or us”. Terms such as staff member illustrate better and reinforce working together. This creates a culture of “leadership teamwork” for the staff working with guests. Having fluid organisational structures reduce levels of management, separating President/CEO/General Manager from guests. The more layers you have, the more distant you remain from the guest and from the pulse of the staff.’

Source: adapted in part from [www.hotelinteractive.com](http://www.hotelinteractive.com).

- (a) Explain the meaning of the terms (i) empowerment (3 marks) and (ii) teamwork (3 marks).
- (b) Explain TWO ways in which the organisation at Zinx might change to help motivate employees. (6 marks)
- (c) Explain how greater empowerment at Zinx can affect (i) employees, (ii) clients and (ii) the business. (8 marks)
- (d) Discuss whether Zinx should increase empowerment at the business. (12 marks)