

4.4.5: Influencing Employee Performance and Motivation

How do companies use rewards strategies to influence employee performance and motivation?

Both performance management and rewards systems are key levers that can be used to motivate and drive individual and group performance ... which leads to overall organizational performance, productivity, and growth. Performance and rewards systems are also “cultural” in that they provide a glimpse into the way a company manages the performance (or nonperformance) of its employees, and to what extent they are willing to differentiate and reward for that performance. There has been a great deal of discussion over the years to identify best practices in the ways we differentiate and reward employees, which will also drive employee performance and motivation.

Before we can talk about best practices and findings in rewards and motivation systems, we must first define the terms. Rewards systems are the framework that an organization (generally via human resources) creates and manages to ensure that employee performance is reciprocated with some sort of reward (e.g., monetary or other extrinsic) that will drive and motivate the employee to continue to perform for the organization. Rewards programs consist primarily of compensation programs and policies, but can also include employee benefits and other extrinsic rewards that fulfill employee needs.

Within human resource management, the primary focus of a rewards program in an organization is to successfully implement a compensation system. Most organizations strive to implement a **pay-for-performance** compensation program that offers competitive pay in the marketplace and allows differentiation of compensation based on employee performance. Pay for performance begins with a philosophy that an organization adopts that states that they seek to reward the best-performing employees to enhance business performance and take care of those who can have the greatest impact.

In the 2011 SHRM article by Stephen Miller, entitled “Study: Pay for Performance Pays Off,” Miller says that companies’ top four drivers for moving to a pay-for-performance strategy are to:

- Recognize and reward high performers (46.9%)
- Increase the likelihood of achieving corporate goals (32.5%)
- Improve productivity (7.8%)
- Move away from an entitlement culture (7.8%)

The study also showed that the drivers differed depending on whether the company was high performing or lower performing. Almost half of high-performing organizations indicated that recognizing and rewarding top performers was the main driver of their pay-for-performance strategy, making it number one on the list of primary drivers. Lower-performing organizations did not appear to be as sure about the drivers behind their strategy. The number one driver among this group was achieving corporate goals. It appears that those top-performing organizations that implement a pay-for-performance strategy truly believe in the idea of differentiating among different levels of performance.

According to the 2015 World at Work “Compensation Programs and Practices Report,” pay for performance continues to thrive with better than 7 in 10 (72%) companies saying that they directly tie pay increases to job performance, and two-thirds (67%) indicating increases for top performers are at least 1.5 times the increase for average performers. In addition, the results of the survey seem to indicate that employees’ understanding of the organization’s compensation philosophy improves when there is higher differentiation in increases between average and top performers. The greater differentiation of increases is more visible and drives home the point that the company is serious about pay for performance.

A pay-for-performance program may have many components, and the human resources organization has the challenge of designing, analyzing, communicating, and managing the different components to ensure that the philosophy and the practices themselves are being carried out appropriately and legally. Human resource management’s role in establishing pay for performance is that HR must engage business leadership to establish the following elements of the framework:

1. Define the organization’s pay philosophy. Leadership needs to agree that they will promote a culture that rewards employees for strong performance.
2. Review the financial impacts of creating pay-for-performance changes. How much differentiation of performance will we have? What is the cost of doing this?
3. Identify any gaps that exist in the current processes. If any of the current human resources and compensation policies conflict with pay for performance, they should be reviewed and changed. Examples may lie in the performance management process, the merit increase process, and the short-term and long-term bonus processes. If the performance management process has gaps, these should be corrected before pay for performance is implemented; otherwise this will generate more distrust in the system.

The salary structure should also be benchmarked with market data to ensure that the organization is compensating according to where it wishes to be in the marketplace.

4. Update compensation processes with new pay for-performance elements. This includes the design of a **merit matrix** that ties employee annual pay increases to performance. Other areas of focus should be the design of a short-term bonus matrix and a long-term bonus pay-for-performance strategy. In other words, how does performance drive the bonus payouts? What is the differential (or multiplier) for each level?
5. Communicate and train managers and employees on the pay for-performance philosophy and process changes. Explain the changes in the context of the overall culture of the organization. This is a long-term investment in talent and performance.

Human resource management professionals play a key role in the rewards processes, and employee compensation is only one piece (although a key piece!) of the “total rewards” pie. World at Work defines *total rewards* as a “dynamic relationship between employers and employees.” World at Work also defines a **total rewards strategy** as the six elements of total rewards that “collectively define an organization’s strategy to attract, motivate, retain and engage employees.” These six elements include:

- Compensation—Pay provided by an employer to its employees for services rendered (i.e., time, effort, and skill). This includes both fixed and variable pay tied to performance levels.
- Benefits—Programs an employer uses to supplement the cash compensation employees receive. These health, income protection, savings, and retirement programs provide security for employees and their families.
- Work-life effectiveness—A specific set of organizational practices, policies, and programs, plus a philosophy that actively supports efforts to help employees achieve success at both work and home.
- Recognition—Formal or informal programs that acknowledge or give special attention to employee actions, efforts, behavior, or performance and support business strategy by reinforcing behaviors (e.g., extraordinary accomplishments) that contribute to organizational success.
- Performance management—The alignment of organizational, team, and individual efforts toward the achievement of business goals and organizational success. Performance management includes establishing expectations, skill demonstration, assessment, feedback, and continuous improvement.
- Talent development—Provides the opportunity and tools for employees to advance their skills and competencies in both their short- and long-term careers.

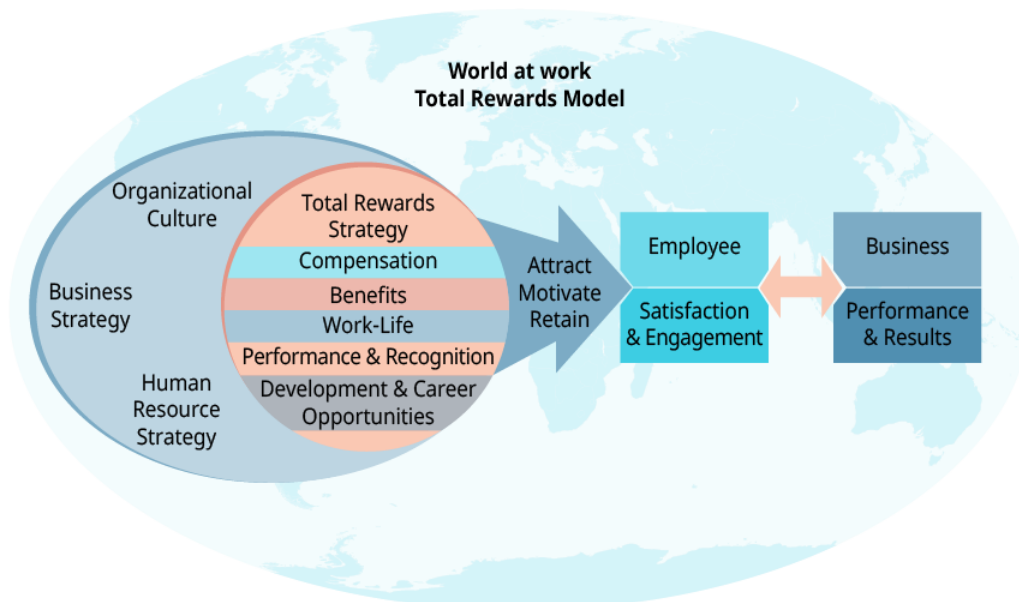


Figure 4.4.5.1 **Total Rewards Model, World at Work** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Human resource management is responsible for defining and driving the various elements of an organization’s total rewards strategy and ensuring that it is engaging enough to attract and retain good employees. It is easy to see that there are many different types of rewards that can motivate individuals for many different reasons. In the HBR article “Employee Motivation: A Powerful New Model” (Nohria, Groysberg, Lee), August 2008, the authors describe four different drives that underlie motivation. They

assert that these are hardwired into our brains and directly affect our emotions and behaviors. These include the drives to acquire, bond, comprehend, and defend. Table 4.4.5.1 illustrates each of these drives, the primary levers found in an organization to address those drives, and the actions that should be taken to support the primary levers.

Table 4.4.5.1 (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Hiring Top-Level Executives			
Steps in the Process	Poor Practices	Best Practices	Challenges
Anticipate.	Hiring only when you have an opening Poor succession plan Not anticipating future needs	Conduct ongoing analysis of future needs. Always evaluate the pool of potential talent.	Linking the talent plan to the strategic plan Incorporating HR into the strategic planning process
Specify the job.	Relying on generic job specifications	Continually defining the specific demands of the job Specifying specific skills and experience requirements	Dialogue between HR and top management
Develop a pool.	Limiting the pool Only looking for external or internal candidates	Develop a large pool. Include all inside and outside potential candidates.	Breaking organizational silos
Assess the candidates.	Don't pick the first OK choice. Don't only use your "gut."	Use a small pool of your best interviewers. Conduct robust background checks.	Training senior managers on interviewing techniques
Hire the choice.	Don't assume money is the only issue. Don't only discuss the positives of the job.	Show active support of the candidates' interests. Realistically describe the job. Ensure that offered compensation is fair to other employees.	Getting commitment of top managers Ensuring compensation equity
Integrate the new hire.	Don't assume that the new hire is a "plug and play."	Use a "top performer" as a mentor. Check in often early in the process even if no problems seem imminent.	Rewarding mentors
Review the process.	Don't hang on to bad hires.	Remove bad hires early on. Review the recruiting practices. Reward your best interviewers.	Institutionalizing audit and review practices Admitting mistakes and moving on

Adapted from "The Definitive Guide to Recruiting in Good Times and Bad," from article "Hiring Top Executives: A Comprehensive End-to-End Process," Harvard Business Review, May 2009.

The drive to acquire describes the notion that we are all driven to acquire scarce goods that bolster our sense of well-being. This drive also seems to be relative (we compare ourselves to others in what we have) and insatiable (we always want more). Within an organization, the primary lever to address this drive is the reward system, and the actions are to differentiate levels of performance, link performance to rewards, and pay competitively.

The drive to bond describes the idea that humans extend connections beyond just individuals, to organizations, associations, and nations. In organizations, this drive is fulfilled when employees feel proud to be a part of the company and enjoy being a member of their team. Within an organization, the primary lever to address this drive is culture, and the actions are to foster mutual reliance and friendships, to value collaboration and teamwork, and to encourage best practice sharing.

The drive to comprehend is the concept of all of us wanting to make sense of the world around us and producing different theories and accounts to explain things. People are motivated by the idea of figuring out challenges and making a contribution. In organizations, the primary lever to address this drive is job design, and the actions are to design jobs that have distinct and important roles in the organization, as well as jobs that are meaningful and foster a sense of contribution.

The drive to defend is our instinct to defend ourselves, our families, and our friends, and it describes our defensiveness against external threats. This drive also tells us a lot about our level of resistance to change, and why some employees have especially guarded or emotional reactions. In organizations, the primary levers that address this drive are performance management and resource-allocation processes, and the actions are to increase process transparency and fairness, and to build trust by being just in granting rewards, assignments, and other recognition.

Within human resource management, the area of compensation and reward systems is exceedingly complicated. In organizations, we think primarily of compensation rewards, which are very important drivers and motivators for most people. We need to also remember the other aspects of the total rewards strategy, as well as the drives and levers we can utilize to motivate employees.

concept check

1. What is the first step in defining an organization's pay-for-performance strategy?

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