Chapter ⊃ 12

Reward

Chapter Highlights

What is Reward, Types of Rewards, Qualities of Effective Rewards, Criteria On Which Rewards Can Be Distributed, Questions to Answer, Indicate True or False.

12.1 What is Reward

Pay off for efficient and effective performance may be regarded as reward. The most obvious reward employees get from work is pay, and we will spend the major part of this chapter addressing pay as a reward. However, rewards also include promotions, desirable work as signments, and a host of other less obvious payoffs—a smile, acceptance by a peer, a covert or overt implication that you are doing a good job, or a kind word of recognition.

Pay off for efficient and effective performance may be regarded as reward.

Rewards are quite related to expecteny theory of motivation : since people behave in ways that they believe are in their best interests, they constantly look for payoffs for their efforts. They expect good job performance to lead to organizational rewards, and they further seek rewards that will satisfy their individual goals or needs.

Organizations, then, use rewards to motivate people. They rely on rewards to motivate job candidates to join the organization. They certainly rely on rewards to get employees to come to work and perform effectively once they are hired.

Organizations use rewards to motivate people.

12.2 Types of Rewards

There are a number of ways to classify rewards. Three of the more typical dichotomies are: intrinsic versus extrinsic rewards, financial versus nonfinancial rewards, and performance-based versus membership-based rewards. These categories are far from being mutually exclusive.

1. Intrinsic versus Extrinsic Rewards : The satisfactions one gets from the job itself are its intrinsic rewards. These satisfactions are self-initiated rewards, such as having pride in one's work, having a feeling of accomplishment, or being part of a team. The techniques of flex time, job enrichment, shorter work-weeks, and job rotation, can offer intrinsic rewards by providing interesting and challenging jobs and allowing the employee greater freedom.

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On the other hand extrinsic rewards include money, promotions, and fringe benefits. Their common thread is that extrinsic rewards are external to the job and come from an outside source, mainly, management.

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Thus, if an employee experiences feelings of achievement or personal growth from a job, we would label such rewards as intrinsic. If the employee receives a salary increase or a write-up in the company magazine, we would label those rewards as extrinsic.

While we have stressed the role of extrinsic rewards in motivation, we should point out that intrinsic and extrinsic rewards may be closely linked.

2. Financial versus Nonfinancial Rewards : Rewards may or may not enhance the employee's financial well-being. If they do, they can do this directly—through wages, bonuses, profit sharing, and the like; or indirectly—through supportive benefits such as pension plans, paid vacations, paid sick leaves, and purchase discounts.

Nonfinancial rewards emphasize making life on the job more attractive.

Nonfinancial rewards are potentially at the disposal of the organization. They do not increase the employee's financial position. Instead of making the employee's life better off the job, nonfinancial rewards emphasize making life on the job more attractive.

The old saying "one man's food is another man's poison" applies to the entire subject of rewards, but specifically to the area of nonfinancial rewards. What one employee views as "something I've always wanted," another finds superfluous. Therefore care must be taken in providing the "right" nonfinancial reward for each person; yet where selection has been done assiduously, the benefits to the organization should be impressive.

Some workers are very status conscious. An attractive office, a carpeted floor, a large executive desk, or a private bathroom may be just the office furnishing that stimulates an employee toward top performance. Similarly, status-oriented employees may value an impressive job title, their own business cards, their own secretary, or a well-located parking space with their name clearly painted underneath the "Reserved" sign.

3. Performance-Based versus Membership-Based Rewards : The rewards that the organization allocates can be said to be based on either performance criteria or membership criteria. While the managers in most organizations will vigorously argue that their reward system pays off for performance, you should recognize that this is almost invariably not the case. Few organizations actually reward employees based on performance. However, without question, the dominant basis for reward allocations in organization is membership.

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Performance-based rewards are examplified by the use of commissions, piecework pay plans, incentive systems, group bonuses, or other forms of merit pay plans. On the other hand, membership-based rewards include cost-of-living increases, profit sharing, benefits, and salary increases attributable to labor-market conditions, seniority or time in rank, credentials (such as a college degree or a graduate diploma), or future potential (the recent M.B.A. from a prestigious university). The demarcation between the two is not always obvious. For instance, company-paid membership in a country club or use of company-owned automobiles by executives may be given for membership or performance. If they are available to, say, all middle and upper-level executives, then they are membership based. However, if they are made available selectively to certain managers based on their performance rather than their "entitlement," which, of course, implies they can also be taken away, we should treat them as perforamnce-based rewards for those who might deem them attractive.

For practical purposes, we need to break membership-based rewards into two groups. One group is made up of benefits and services that go to all emplolyees regardless of their performance level. All nurses at a certain hospital, for instance, get ten days' sick leave, taka 2,00,000.00 worth of life insurance, paid hospitalization coverage, and a host of other benefits and services regardless of whether they do an outstanding job or a barely acceptable one. Because benefits and services are explicitly acknowledged to be allocated on the basis of membership, we will call them explicit membership-based rewards. All the other membership-based rewards will be thrown into the second group which we will call implied. You may wonder why the need to differentiate two groups?

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We have separated the membership-based rewards into two groups to clarify what is often confusing in practice. Most organizations treat benefits and services as the only membership-based rewards. All other rewards are traditionally treated as performance based. This, of course, is both incorrect and misleading labeling. In practice, perforamnce is only a minor determinant of rewards. This is true despite academic theories holding that high motivation depends on performance-based rewards. In practice, a lot of lip service is given to the value of good job performance, but the organization's rewards do not closely parallel employee performance.

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In summary, you should recognize that there are performance-based rewards; there are explicit membership-based rewards, which we call benefits and services; and there are implied membership-based rewards. Practicing managers often call the latter group "performance based," but they are not.

12.3 Qualities of Effective Rewards

We can identify qualities that an effective reward system should have. Research indicates that rewards work best when they are individualized to reflect differences in what employees consider important, are perceived as

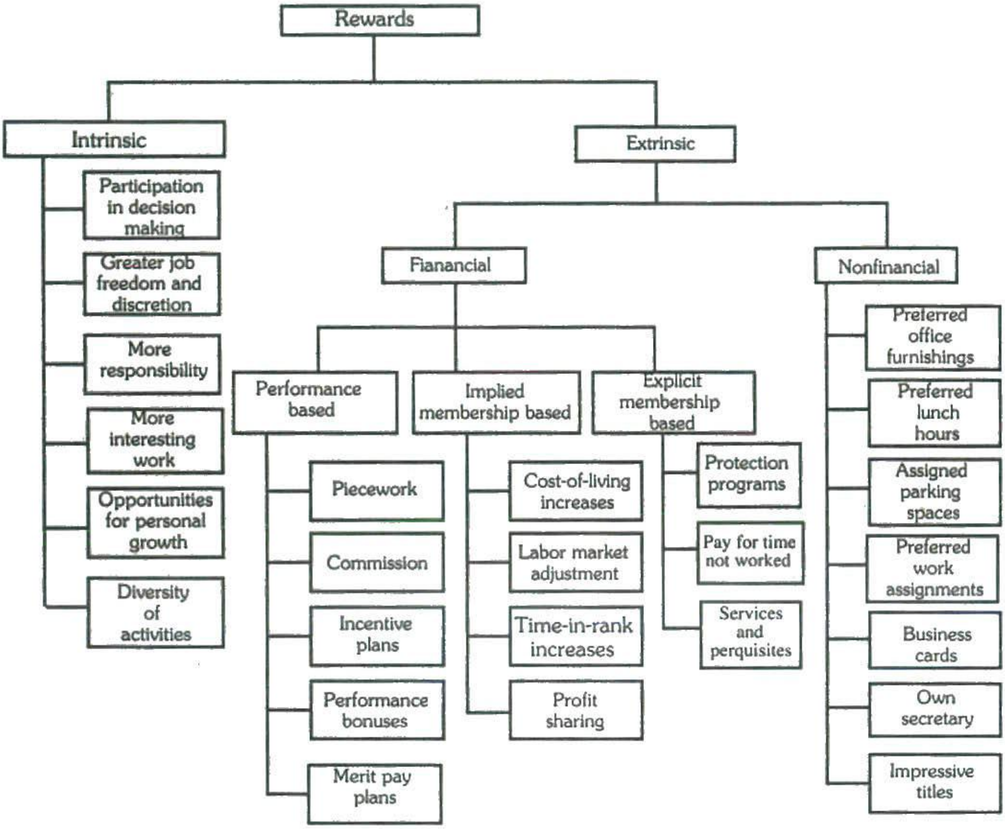

Figure 12.1 Structure of Rewards

equitable, are visible and flexible, and can be allocated at a relatively low cost. We will expand on each of these properties.

No particular reward is universally important to all employees.

1. Importance : No particular reward is universally important to all employees. Money, for example, can have a very different meaning to different people. It may represent basic security and love, power, a measure of one's achievements, or merely the means to a comfortable life style. To some employees, a taka 1000.00 a month pay raise would be very important. Other employees, in the same job and at the same salary level, might far prefer an extra week of vacation.

This difference among employees was substantiated in a study undertaken at a public utility in the U.S.A. One hundred and fifty employees were asked to rank their preference for rewards. It was found that the employees, in general, rated extra vacation as most preferred, followed by pay, a pension increase, paid family dental insurance, early retirement, and work schedule rearrangements, in decreasing order. But this ranking varied among different employee groups. For instance, the preference for the dental plan decreased with age, while desire for more pension benefits increased. Married employees also valued the dental plan far more than single employees, and this preference increased with the number of dependents.

Research indicates that the preference for rewards will be significantly affected by age, marital status, and the number of children the employee has. It should not surprise you to find that young unmarried men desire more time off the job and young married men rated more vacation lower than family health coverage; or that older employees seek increased retirement benefits while younger workers opt for more eash.

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In expectancy theory terms, motivation is optimized when employees see rewards satisfying their individual needs. Therefore a good reward system should be designed to offer heterogeneous rewards to a heterogeneous labor force. Employees should be rewarded with what they individually consider important.

2. Equitable distribution : Employees desire rewards that are distributed in what seems to be an equitable manner. This means fairness among the organization's employees and fairness relative to what people get for doing a similar job in another organization. Equity theory has been proposed to explain what happens when individuals perceive an imbalance between what they put into a job and what they get out of it relative to other's give and get ratio.

It is no secret that employees make comparisons between themselves and their peers. Employees perceive what they get from a job situation (outcomes) in relation to what they must put into (inputs). They also compare their input-outocme ratio with the input-outcome ratio of their peers. If a person's ratio and that of others are perceived to be equal, a state of equity is said to exist. If they are unequal, inequity exists. That is, the individual views himself or herself as underrewarded or overrewarded. equity theory argues that when an inequity is seen as aversive, the individual will attempt to correct it.

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Evidence indicates that the referent chosen by the employee is an important variable in equity theory. The three referent categories have been classified as "other," "system," and "self." The "other" category includes other individuals with similar jobs in the same organization, as well as friends, neighbors, or professional associates. Based on information that employees receive through word of mouth or through newspapers and magazines on such issues as executive salaries or a recent union contract, employees can compare their pay relative to that of others.

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The "system" category considers organizational pay policies and procedures, and the administration of this system. It considers organizationwide, implied and explicit, pay policies. Organization precedents in terms of allocation of pay would be a major determinant in this category.

The "self" category refers to input-outcome ratios unique to the individual that differs from the individual's current input-outcome ratio. This category is influenced by such criteria as past jobs or commitments that must be met in terms of family role.

The choice of a particular set of referents is related to the information available about referents as well as their perceived relevance. Based on equity theory, we might suggest that when employees envision an inequity, they may choose one or more of five alternatives :

a. Distort either their own or other's inputs or outcomes
b. Behave in some way so as to induce others to change their inputs or outcomes
c. Behave in some way as to change their own inputs or outcomes
d. Choose a different comparison referent
e. Leave the organization

Equity theory recognizes that individuals are concerned not only with the absolute amount of money they are paid for their efforts but also with the relationship of this amount to what others are paid.

Equity theory recognizes that individuals are concerned not only with the absolute amount of money they are paid for their efforts but also with the relationship of this amount to what others are paid. They make judgments as to the relationship between their inputs and outcomes and the inputs and outcomes of others. Based on their own inputs, such as effort, education and competence, they compare outcomes such as salary levels, raises, and other factors. When people perceive an imbalance in their input-outcome ratio relative to others, tension is created. This tension provides the basis for motivation as people strive for what they perceive as equity and fairness. Perceptions of overreward seem to be easily reduced by individuals and, therefore, are infrequent. Surveys often show that about 5 percent of an employee group feel overpiad. When people feel overrewarded, they usually bring about equity by changing their perceptions of the situation. For example, they increase their perceptions of their worth or their perception of the amount of pay deserved. Perceptions of underreward are less easily corrected. These are likely to result in reducing effort, fighting the system, engaging in increased absenteeism, or performing other undersirable behaviors. The implications of equity theory for managers should be clear. The absolute rewards that employees receive are not the sole influence on motivation; relative rewards are also critical. Where employees perceive inequity, it can result in lower productivity, more absenteeism, or an increase in resignations. However, managers can only have control over the "system" referent, not referents outside of the workplace, such as "what the neighbors have."

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❑ **Visibility :** A reward that is not visible to the employee may fail to get the desired motivating effect from the employee. On the other hand, a truly visible reward gets the attention not only of individual employees but also of their peers. This latter quality means visible rewards can contribute to satisfying an employee's esteem and recognition needs.

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In what ways can managers increase the visibility of rewards? Possibilities include well-publicized bonuses, allocating annual salary increases in a lump sum rather than spreading them out over the entire year, and eliminating the secrecy surrounding pay by openly communicating everyone's compensation.

Some organizations have successfully maximized the value of rewards by making them both impressive in size and highly visible. It has been suggested that lump-sum salary increases can be a successful device for increasing a reward's visibility. Use of this approach means that employees are given the option of having their annual raises presented in a single lump sum as soon as the increases are granted, rather than parceled out in paychecks through the year. An increase presented as a lump sum is obviously more visible than one divided up into small amounts and buried in, say, twenty-six-regular paychecks. After deductions for taxes, even the most generous salary increase usually means very little change in an employee's regular take home pay, so the lump sum tends to ensure maximum impact for the raise. Of course, while a large raise tends to come across clearly as a large amount of money, a small raise tends to come across as just what it is—a small increase. The lump-sum option is reported to have been introduced at several organizations across the globe.

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Probably the most widely discussed and controversial approach to increasing the visibility of rewards is to eliminate the traditional secrecy surrounding pay. The proponenents of openness argue that pay secrecy actually demotivates employees. Secrecy may tend to work to the disadvantage of using money to motivate managers because even the most carefully derived pay schedule and differentials may be seen as potentially less rewarding than they actually are. The misperception of pay contributes to dissatisfaction with pay, and secrecy regarding pay contributes to this misperception.

Traditional secrecy surronding pay is to be eliminated.

4. Flexibility : An effective reward is one that has the flexibility to vary with changes in performance. If an employee's job performance declines in 2009, the rewards he received in 2008 should ideally have downside adjustment capability.

An effective reward would be flexible in terms of the amount given.

An effective reward would be flexible in terms of the amount given and whether it is given to everyone in the organization. The annual performance bonus, for instance, offers high flexibility. It can be adjusted upward or downward, or eliminated, each year depending on some measure of performance. Additionally, it can be given selectively to those employees who have done a superior job.

Another attribute of a flexible reward is that it be given frequently without losing importance. Giving rewards frequntly is often helpful for sustaining extrinsic motivation, yet some rewards diminish in importance when used over time. As a case in point, praise is a flexible reward in that its amount can be varied in allocations to and among individuals. However, it suffers from diminishing returns. Continued use of praise results in the reward losing its importance.

All other factors equal, the lowest-cost reward should be preferable to management.

5. Low Cost : The final quality of an effective reward is low cost. Rewards are not free goods, and the organization must consider the costs along with the benefits from any reward. A high-cost reward simply cannot be given out as often, and when it is, it reduces organizational effectiveness as a result of its cost. All other factors equal, the lowest-cost reward should be preferable to management.

12.4 Criteria On Which Rewards Can Be Distributed

Most organizations believe their rewards system is designed to pay off for merit.

Let us now consider the realities of reward distribution. So far, we have presumed that management allocates rewards based solely on employee performance, though we noted in our discussion of performance-based rewards that this is a fallacy. Most organizations believe their rewards system is designed to pay off for merit. The problem is that we find differing definitions of merit. Deserving rewards may take into consideration such factors as intelligence, effort, or seniority. The problem is that what is deserving may differ from what is excellent. A major contributor to the problem is undoubtedly the difficulty of defining excellence. If excellence is performance, we concede how unsatisfactory our efforts have been at trying to measure performance. Creation of quantifiable and appropriate peformance measures of almost all white-collar and service jobs, and many bluecollar jobs, has eluded us. While few will disagree with the viewpoint that the merit concept for distributing rewards is desirable, what constitutes merit is highly debatable.

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Our position that performance and rewards must be closely linked has evolved from the importance attached to this relationship in expectancy theory. Now first, we will assess the role of performance as a prerequisite for reward, then discuss other popular criteria by which rewards are distributed.

1. Performance : The principle of paying for performance is so logical and so deeply instilled in our value system that few attack it. Like ***apple pie, motherhood,*** and ***the flag,*** the allocation of rewards on the basis of performance is a revered concept in organizations. But, as described above, there are major difficulties in measuring performance.

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Performance is concerned with results. Performance measurement asks the question, Did you get the job done? To reward people in the organization based on performance, therefore, requires some agreed-upon criterion for defining performance. Whether this criterion is valid or not in representing performance is not relevant to our definition; as long as rewards are allocated based on job productivity, we are using performance as the determinant.

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Another difficulty in measuring performance is differentiating between quantity and quality. For example, an individual may generate a high output, but his or her performance standards may be quite low. Hence, where controls are not instituted to protect against such abuses, we often find quantity replacing quality. A case in point is reflected by the senior university faculty member who takes the junior faculty member aside and cautions him against maintaining such high standards in his publications. "You won't survive around here by generating only two articles a year. No one cares about quality, it's numbers that matter. Remember, deans can't read, but they can count!".

Another difficulty in measuring performance is differentiating between quantity and quality.

2. Effort : It is not uncommon for a report card in a factory to include effort as one of the categories used in grading workers. Organizations, however, rarely make their rewarding of effort that explicit, yet it is certainly a major determinant in the reward distribution.

The rewarding of effort represents the classical example of rewarding means rather than edns. In organizations where performance is generally of a low caliber, rewarding of effort may be the only criterion by which to differentiate rewards. For example, a university was attempting to increase its research efforts and had designated the objective of obtaining grants or funded research as a critical benchmark toward that end. Upon selection of this objective, all faculty members were informed that rewards for the coming year were going to be based on performance in obtaining grants. Unfortunately, after the first year of the program, even though approximately 20 percent of the faculty had made grant applications, none were approved. When the time came for performance appraisal and the distribution of rewards, the dean chose to give the majority of the funds available for pay raises to those faculty members who had applied for grants. Here is a case where performance defined in terms of obtaining funded research grants was zero, so the dean chose to allocate rewards based on effort.

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The above exmple is much less rare than one might think. On the assumption that those who try should be encouraged, in many cases, efforts can count more than actual performance. Employees who are clearly perceived by their superiors to be working at less than their optimum can often expect to be rewarded less than other employees who, while producing less, are giving out a greater effort. Even where it is clearly stated that performance is what will be rewarded, people who make appraisals and distribute rewards are only human. Therefore, they are not immune to showing compassion for those who try hard, but with minimal success, and allowing this to influence their appraisal and reward decisions.

Length of time on the job is a major factor in determining the allocation of rewards.

3. Seniority : Seniority, job rights, and tenure dominate most civil service systems and while they do not play as important a role in business organizations, there is evidence that length of time on the job is a major factor in determining the allocation of rewards. Seniority's greatest virtue is that, relative to other criteria, it is easy to determine. We may disagree as to whether the quality of Rajib's work is higher or lower than Adib's, but we would probably not have much debate over who has been with the organization longer. So seniority represents an easily quantifiable criterion that can be substituted for performance.

Regardless of whether the skills are used, those individuals who posses the highest skills or talents will be rewarded commensurately.

4. Skills Held : Another practice that is not uncommon in organizations is to allocate rewards based on the skills of the employee. Regardless of whether the skills are used, those individuals who possess the highest skills or talents will be rewarded commensurately. Where such practices are used, it is not unusual to see individuals become "credential crazy." The requirement that an individual needs a college degree in order to attain a certain level within the organization is utilizing skills as a determinant of rewards. Similarly, the requirement that an individual has to pass certain skill tasks by demonstrating an acceptable score in order to maintain a particular position in the organization is again using skills as a reward criterion. If it is necessary for a secretary to demonstrate that she can take shorthand at 80 words per minute to be eligible for consideration as a secretary to a department head, and if department heads do all their dictating into a dictating machine rather than giving it directly to the secretary, we see an example of a skill being utilized as a reward criterion when, in effect, it is irrelevant.

When individuals enter an organization, their skill level is usually a major determinant of the compensation they will receive. In this case, the marketplace or competition has acted to make skills a major element in the reward package. These externally imposed standards can evolve from the community or from occupational categories themselves. In other words, the relationship of demand and supply for particular skills in the community can significantly influence the rewards the organization must expend to acquire particular skills. Also, the demand-supply relationship for an entire occupational category can affect rewards.

The relationship of demand and supply for particular skills in the community can significantly influence the rewards to be given.

5. Job Difficulty : The complexity of the job can be a criterion by which rewards are distributed. For example, those jobs that are highly repetitive and can be learned quickly may be viewed as less deserving in rewards than those that are more complex and sophisticated. Jobs that are difficult to perform, require working odd hours, or are undesirable due to stress or unpleasant working conditions, may have to carry with them rewards that are higher in order to attract workers to these activities.

Jobs that are highly repetitive and can be learned quickly may be viewed as less deserving in rewards than those that are more complex and sophisticated.

6. Requirement of Judgement : The greater the discretion called for on a job, all other things being equal, the greater the impact of mistakes and the greater the need for good judgment. In a job that has been completely programmed—that is, where each step has been procedurized and there is no room for decision making by the incumbent—there is little discretionary time. Such jobs require less judgement, and lower rewards can be offered to attract people to take these positions. As greater judgmental abilities are needed, rewards must commensurately be expanded.

As greater judgmental abilities are needed, rewards must commensurately be expanded.

A derivative of rewarding employees based on discretionary time is Elliot Jaques's theory of equitable payment. This theory argues that fair and equitable compensation should reflect the maximum time during which the employee exercises discretion without the results being reviewed. It says people should be rewarded for the weight of responsibility they assume. Probably the most important evidence in support of Jaques's theory is the finding that in jobs where the level of responsibility is measured in terms of time span of discretion, employees at the same level state a very similar wage and salary bracket to be fair for the work they do. In other words, employees see the use of the time-span concept as the fairest way to differentiate pay difference.

People should be rewarded for the weight of responsibility they assume.

QUESTIONS TO ANSWER

1. Define reward. Discuss the different types of rewards you know of.
2. Effective rewards should have certain qualities—What are they? Discuss each of them with suitable example.
3. Critically discuss the criteria on which rewards should be distributed.
4. **Write short notes on :**
   a. Intrinsic reward
   b. Non-financial reward
   c. Membership-based reward
   d. Visibility of reward
   e. Flexibility of reward
   f. Skills held as a criteria for reward distribution.

❑ **Indicate True or False.**
   a. Having pride in ones job is an extrinsic reward.
   b. Money, promotions etc. are intrinsic rewards from a job.
   c. Pricework pay plan ensures performance based reward.
   d. Preferred work assigment is a non-financial extrinsic reward.
   e. Inequity in reward may result in employee resignation.