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Incentive systems

- *an evaluation of the “Motivational Model
for Rewards”*

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3.2 MOTIVATION

3.2.1 MASLOW'S HIERARCHY OF NEEDS

The probably best known and cited theory on motivation is Maslow's theory from 1954. Maslow (1954) suggests that people have five different levels of needs, which must be satisfied one by one and in a specific order. Each level must be fully satisfied before the individual can move on to the next one. At the first level we find the very basic needs that a human must satisfy for pure survival, *the physiological needs*, such as the need for shelter, food and air to breathe. When these needs are satisfied the human will continue to the next level and search for satisfaction of *the safety needs*. These needs are for example the need for a safe and predictable environment with neither physical nor psychological threats. Once this level is activated we move on to the next, *belongingness and love needs*. Here the central issue is to fulfil the need for giving and receiving affection and to be included in a group.

The three levels above are known as *deficiency needs* and it is according to Maslow (1954) crucial that they are satisfied or else the human may fail to develop into a healthy person. The following two levels are called *growth needs* and Maslow (1954) states that those levels help the human to grow and develop into his/her full potential.

The fourth level in the hierarchy is the *esteem needs* and here the need for self-esteem and respect from others are central. Into this category fall for example the wish to reach success and to be recognized by others (Furnham 1997). The last level is *the self-actualization needs*, which refer to the need for becoming everything that one is capable of becoming, to do what the specific individual is fitted for. This is a broad description and every individual has his/her own thought about what is most desirable, for example the musician makes music and the poet writes poem (Maslow 1954).



Figure 3.5 Maslow's hierarchy of needs

Source: Maslow (1954)

For the organization to meet those needs it would have to start by providing adequate salaries, which in our society today is strongly controlled and close to impossible to escape. The second step is of the same inescapable kind where the organization should provide the employed with health-insurance at work, pensions and secure work conditions. Many companies seek to satisfy the third step by organizing kick-offs, out-of-work hours activities and team building days to enable employees to meet and socialize outside of work. The fourth step could possibly be met by arranging sale competitions where the most successful are awarded. Furnham (1997) suggests that “the inflation of job titles” is an attempt to boost the self-confidence of the employees and thereby meet this need. The last need is probably the most difficult for an employer to meet. Even though jobs created so that the individual can develop his/her true abilities exist, many people do not have the opportunity to choose a profession according to their interests but have to work to survive.

3.2.2 HERZBERG’S TWO-FACTOR THEORY

Herzberg (1968) developed the first version of this theory on the basis of interviews with American engineers and accountants. Later the studies were completed with interviews of more than 1600 people of different age and sex working in different environments. The data collected enabled him to divide the needs of an employee into two categories – hygiene needs and motivation needs. Hygiene needs correspond to Maslow’s three basic needs and are satisfied by hygiene factors such as supervision, salary, benefits, job security and company policies (Furnham 1997). These needs all concern the context and the work environment and when they are satisfied the barriers to job satisfaction are gone. Satisfaction of the hygiene needs alone can never lead to total satisfaction at work; it is just a reduction or elimination of dissatisfaction. Motivation needs are satisfied by the motivation factors and they match Maslow’s fourth and fifth step in the hierarchy of needs. Motivation factors are, for example, achievement, recognition, challenging work and advancement, and they relate to the nature of work (Herzberg 1968).

Interesting here is that Herzberg classifies salary as a hygiene factor, which means the organization should concentrate on finding the right person for the right job to make the employee motivated to perform. The salary should just be sufficient to prevent the employee from being dissatisfied.

3.2.3 MCGREGOR’S THEORY X AND THEORY Y

McGregor (1960) has studied motivation from a management perspective and states that employees will act according to the assumptions made about them from their leaders. The fundamentals in theory X are that the leader assumes that the employed is indolent and passive and that he or she lacks ambitions, does not want to take responsibility and is unwilling to adapt to changes. Further McGregor (1960) claims that it is no use trying to control employees by offering rewards, because since they find work so strongly repulsive they will never let themselves become motivated and therefore they will just ask for higher incentives.

According to the theory there are two versions of Theory X, hard and soft. Leaders who adapt the hard version use threats, hard control and punishment to make the employees work as they wish but this leadership style leads to low productivity, antagonism and sabotage in the long run. In the soft version the organization tries to avoid conflicts and aims to satisfy all

employees' needs, which often leads to everything appearing well on the surface but impassiveness and apathy grow underneath (Bolman and Deal 2005).

The basics of Theory Y are that the management should arrange things so that the employees can satisfy their own needs by performing their work tasks. Followers of this theory believe that people act responsibly and show commitment under the right circumstances. The more the organization is able to adjust the goals of the organization according to the interests of the employees, the more they can rely on Theory Y. If the duties do not give the employees satisfaction at work, the organization will have to trust in Theory X (Bolman and Deal 2005).

3.2.4 THE HAWTHORNE EFFECT

Experiments made at Hawthorne Works aimed to investigate if workers were most productive in higher or lower levels of light. The experiment was divided into three steps, each step trying to eliminate difficulties experienced in the previous one. Against expectations the result failed to show a relation between amount of light and level of productivity. Since productivity rose irrespective of level of light, researchers drew to the conclusion that the central motivator was that the workers felt the organization showed interest for them. The somewhat surprising result of these studies became the starting point for several further studies accomplished in the 1920s and the 1930s (Roethlisberger and Dickson 2003).

It would probably be naive to think that motivation in the long run should originate in attention alone but it is a possible starting point. Many levels in an organization reduce the understanding between lower and higher ones and, for example, letting management get acquainted with relations on low levels could increase the understanding between levels and from that the workers would experience importance.

3.2.5 PRINCIPAL - AGENT THEORY VERSUS STEWARDSHIP THEORY

The principal-agency theory is a classic theory which describes the relationship for example between the shareholders of an organization - the principals - and the managers employed to rule the business - the agents. According to the theory, there are difficulties in aligning the interests of the firm with the interests of the managers because the managers are seen as self-serving rather than working whole-heartedly towards the interests of the organization. This problem is substantial in larger organizations where the principals do not have the possibility to control their agents to the same extent as in smaller corporations. The motivational factors of the agents are measurable, extrinsic and tangible such as monetary rewards, medical insurance and retirement plans (Davis, Schoorman and Donaldson 1997).

The stewardship theory is based on the assumption that the hired manager has interests aligned with the ones of the owners and therefore acts in a way that maximizes the wealth of the corporation. The motivational factors of the steward are of an intrinsic kind such as achievement and self-actualization, corresponding to the higher levels in Maslow's hierarchy of needs (Davis, Schoorman and Donaldson 1997).

Davis, Schoorman and Donaldson (1997) have identified elements that differentiate the agency theory from the stewardship theory. Along those are motivational factors as mentioned above but also the variable "identification", referring to how close the employee identifies with the organization. By identification the authors mean how much the manager sees the

corporation as an extent of himself/herself; the higher the level of identification the more likely it is that he or she becomes a steward. Davis, Schoorman and Donaldson (1997) further claim that the level of power distance and the level of individualism discovered by Hofstede clearly have an impact on whether the individual is more likely to turn into an agent or a steward. With large power distance, the authors claim, there are greater risks for the manager to become self-actualizing and the same applies to the cultures where individualism is widely spread.

3.2.6 CULTURAL DIFFERENCES IN MOTIVATION

Hofstede and Hofstede (2005) have made extensive studies of cultural differences and have discovered national and regional cultural groups whose behaviour at work and in organizations differs at five dimensions. Two of these are uncertainty avoidance and masculinity. Uncertainty avoidance can be defined as to the extent to which individuals in a culture feel threatened by new and unknown situations. This is, for example, how long employees plan to stay at their present job or how bound they are by rules at the work place. Masculinity is described as a person's ambition to achieve success and to perform outside the home. Masculinity is further equal to keeping up with the competition and to "live to work" rather than "work to live". Hofstede and Hofstede (2005) combined research on the two variables and were able to distinguish different motivation patterns among different groups of cultures.



Figure 3.6 Cultural differences in motivation

Source: Hofstede and Hofstede (2005)

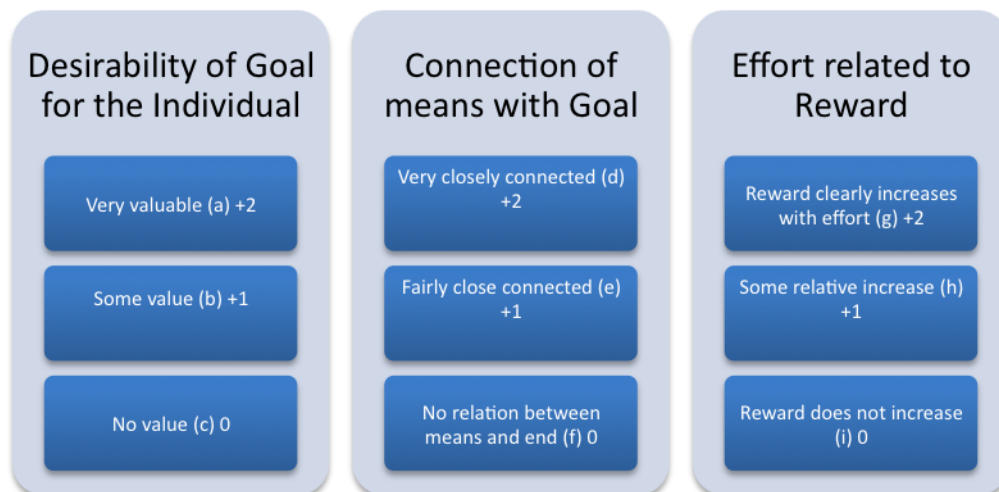
Hofstede and Hofstede (2005) used Maslow's hierarchy of needs as a point of reference for their motivational factors and recognized the motivational pattern presented in the model above. Hofstede and Hofstede state that different individuals are motivated by different factors and that this could be a problem today as we have multinational companies and individuals who tend to work across borders.

A study made by Jansen, Merchant and van der Stede (2009) confirms that there are national differences among motivation. The authors compared the incentive systems of automobile dealers in the US and the Netherlands and found great differences in the design of the incentive programs. In the Netherlands, which according to the authors represents Europe well, rewards in the form of incentive compensation are much less likely to be found than in the US. Where used, the basis for the incentive compensations is different in the two countries. The US more often uses net profit as a base for compensation and the compensation itself is often a great deal larger there than in Europe. In the Netherlands the authors found that other performance measures such as sales measured in units were commonly used as a base for incentive compensations. The following quote from a general manager in the Netherlands concludes the Dutch approach:

“I know that it is a cliché, but I believe that giving attention to people and demonstrating interest in their work are powerful motivators. Giving people compliments and highlighting their accomplishments in meetings with other employees are more effective than monetary incentives.”

3.2.7 THE MOTIVATIONAL MODEL FOR REWARDS

This model is elaborated by Daniel Katz and Robert L. Kahn (1978) and aims to evaluate the extrinsic motivational factors provided by the organization. It is a multiplicative model where a positive outcome requires all variables to be at a satisfactory level. The scales goes from +2 till 0 where the zero value is absolute and the one and two value can be described as more arbitrary. The zero value means no value, no connection between task and reward and no increase of reward with greater effort.



$a*d*g=8$
 $a*d*h=4$
 $a*d*i=0$
 $a*e*g=4$
 $a*e*h=2$

$b*d*g=4$
 $b*d*h=2$
 $b*d*i=0$
 $b*e*g=2$
 $b*e*h=1$

All other patterns containing c, f or i = 0

Figure 3.7 The motivational model for rewards

Source: Katz and Kahn (1978)