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PAYMENT OR FINANCIAL REWARD SYSTEMS

HOURLY WAGE RATE

An hourly wage rate or 'time rate' is set for the job – perhaps by comparing with other firms or similar jobs.

The wage level is determined by multiplying this by the number of hours worked and is usually paid weekly.

Although there is more income security than with piece rate, speed of work is not rewarded with this payment system – indeed, the opportunity to earn overtime might encourage workers to stretch work out unproductively.

PIECE RATE

A rate is fixed for the production of each unit, and the workers' wages therefore depend on the quantity of output produced. The piece rate can be adjusted to reflect the difficulty of the job and the 'standard' time needed to complete it. The level of the rate can be very important. If set too low, it could demotivate the workers, but, if too high, it could reduce the incentives – because workers will be able to meet their target wage level by producing relatively few units.

Advantages and disadvantages of the of the piece rate

| Advantages | Disadvantages |
|---|--|
| It encourages greater effort and faster working. | It requires output to be measurable and standardised – if each product is different, then piece work is inappropriate. |
| The labour cost for each unit is determined in advance and this helps to set a price for the product. | It may lead to falling quality and safety levels as workers rush to complete units. |
| | Workers may settle for a certain pay level and will therefore not be motivated to produce more than a certain level. |
| | It provides little security over pay level, e.g. in the event of a production breakdown. |

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2.4 Motivation – Financial and Non-Financial Summary Notes

SALARY

A salary is the most common form of payment for professional, supervisory and management staff. The salary level is fixed each year and it is not dependent on the number of hours worked or the number of units produced. The fixing of the salary level for each job is a very important process because it helps to determine the status of that post in the whole organisation. Job evaluation techniques may be used to assist in deciding the salary bands and the differences between them. In most organisations, all jobs will be put into one of a number of salary bands and the precise income earned within each band will depend upon experience and progress. It is always possible to gain promotion to another job in a higher salary band. Firms that are interested in creating a 'single status' within their organisation are now increasingly putting all staff – manual and managerial – on to annual salaries to give the benefits of security and status to all employees.

Advantages and disadvantages of the of a salary

| Advantages | Disadvantages |
|--|--|
| Gives security of income. | Income is not related to effort levels or productivity. |
| Gives status compared to time rate or piece rate payment systems. | It may lead to complacency of the salary earner. |
| Aids in costing – the salaries will not vary for one year. | Regular appraisal may be needed to assess whether an individual should move up a salary band, although this could be an advantage if this becomes a positive form of worker appraisal. |
| Is suitable for jobs where output is not measurable. | Income is not related to effort levels or productivity. |
| Is suitable for management positions where staff are expected to put in extra time to complete a task or assignment. | |

COMMISSION

Commission: a payment to a sales person for each sale made.

Commission can make up 100% of the total income of direct sales staff – it reduces security as there is no 'basic' or flat-rate payment if nothing is sold during a particular period – or it can be paid in addition to a basic salary.

It has the same advantages and disadvantages as the piece rate used in production industries, except that the potential drawback of low quality of production may be replaced by the risk of high-pressure selling, where sales staff try so hard to convince a customer to buy a product or service that they simply create a bad impression of the company. Commission-based pay also does not encourage team work – each individual sales person will be keen to hold on to each new customer for themselves to earn more commission!

PERFORMANCE-RELATED PAY (PRP)

Performance-related pay: a bonus scheme to reward staff for above-average work performance.

Profit-related pay: a bonus for staff based on the profits of the business – usually paid as a proportion of basic salary.

Performance-related pay is usually in the form of a bonus payable in addition to the basic salary. It is widely used for those workers whose 'output' is not measurable in quantitative terms, such as management, supervisory and clerical posts. It requires the following procedure:

- Regular target setting, establishing specific objectives for the individual
- Annual appraisals of the worker's performance against paying each worker a bonus according to the degree to which the targets have been exceeded.

The main aim is to provide further financial incentives and to encourage staff to meet agreed targets.

Bonuses are usually paid on an individual basis, but they can also be calculated and awarded on the basis of teams or even whole departments.

There are problems with PRP schemes. The main issue is one that Herzberg would recognise – does the chance of additional pay 'motivate' or just temporarily 'move' a worker to perform better? As there is no change in the nature of the work being undertaken most of the 'motivators' recognised by Herzberg would not be satisfied by PRP. In addition, the concentration on individual performance can create divisions within teams and groups, and this can work against the findings of the Hawthorne effect. There is also a widely held view that PRP bonuses are often inadequate, even to achieve short-term productivity gains or improvements in effort. The last problem concerns the style of management that PRP can lead

to. By giving senior managers the power to decide which subordinates have achieved performances above target, it can lead to claims of favouritism and the ability to control staff by means of the ‘carrot’ of extra rewards.

The essential idea behind profit-sharing arrangements is that staff will feel more committed to the success of the business and will strive to achieve higher performances and cost savings. Some shareholder groups, however, claim that profits should be the return to the owners of the business and are a reward to them for taking risks with their own capital.

EMPLOYEE SHARE-OWNERSHIP SCHEMES

Some profit-sharing schemes do not offer cash but shares in the business to each worker when the firm declares a profit. This is designed to establish the workers as part owners of the business and reduce the conflict that might exist between ‘them’ (the owners and managers) and ‘us’ (the workers). In practice, many of the shares in such schemes are quickly sold by the workers, thus reducing the hoped-for long-term impact on motivation.

FRINGE BENEFITS

These are non-cash forms of reward – and there are many alternatives that can be used. They include company cars, free insurance and pension schemes, private health insurance, discounts on company products and low interest rate loans. They are used by businesses in addition to normal payment systems in order to give status to higher-level employees and to recruit and retain the best staff. Some of these fringe benefits are taxed, but others are not and that gives the employees an added benefit, because to purchase these ‘perks’ from after-tax income would be very expensive. It is very difficult to assess the impact of these benefits on productivity.

Advantages and disadvantages of profit sharing and employee share ownership

| Advantages | Disadvantages |
|---|--|
| Potential conflict between owners and workers is reduced as everyone now has an interest in higher profits. | The reward offered is not closely related to individual effort – why should one worker put in greater effort when everyone will be benefiting? |
| They are designed to lead to higher worker effort levels and a greater preparation to | The schemes can be costly to set up and operate, especially in large firms with many employees. |

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2.4 Motivation – Financial and Non-Financial Summary Notes

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| accept cost reduction measures and changes that benefit the business. | |
| The business is likely to attract better recruits drawn by the chance of sharing profits or owning shares in the firm. | Small profit shares paid at the end of the financial year are unlikely to promote motivation throughout the year. |
| As the bonuses are paid out of profits, the scheme does not add to business costs, unlike a normal increase in pay levels. | Profit-sharing schemes will reduce profits available to be paid to owners (reducing dividends) and to be reinvested in the business (retained profits). |
| If successful in increasing motivation, then the schemes could lead to an increase in overall business profitability. | Worker share-ownership schemes can increase the total number of shares issued and 'dilute' the value of existing shares. |

NON-FINANCIAL METHODS OF MOTIVATION

JOB ENLARGEMENT

Job enlargement attempting to increase the scope of a job by broadening or deepening the tasks undertaken.

This can include both job rotation and job enrichment, but it also refers to increasing the 'loading' of tasks on existing workers, perhaps as a result of shortage of staff or redundancies. It is unlikely to lead to long-term job satisfaction, unless the principles of job enrichment are adopted.

JOB ENRICHMENT

This involves the principle of organising work so that employees are encouraged and allowed to use their full abilities – not just physical effort. The process often involves a slackening of direct supervision as workers take more responsibility for their own work and are allowed some degree of decision-making authority. Herzberg's findings formed the basis of the job enrichment principle.

The three key features of it are not always easy to apply in practice, but employers are increasingly recognising the benefits to be gained by attempting to implement them:

- Complete units of work so that the contribution of the worker can be identified and more challenging work offered, e.g. cell production

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2.4 Motivation – Financial and Non-Financial Summary Notes

- Direct feedback on performance to allow each worker to have an awareness of their own progress, e.g. two-way communication
- Challenging tasks offered as part of a range of activities, some of which are beyond the worker's recent experience – these tasks will require training and the learning of new skills. Gaining further skills and qualifications is a form of gaining status and recognition – see Maslow's hierarchy of human needs.

To introduce job enrichment into many traditional businesses, a process known as job redesign is often necessary.

Job redesign involves the restructuring of a job – usually with employees' involvement and agreement – to make work more interesting, satisfying and challenging

EXAM TIP

Do not confuse job enlargement with job enrichment/redesign.

TEAM WORKING

Team working: production is organised so that groups of workers undertake complete units of work.

This approach to work places each member of staff into a small team of employees. Some traditionalists argue that moving away from 'pure division of labour', where one worker performs just one simple task all of the time, will result in lower productivity and time-wasting 'team' meetings. Supporters of job enrichment would respond by claiming that more challenging and interesting work, as allowed by team working or 'cell' production, will lead to:

- Lower labour turnover
- More and better ideas from the workforce on improving the product and the manufacturing process
- Consistently higher quality, especially when total quality management (TQM) is incorporated.

There are a number of benefits to the organisation from team working:

- Team spirit should improve motivation of staff.
- Teams are more flexible than hierarchical systems.
- New teams can be formed and redundant teams disbanded as the needs of the organisation change.
- Management costs may be reduced as fewer middle managers and supervisory staff are required.

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2.4 Motivation – Financial and Non-Financial Summary Notes

Advantages and disadvantages of working in teams

| Advantages | Disadvantages |
|---|--|
| Workers are likely to be better motivated as social and esteem needs (see Maslow) are more likely to be met. By empowering workers within teams, job enrichment can be achieved (see Herzberg). | Not everyone is a team player – some individuals are more effective working alone. When teams are formed, this point must be considered and training may need to be offered to team members who are not used to working collaboratively in groups. |
| Better-motivated staff should increase productivity and reduce labour turnover – both will help to reduce business costs. | Some workers may feel 'left out' of the team meetings unless efforts are made to involve and encourage all team members. |
| Team working makes fuller use of all of the talents of the workforce. | Teams can develop a set of values and attitudes which may contrast or conflict with those of the organisation itself, particularly if there is a dominant personality in the group. Teams will need clear goals and assessment procedures to ensure that they are working towards the objectives of the organisation at all times. |
| Better solution to problems will be found as those most closely connected with the work participate in suggesting answers. | The introduction of team working will incur training costs and there may be some disruption to production as the teams establish themselves. |
| Team working can reduce management costs as it is often associated with delayering of the organisation – fewer middle managers will be required. | |
| Complete units of work can be given to teams – a key feature of job enrichment. | |

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DELEGATION AND EMPOWERMENT

These methods of staff motivation were fully examined in Topic 2.2 Organisational Structure. Delegation involves the passing down of authority to perform tasks to workers.

Empowerment goes further, by allowing workers some degree of control over how the task should be undertaken and the resources needed to complete it.

EVALUATION OF FINANCIAL AND NON-FINANCIAL MOTIVATIONAL METHODS

If it is accepted that pay is not the only motivating factor for people to work effectively and to be satisfied in their jobs, then managers need to take a critical look at all of the payment and non-financial methods of motivating staff. What works for some groups of workers will not be effective with others. Managers need to be flexible and adapt the methods and approaches that are available to motivate staff to the particular circumstances of their business and their workforce. The main factors that influence the different degrees of emphasis on pay and non-pay factors include the leadership style of management and the culture of the organisation. If managers have the attitude that workers are naturally lazy and cannot be trusted, then a 'payment by results' system with close supervision will be adopted. If the culture views workers as partners or associates in the business, then production will be organised to give workers a chance to accept responsibility and to participate. A monthly salary payment system is likely under these circumstances. As with so many important decisions made within a business, so much depends on the attitudes and beliefs of senior managers – and the business culture they adopt.

EXAM TIP

You should be able not just to describe and explain different methods of financial and non-financial motivation but to suggest which ones might be most suitable in different business situations – and why.