Rewarding Performance
The main question is: how to achieve high work performance?

Work performance is affected by:

- Job characteristics and (physical) work environment
- Abilities and skills
- The willingness to perform
Performance equation

Performance = f(Abilities \times \textbf{Motivation})

How do you motivate the employees?
“... strong pay-for-performance motivates people to do exactly what they are told to do.”

How do you get the right results?
Pay for Performance

Three Assumptions

1. Individual employees and work teams differ in how much they contribute
2. The organisation’s overall performance depends on the performance of individuals and groups
3. To attract, retain, and motivate high performers, rewards are given relative to performance
Incentives May Cause Unethical Behaviors

- Rewarding hospitals for quality care
- Gainsharing for doctors
- Doctors paid to prescribe generic pills
- Report cards for surgeons
- What doctors aren’t disclosing
Pay-for-Performance: Challenges

- “Do only what you get paid for” syndrome
- Unethical behavior
- Negative effects on the spirit of cooperation
- Lack of control
- Difficulties in measuring performance
Pay-for-Performance: Challenges

- Psychological contracts
- The credibility gap
- Job dissatisfaction and stress
- Potential reduction of intrinsic drives
Meeting the Challenges of Pay for Performance

• Use intrinsic and extrinsic rewards
• Link pay and performance appropriately
• Pay for performance
• Build employee trust
• Promote belief that performance makes a difference
Meeting the Challenges of Pay for Performance

• Use multiple layers of rewards
• Increase employee involvement
• Stress the importance of acting ethically
• Use motivation and nonfinancial incentives
## Types of Pay-for-Performance Plans

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Individual-Based Plans

• Merit pay, bonuses, and awards

Advantages

• Performance that is rewarded is likely to be repeated

• Individuals are goal oriented; financial systems can shape a person’s goals

• Rewarding individual equity

• Fit with an individualistic culture
Individual-Based Plans

Disadvantages

• May promote single-mindedness
• Many do not see link between performance and pay
• Quality goals may suffer
• May promote inflexibility
Individual-Based Plans

Most Likely to Succeed:

• When the contributions of individual employees can be accurately isolated
• When the job demands autonomy
• When cooperation is less critical to successful performance
Team-Based Plans

- Cash or noncash
- Provide integral support for effective team arrangements
- Members rewarded equally
- Members decide on distribution
Team-Based Plans

Advantages
• Foster group cohesiveness
• Aid in performance measurement

Disadvantages
• Lack of fit with individualistic culture
• Free-riders
• Social pressures to limit performance
• Identifying meaningful groups
• Intergroup competition
Team-Based Plans

Most likely to succeed when:

• Work tasks are intertwined
• Implemented with team-based incentives
• Employees are intrinsically motivated
• Group goals exists
• Team-based incentives blend diverse backgrounds
Organisation wide Plans

• Gainsharing

• Advantages
  o Capitalize on intrinsically motivated employees
  o Cost savings earned by treating employees better
  o Can elicit active employee input and improve the production process
Organisation wide Plans

Disadvantages
• Protection of low performers
• Problems with the criteria used to trigger rewards
• Management–labor conflict

Conditions favoring Org. wide plans
• Firm size
• Technology
• Historical performance
• Corporate culture
• Stability of the product market
Definition of the psychological contract

“The perceptions of both parties to the employment relationship, organization and individual, of the reciprocal promises and obligations implied in that relationship”

The state of the psychological contract is concerned with whether the promises and obligations have been met, whether they are fair and their implications for trust.
The Psychological Contract Framework (David Guest)

The Good Employer & The High Quality Workplace

The Deal

Satisfied And Productive Workers
Organisation wide Plans

- Profit Sharing
- Employee Stock Ownership Plan (ESOP)
Organisation wide Plans

**Advantages**
- Financial flexibility for the firm
- Increased employee commitment
- Tax advantages

**Disadvantages**
- Employees may be at considerable risk
- High exposure to macroeconomic forces
- Limited effect on productivity
- Long-run financial difficulties
Organisation wide Plans

Conditions favoring Organisation wide plans

- Firm size
- Interdependence of different parts of the business
- Market conditions
- The presence of other incentives
Designing Pay for Performance

• **Executive Plans**
  - Salary and short-term incentives
  - Long-term incentives
  - Golden parachutes
  - Rewards for social responsibility
  - Perks
Pay for Performance in Small Organizations

• Active participation can generate greater commitment
• It’s easier for employees to discern their contributions
• Feedback should be given more often with the goal of helping employees see their contribution
• Offers the opportunity to attract and retain talent
• Increases employee identification with the firm
Summary and Conclusions

• Pay-for-Performance: The Challenges
• Meeting the Challenges of Pay-for-Performance Systems
• Types of Pay for Performance
• Designing Pay-for-Performance Plans for Executives and Salespeople
• Designing Pay-for-Performance Plans in Small organisations
Thank You