

## Financial and non-financial incentives.

When we examine methods of motivation that can actually be applied in the workplace, we normally sub-divide them into financial and non-financial methods.

Financial methods directly involve monetary rewards e.g. bonuses, pay rises, pensions etc.

Non-financial methods, though perhaps indirectly bringing monetary rewards, are targeted at providing psychological benefits for workers.

It must be remembered that both financial and non-financial methods have costs to the employer, either through direct costs such as extra pay, or indirectly through the provision of training or management time spent. The existence of these costs is one of the main reasons why a consistent approach to motivation is hard to achieve in the long run, (we look at specific reasons why later).

### Financial methods of Motivation

If you pay peanuts you get monkeys, this was one of Herzberg's favourite sayings, and although many commentators focused on his motivation factors, he was often at pains to stress the importance of hygiene factors. Herzberg stressed that pay and other forms of financial remuneration are key methods of ensuring the satisfaction of workers.

We must therefore consider, how workers can be motivated, by the different types of financial offered by employers.

### Types of Financial Motivation.

#### Piece Rate

The most basic method of payment is a piece rate. When a piece rate is paid workers are paid for each item they produce or for each task completed. This

does have advantages in that workers will work as fast as they can to maximise their income, and payment is only made when work is completed. But there are disadvantages for both employer and employee. For the employer there must be a great deal of supervision and checking of quality as workers are motivated to achieve speed of output not quality of output. From the employees point of view there is no guarantee of income and incomes are often very low, no matter how fast they work.

Piece rates are still paid to tens of thousands of workers in the UK. These employees often work in difficult conditions in factories or from home. You may have seen adverts saying earn £20 an hour working from home, these are often for piece work jobs. To earn the £20 you would probably have to be faster than Superman at performing whatever task is required e.g. putting screws in little plastic bags to be sold in DIY stores

#### Wages.

Wages are paid hourly, for example £4 an hour, and the vast majority of unskilled and semi-skilled workers in the UK are still paid wages. There is some security in being paid a wage and those who earn wages will probably be able to work overtime to increase incomes. I do not see that being a waged worker is a problem, as lower levels of Maslow's hierarchy are quite often satisfied by a decent wage, but what does matter is the level of the wage. The recently introduced minimum wage of £3.70 an hour cannot truthfully be regarded by anyone as an income likely to provide a decent standard of living.

For many large businesses there is one large group of manual or production workers who are paid hourly and a group of administrative and marketing workers who are paid a salary, and this difference in methods of payment can cause resentment and prevent the breakdown of barriers within businesses. A 'them and us attitude' can be reinforced by the artificially created separation of waged and salaried employees, when in fact the only difference may be one group wear suits to work the other does not.

#### Salaries

Salaries are paid at an annual rate. For example £25,000 per year. Salaried incomes are paid monthly, directly into a bank account. Salaries make good financial sense for businesses because they are paid monthly in arrears which means workers will have to wait up to a month to receive income for work performed, meaning improved cash flow for the business and improved bank balances. Also it is simpler and safer to pay money by a bank transfer than in cash. Salaried workers are not normally paid overtime but may receive other financial benefits. This non-payment of overtime does not mean that they do not work more than their contracted hours, they often do, but it does mean that employers may not be liable to pay for this extra work.

One current criticism of the way that British businesses are run is that quantity of work by managers counts more than quality of work. Managers who work 50 or 60 hours a week are seen as doing a better job than those who work for 40 or 45 hours. This view is often linked to performance appraisal where those seen at the desks long after normal going home time are rewarded for this diligence. The fact of the matter is that those who work 60 hours a week are often too tired to do good work.

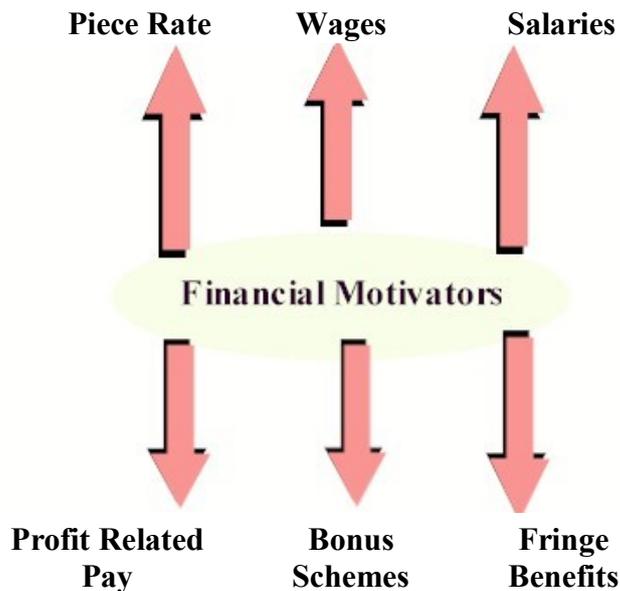
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Profit related pay links part of an employees income to the profits of a company. Those who receive profit related pay will have a lower salary than they might otherwise expect but will benefit overall by receiving a share of company profits. This mixed method of payment is tax efficient for both the individual and the business.

When profit related pay schemes were first encouraged during the 1980's it was hoped that they

would catch on with all types of worker, but in the main they are only applied to senior management, although some businesses such as Asda and the John Lewis partnership have schemes which allow all employees to share in company profits.

The major problem in encouraging workers to take part in the schemes is that income is uncertain and workers may believe they have little influence on the profitability of business, so they do not see why their income should fluctuate as profits fluctuate.



**Bonus schemes.**

There are a wide variety of bonus schemes available, each designed to be suitable for different employees doing different jobs.

These schemes include:

- **Sales bonus.** This is normally paid if a sales target has been reached. For sales people this may make up a significant part of their salary.
- **Performance bonus.**

This can be paid to an individual or on a group or factory wide basis, and is often paid for reaching targets of output and quality. This method of payment is an important part of Human Resource Management.

- **Christmas bonus.** Often called a 13 month's salary, paid for loyalty to the business. In some countries such as Germany virtually all companies will pay a Christmas bonus.
- **Profit share.** Some businesses will pay a percentage of profits to employees. The amount that they receive will normally depend on salary and length of service, so rewarding those that had been with the company longest, more.

**Fringe Benefits**

Other forms of financial motivation include company cars, pension schemes, sickness benefits, subsidised meals and travel, and staff discounts. These are often grouped together under the heading fringe benefits. Some of these fringe benefits can be regarded as essential in encouraging the right applicants for certain

types of vacancies. For example a company car is a necessity in financial service firms for anyone involved in sales, and senior management in many companies would expect both an upmarket car and private health care.

### **Non Financial Methods of Motivation**

The use of non-financial methods of motivation are attempts by employers, to apply in the workplace the ideas behind the theories of Mayo, Maslow and Herzberg. Examination of these theories has shown us that motivation to achieve quality of output is best achieved through satisfaction of higher needs (Maslow), awareness of the role of groups in the workplace (Mayo), and the need to provide Motivators (Herzberg). The non-financial methods of motivation outlined below can be linked to one of more of these theories.

#### **Job Enrichment.**

This means giving workers more control over the tasks that they complete. Allowing workers to complete tasks that have a meaning, and are complete in themselves. For example a worker who has a job fitting the tube to a TV, may have his job enriched by testing that the tube works, and being able to make adjustments so that the required level of quality is achieved. The ability to do this range of tasks means that the worker becomes more committed to achieving quality. The cost associated with this method, are of course, the time spent training the worker to complete these extra tasks. Effective job enrichment depends upon workers having interesting tasks to complete. Job design is a key part of Herzberg's ideas.

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#### **Job Enlargement.**

Job enlargement means increasing the number of tasks completed by a worker.

So a secretary previously employed to answer calls might now have duties, which include, filling, letter writing etc. This adds interest to the job, and

involves the employee in a more complete role within the business.

#### **Communication.**

Communication is a key part of motivation, and effective use of methods of communication is a complex management issue. (For more on communication and motivation see Communication systems chapter).

#### **Empowerment.**

This means giving workers the power to control their own jobs, make decisions, and implement their own ideas. It is often used in an artificial way, for example allowing counter workers in burger bars to decide the greeting they use when they meet customers.

#### **Quality Circles.**

These are groups of workers that meet on a regular basis to discuss problems in the manufacturing or service provision process and offer solutions. They may involve groups of workers from the same department, or come from a variety of disciplines. For example they may include designers, buyers, and production workers. It is important that for quality circles to have value, the members have the ability and the authority to implement changes suggested.

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#### **Training.**

The provision of a formal training scheme is important. As Herzberg stated, without training, workers will not be able to fulfil their potential. Training can be on-the-job, learning by doing, or off the job, such as studying for NVQ's at a local college. On the job training has costs such as management or supervisor time spent training, and potential reduction in quality of output. Off the job training, means lost production, and disruption, also the newly qualified worker may seek to use his qualifications to seek better employment elsewhere.

#### **Autonomous Work Groups.**

The use of AWG's is an extension of the ideas behind job enrichment. In this case a group of workers are

given full responsibility over a logically connected set of tasks. This responsibility may extend to make decisions about the best method to complete the work, the sub-division of responsibility within the group, and the ability to communicate with other departments, groups or suppliers who provide goods or services to the group. For example, a car production line might include an AWG responsible for wiring the electrical system on a car; everything from lights to ignition. The members of the group would be trained to complete all tasks, check quality and liaise with suppliers. This approach allows problem solving, where it should occur, by workers doing the job, not by management separated by layers of hierarchy.

burger bars, many workers stay for only a short period of time, and apart from a thin veneer of empowerment, the basis of motivation remains scientific management.

### Notes

#### **The single status workplace.**

When all artificial barriers separating workers have been removed, then the single status workplace can be said to exist. For example, all employees wear the same basic clothes, use the same dining facilities, have access to the same pension schemes, leisure facilities and so on. This is strongly linked to the higher levels of Maslow.

#### **Problems with implementing non-financial methods of motivation.**

- **Existence of Theory X Managers.** These managers will see no value in using expensive methods of motivation when workers have no commitment to the business or quality of the product.
- **Cost.** All these methods are expensive in management time, systems implementation and training. To effectively use these methods there is a high level of cost. Managers must balance cost against increased output and quality.
- **External Factors.** Once workers are used to having their jobs enriched, enlarged etc, it may be difficult to remotivate them when financial circumstances caused by recession or competitors actions, force cost cutting upon a firm. Unavoidable redundancies can take away hygiene factors from those workers that remain.
- **Structure of Work force.** If a large part of the work force is not core to producing the added value of the business, there is probably no need to apply many of the methods given above. In