

## F. REWARDS

### *Motivation and Pay*

Many people associate motivation with pay. They see it as a direct link between increasing or maintaining their standard of living, buying goods to satisfy their wants and desires, and being able to afford holidays in order to alleviate role stress. When talking about motivation and pay, we need to ask ourselves a simple question that may provide an answer to whether pay is a motivator. This question is “*Do we live to work, or work to live?*” We can take both parts of the question and answer them separately.

#### (a) **Do we live to work?**

Many people see pay as a motivator because it enables them to buy the things they want, live in the area they want and buy the car that they want. **Maslow** said that “*humans are wanting beings; they always want more and what they want depends on what they already have*”. This suggests that motivation is strongly linked to pay because, in many cases, the harder we work (such as overtime), the more reward we get (in terms of money), the more we have available to spend (disposable income).

However, **Herzberg** stated that money is not a motivator, but a hygiene factor. This means that it is a dissatisfier rather than a motivator, and that when people get a certain level of salary, once they are used to it they become dissatisfied with it and want more.

**(b) Do we work to live?**

Many see work as a means to an end – providing just enough pay to “*keep them alive and keep a roof over their heads*”. People in this category are often motivated by intrinsic rewards, such as praise and recognition, rather than extrinsic rewards, such as pay and other associated benefits.

***Payment Systems***

Put very simply, a payment system is a method by which the salary or wage of an employee is calculated. However, it has a significance to the organisation which goes far beyond this.

**(a) The aims of payment systems**

There are a variety of types of payment system, as we shall consider below. What they have in common, though, is that they all allow for different employees to be paid at different rates. The rates at which individuals, or groups of, employees are paid – and the “differentials” or “relativities” between individuals and groups – are important issues for an organisation (and, indeed, for an economy as a whole). They need to be addressed as part of the holistic design of a system.

The establishment of a payment system clearly involves balancing the organisation’s interests with those of its employees. For the system to be effective, it needs to meet the following three criteria:

- take account of the needs of the organisation and of its employees;
- have the commitment of all sections and levels of management in the organisation; and
- have been developed, installed and maintained with the participation of employee representatives.

To the organisation, the payment system must support the cost-effective achievement of its goals. Labour is often one of its highest costs, particularly in the service sector, and the overall cost needs to be balanced against other aims. These general aims are that the payment system should:

- be an integral part of the business strategy;
- be linked to human resource planning;
- facilitate change and development within the organisation;
- ensure that suitable staff may be recruited into the organisation;
- facilitate the deployment of staff to ensure maximum productivity; and
- relate to the continued attainment of high performance.

In influencing recruitment, deployment and performance levels, the payment system is clearly linked to human resource management. From this perspective, payment systems need to:

- attract staff of the right calibre into the organisation, at all levels and in all types of job (including facilitating the payment of enhanced rates to attract staff in skills shortage areas and for short term contracts, where appropriate);
- encourage staff to make full use of their capabilities and develop their potential in striving to achieve the objectives set by the organisation;
- reward staff in accordance with their contribution;

- prevent any loss of morale through dissatisfaction with pay – as per Herzberg's notion of pay as a hygiene factor;
- encourage staff to stay with the organisation, if that is an objective;
- be seen to achieve these aims at least cost to the organisation.

**(b) Types of payment system**

There are two basic types of payment system:

- time, or flat rate, systems – in which pay is expressed as an hourly, weekly or annual rate; and
- performance related systems – where pay is linked to performance, with higher levels of performance leading to increased pay.

The two systems are not mutually exclusive and are often combined in some way.

*Time, or flat rate, systems*

Virtually all organisations use flat rate systems to some extent.

The basis of such systems is a rate of pay attached to particular jobs. Jobs will be graded to differentiate between them on the basis of such factors as the difficulty of tasks, skills required, level of responsibility, etc. (The way in which jobs are graded and differentiated, one against another, is considered in the next section on job evaluation.) Pay rates will then be expressed as an hourly, weekly or annual rate for the performance of the duties and responsibilities of the job.

Part time employees will be paid a proportion of any weekly or annual rate in respect of the hours/days worked.

Such systems have a number of advantages, including that:

- they are relatively easy to administer once the overall rate and differentials have been agreed and established;
- they are easily understood by employees and are not likely to lead to disputes, other than over basic rates;
- they help the forecasting of labour costs since salaries are a known factor and do not change, other than across the board in respect of, say, cost of living increases; and
- employees find it easy to check to see that they had been paid correctly.

Flat rate systems do not, however, provide for incentives to improve productivity. Everyone is paid the same for the job, regardless of performance.

Such systems are most appropriate in the following conditions:

- where the volume of work is difficult to measure;
- where work flow over a period is uneven;
- where the volume or pace of work is outside the control of the employee; and
- where considerations other than output are of more importance (although this is very unlikely).

### ***Incremental scales***

Many organisations, rather than having one pay rate attached to a job, have scales of pay related to them. An individual job-holder may qualify for a higher position on the scale, and thus a higher rate of pay for the job, according to various factors:

- performance – receiving additional increments on the scale may be linked to assessment of performance;
- length of service – with increments being awarded annually, thus rewarding staff who stay with the organisation;
- experience – recognising an (assumed) greater level of skill acquired through experience in the same or very similar work in the past;
- qualification – again recognising an (assumed) greater level of skill, as evidenced by the holding of relevant qualifications.

Incremental scales tend to be associated with large organisations, particularly in the public sector, with fixed rates applying throughout the organisation or even to whole occupational groups, such as teaching or nursing. The details of pay rates attached to particular groups, and the conditions for receiving incremental increases, are agreed by a process of collective bargaining between employers and employees representatives. There are any number of advantages to collective bargaining in that it involves employees (through their trade unions) in the process and thereby gains their commitment, it produces nationally binding agreements and also takes the process of determining pay rates away from individual managers. However, it also tends to produce very inflexible schemes which do not allow for individual circumstances to influence pay rates, particularly in respect of the (local) market for skills and labour in general.

### ***Performance related pay systems***

Performance related pay has been an accepted payment system in many occupations for a long time – for example, salespersons earning commission on sales or manual workers being paid according to output (“piece-work”). Generally, such pay does not form the whole of the job-holder’s pay, but the proportion may vary from forming the largest part of his/her earnings to being only a minor addition to flat rate pay.

There has been a significant growth in performance related pay in all sectors of the economy in recent years as organisations have sought to find rewards systems which are linked more closely with performance. (This is related to the growing acceptance of the expectancy theory of motivation.)

The traditional basis for this type of payment system has been the performance of the individual, but increasingly pay may be related to team performance or the performance of the organisation as a whole.

- **Individual-based systems**

This relates directly to performance levels against agreed, measurable standards. It provides a strong incentive to meet such performance targets, but can be expensive to maintain (through the need to consistently measure performance and calculate consequent payments) and may lead to disputes about the standards themselves or the ability of individuals to meet them.