Motivation: The Compensation Perspective

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ABSTRACT
Compensation decision making is becoming more complex with growing uncertainty and competition in business. These decisions affect the motivation levels of the employees to a large extent. Motivation has a direct impact on the performance of the employees and their decision to stay with the organization. The reward system which includes both transactional and relational rewards offers an array of elements which have motivational implications. In this paper an attempt has been made to analyse various theories of motivation in the compensation perspective. The analysis has been done with the objective of highlighting the applicability of these theories in the formulation of compensation decisions.

Keywords: Motivation, Performance, Relational Rewards, Transactional Rewards

I. INTRODUCTION
One of the most critical activities for any organization is compensation decision making. In the present times of turbulence, accelerating and unexpected changes the challenge of obtaining, retaining and motivating employees to higher levels of performance is crucial. This is essential not only for the profitability of an organization but its existence. Designing and administering a compensation system that stimulates the work-force towards organizational effectiveness thus becomes a pressing imperative.

Compensation is a complex and often a confusing issue. Compensation costs, on an average are 65% to 70% of total costs in the U.S. economy and are substantial in developing economies also. The possible consequences of spending either more or less, on employees or paying them in different ways remains an enigma. Compensation systems should attempt to integrate organizational mission and policy with employee compensation preferences in a manner that results in higher organizational productivity and enhances motivation levels of the employees. Compensation is what employees receive in exchange for their contribution to the organization. The outcomes of compensation dissatisfaction whether absolute or relative, detract from organizational productivity and diminish the quality of work life.

The essence of meaningful compensation systems lies in striking a balance between individual satisfaction and organizational competitiveness. Compensation is one of the most potent tools to align performance with strategy as unlike other managerial interventions like staffing and development, compensation systems can be quickly modified and linked with new strategies. Over time, it has also become evident that a range of psychologically meaningful constituents of compensation can be varied to acquire motivational leverage without increasing the compensation budget. Payment systems are complex which makes it difficult to blend and amalgamate them with the theories of motivation in a comprehensive and comprehensible structure. The expansive scope of compensation management imparts it with flexibility and responsiveness. The total reward concept of compensation highlights the importance of all aspects of compensation reward.

II. REWARD SYSTEM
Compensation offerings of an organization are referred to as the reward system. It includes all offerings that an employee desires, cherishes and values and that the employer is willing to offer in exchange for their contributions. For rewards to stimulate desired behaviours they must be aligned to the demands of the employees. The total reward concept emphasizes the importance of considering all aspects of rewards as an integrated and coherent whole. As Paul Thompson suggests : "Definitions of total reward typically encompass not only traditional, quantifiable elements like salary, variable pay and benefits, but also more intangible non-cash elements such as scope to achieve and exercise responsibility, career opportunities learning and development, the intrinsic motivation provided by the work itself and the quality of life provided by the
organization.” A total reward approach is holistic; reliance is not placed on one or two reward mechanisms or levers operating in isolation.

The pecuniary compensation dimensions of the reward system include monetary and in-kind claims on goods and services and are termed as transactional rewards. These generally include:

- Pay for Work and Performance
- Loss of Job Income Continuation
- Pay for Time not Worked
- Disability Income Continuation
- Deferred Income
- Spouse (family) Income Continuation
- Health, Accident and Liability Protection
- Share Benefits
- Income Equivalent Payments

The other major part of the reward system consists of the non-pecuniary, non-compensation or non-financial rewards which are termed as relational rewards. The classification of these rewards is more complex as they are situation-related and not explicitly included in the compensation package. A large number of components constitute these rewards and relate to the work situation and to the physical and psychological well being of the employees. Behavioural scientists have stressed the importance of non-financial components as critical for improving workplace performance. Relational rewards have an important role in satisfying the emotional and intellectual needs of the employees. They make it possible for employees to make full use of their talents and promote interactions with others in a supportive manner. In the past few decades organizations have placed increased reliance on relational rewards as a means of influencing employee behaviours. Relational rewards include:

- Recognition, Responsibility, Autonomy and Meaningful Work
- Enhancement of Dignity and Satisfaction from Work Performed
- Enhancement of Physiological Health, Intellectual Growth and Emotional Maturity
- Promotion of Constructive Social Relationships with Co-workers
- Design Jobs that Require Adequate Attention and Effort
- Allocation of Sufficient Resources to Perform Work Assignments
- Grant Sufficient Control over the Job to Meet Personal Demands
- Offer Supportive Leadership and Management

The objective of the reward system is to decide on compensation decisions which motivate people to join the organization, stay with the organization and to perform at high levels. It is apparent that many factors other than compensation influence individuals to join a particular organization but compensation is the major factor. Benefits both tangible and intangible enhance the attractiveness of a potential employer. Retaining suitable employees is equally important and is influenced by a complex set of variables. Many variables beyond economic compensation influence this decision. Non-pecuniary rewards and leadership style of the employer are given high consideration. External and internal equity, also, has to be maintained for retention. Benefits which grow with the length of service also induce employees to stay with the organization. The most crucial objective is to motivate performance. Complex interaction of various variables impact on individual’s motivation to perform. Of these variables, rewards, both transactional and relational are by far the most important and effective.

III. MOTIVATION

Motivation is concerned with attributing causes to and reasons for behaviour. It seeks to analyze both impulsive and deliberate behaviour and with relating a person's internal dynamics to external circumstances. Likert places motivation at the core of management as it is one of the most important factor affecting human behaviour and performance. Motivation theory is concerned with what determines goal-directed behaviour. Motivation is a process that influences an individual's intensity, direction and persistent effort towards attaining a goal. Intensity refers to how hard a person tries. High intensity by itself is not very likely to lead to desired job-performance outcome unless the effort placed is channeled in a direction which is consistent with the organizational goals. Persistence is a measure of how long the individual can put in sustained effort. For achievement of their goal, motivated individuals pursue the task until they have accomplished it. Motivation varies both between individuals and within individuals at different times. Behaviour is determined by several variables which can be broadly classified as individual and situational. Individual variables are personality and physical characteristics, interest and aptitude, gender and age, education and experience. Situational variables include social, organizational and job variables. Motivation at the workplace takes place in two ways; intrinsic and extrinsic. The content of the job determines intrinsic motivation. It is the process by which the work and the work place satisfies people's needs or leads to the expectation that their goals will be achieved. Though intrinsic motivation is self generated the management can enhance this process through empowerment and engagement which are important elements of relational rewards. Extrinsic motivation is elicited through pecuniary instruments and is not inherent to the work itself but emerges from outside the work. Immediate and powerful effect is exerted by extrinsic motivation but is not necessarily enduring. Since intrinsic motivation is inherent in individuals and not imposed externally, it has prolonged endurance and can be encouraged by the organization. Motivation theory attempts to determine the factors that cause goal directed behaviour. Within this context the issues are :-
employees can be made to deliver high levels of performance, contribution and discretionary effort needs to be incorporated in reward management policies structures and practices. Though, these assumptions may not be explicitly stated, they form the base and the basis of compensation system. For this, the implications of motivation theories needs to be examined in the compensation perspective.

IV. NEED FULFILLMENT THEORIES

These theories focus on the individual's attempt to satisfy needs by pursuing various kinds of actions or behaviours and are also referred to as the content theories of motivation. Needs reflect physiological or psychological deficiencies and are additional aspects of individual attributes. Personality theorists have emphasized need fulfillment models of personality whereas organizational scholars have been mainly concerned with need theories proposed by Abraham Maslow, Clayton Alderfer and Fredrick Herzberg.

Maslow's theory is one of the most popular theories in management and organizational behaviour. It suggests that the strongest need at any time determines the behaviour of an individual. Needs are sequenced in a prepotent order. Maslow developed the proposition that the lower-level needs relating to physiological survival must be reasonably satisfied before a person attempts to satisfy higher order needs relating to the emotional and intellectual makeup of an individual.

Alderfer made an attempt to recast Maslow's theory aligning it more closely to empirical research. He argued that there are three groups of core needs.

- Existence needs. Needs related to physiological and safety aspects are included in this group.
- Relatedness Needs. Needs that involve relationship with other people are included in this group. They can be defined as the desire for sharing feelings and thoughts with other people.
- Growth Needs. Needs pertaining to the desire to use ability and pursue interest to the utmost are included in this group. These needs involve the individual making creative efforts to achieve full potential in the existing environment.

Alderfer was of the view that these needs did not exist in a strict hierarchy and a person could focus on all the needs simultaneously.

Fredrick Herzberg, a psychologist proposed the two-factor theory which is also referred to as the motivation-hygiene and the dual factor theory. He considered the individual's relation to work as basic and that the attitude towards work determines success or failure. The distinctive feature of this theory is that it approaches need fulfillment from the perspective of a working-being rather that a human being as had been considered by Maslow and Alderfer. After extensive research alongside his associates, he indentified 'things' in the work situation that individuals find satisfying and dissatisfying and classified them as motivation and hygiene factors. The hygiene factors are not intrinsic to
the job as they relate to the conditions under which the job is performed and are necessary for maintenance of employees motivation at a reasonable level. Increases in these factors beyond a particular level does not result in any increase in satisfaction whereas any decrease is dissatisfying. The presence of hygiene factors eliminates job dissatisfaction but does not result in job satisfaction. Herzberg has determined ten maintenance or hygiene factors: company policy and administration, technical supervision, interpersonal relationship with supervisors, interpersonal relationship with peers, interpersonal relationship with subordinates, salary, job security, personal life, working conditions and status. Motivational factors help creating and environment which inspires the employees to enhance performance and have a positive effect on job satisfaction. These factors are achievement, recognition, advancement, work, itself, possibility of growth and responsibility. The nature of these factors is intrinsic and have a direct relation with job satisfaction. It is suggested that satisfaction and dissatisfaction are not opposite poles of one dimension but they are two separate and distinct dimensions. In the organizational context Herzberg’s theory prescribes the improvement of hygiene factors to remove dissatisfactions and to provide satisfiers for creating a favourable frame of mind for motivation.

Need Fulfillment Theories : Compensation Perspective. In spite of various criticisms, these theories have a fair degree of prescriptive value. Broadly lower order needs and hygiene factors correspond to transactional rewards while higher order needs and motivational factors are aligned to relational rewards. It is also true that need fulfillment theories have not received much empirical support. Serious methodological deficiencies have been found in studies supporting these theories. The lower order needs are not likely to be fulfilled as employees lifestyles are highly dependent on earned incomes. This would suggest that employees would only be concerned with pay as their needs would not progress to higher levels. Individuals can be expected to have all the needs discussed by Herzberg but are unlikely to separate them into the two-factors. For example, employees can view pay raises as either a sign of organizational recognition for achievement or a reward rightfully due for added responsibility with advancement. In spite of not much support for the precise formulation of need fulfillment theories, there is considerable evidence that people work to fulfill a variety of intrinsic and extrinsic, personal and work related needs. Need theories provide compensation decision makers with useful guidance in the kinds of needs that may be satisfied by a given compensation system.

V. EXPECTANCY THEORY

The expectancy theory propounded by Victor Vroom is one of the most widely accepted explanations of motivation. It is based on the idea that work effort is directed towards behaviour that people believe will lead to desired outcome. The theory is buttressed by the cognitive concept in choice behaviour and utility concept of classical economics. Four variables constitute the building blocks of the model. First-level-outcome is the performance achieved as a result of effort while the rewards resulting from performance represent the second-level-outcome. Expectancy is the belief that a particular level of effort will lead to a particular level of performance. The association of the first and second level outcome is termed as instrumentality, Valence, the fourth variable is the individual’s preference for the second-level-outcome.

Motivation = Expectancy × Instrumentality × Valence

Expectancy theory suggests that employees will be motivated and inclined to exert a high level of effort if they believe that their effort will lead to organizational rewards for which they have a strong preference. The cognitive nature of this theory views individuals as thinking and reasoning beings who have beliefs and anticipations. This theory sees beyond what Maslow and Herzberg suggested that motivation at work can occur when work can satisfy unsatisfied needs and also indicates the relationship between individual and organization goals. Expected theory is within-person theory of motivation that views performance as a joint function of a person's ability and motivational force to engage in one level of behaviour rather than another.

Expectancy theory : Compensation Perspective. Expectancy theory offers three guidelines for designing incentives:-

1. The need to define or identify explicitly certain desired action (activities).
2. The need to relate specific outcomes and consequences to the demonstration of certain action.
3. The need to provide the consequence within some established schedule.

The application of this theory is for both transactional and relational rewards. It explains why intrinsic motivation works only if the link between effort and reward is clear and the value of the reward is worth the effort. It also explains, why intrinsic motivation arising from the work itself can be more powerful than extrinsic motivation. Intrinsic motivation outcomes are more under the control of individuals, who can place greater reliance on their past experiences to indicate the extent to which positive results are likely to be obtained from their behaviour. Employee's perception and ability to perform is strongly influenced by the organization and the immediate supervisor. Research has shown that an employee's treatment in the first few weeks on the job can significantly influence the employee's ability to perform the job and desire to remain with the organization. This is largely because of supportive leadership and management which is a relational reward. Several factors influence the values attached to the second-level-outcomes. The values attached to the second-level-outcome, to a large extent are determined by how much the organization contributes to satisfying the needs that people bring to the work place. This
supports the practice of flexible benefits to satisfy a variety of employee needs.

Research has revealed an interesting characteristic of the expectancy theory. Both positive and negative outcomes influence an individual's level of motivation but these outcomes may be processed differently. The magnitude of the outcomes is important if it is positive, but for negative outcomes, the magnitude of the outcomes is not considered. This highlights the importance of the organization taking a proactive approach to determine which outcomes are most valued for each employee and designing a flexible compensation programme that can meet as many needs as possible. Considerable control over shaping employee perceptions and reinforcing their behaviours can be exercised through compensation decisions. These can influence employee beliefs about the instrumentalities and outcomes associated with behaviour.

VI. REINFORCEMENT THEORY

The concept and components of the reinforcement theory are based primarily on the work of B.F. Skinner. This theory is a valuable contribution for analyzing and influencing employee behaviour at work. Focusing on operant behaviour, it is stressed that operant behaviour does not depend entirely on its consequences but also that the environment shapes, changes and directs human behaviour. The elements central to the theory are stimulus, response and reinforcement. Input provided by the environment that energizes the individual to react in a certain way is called stimulus. The individual's reaction to the stimulus is termed as response. Reinforcement is the consequences to the individual for selection of a specific response. Reinforcement determines the strength of the response and tends to induce repetitions of the behaviour that preceded the reinforcement. A reinforcer can be either primary or secondary. A primary reinforcer is satisfying or dissatisfying because of innate properties while secondary reinforcers have their value because of past experience. A reward system is mostly concerned with secondary reinforcers which can be designed to motivate employee behaviour within the work environment. The individual learns over time which responses are appropriate based on the consequence of the earlier responses and will select those responses that lead either directly or indirectly to desired goals. Behaviour can be modified by changing the consequences associated with that behaviour.

The design of the compensation system is concerned with four types of reinforcements; positive reinforcement, negative reinforcement, extinction and punishment. The application of a reinforcer to increase the probability of repetition of desired behaviour in a similar situation is positive reinforcement. The removal of an undesirable stimulus on establishment of desired behaviour is negative reinforcement. Extinction is the removal of a previous positive reinforcer to eliminate an undesirable behaviour. Punishment is the application of the reinforcer to decrease the probability that the undesired behaviour will be repeated.

Reinforcement Theory: Compensation Perspective. Reinforcement theory has extensive application for understanding human behaviour and designing compensation systems. For a pay for performance design a reward in the form of a consequence or a reinforcer will have increased motivational influence when employees recognize a direct relationship between activities performed, results achieved and rewards gained. Timing of the delivery of rewards closely approximate to the completion of an assignment or achievement of a result increases motivation further. The most powerful short-term incentive is related to individual performance while those related to overall organizational performance have comparatively less value.

Research has provided enough evidence that reinforcers such as financial incentive plans, praise and criticisms, and self management programmes are helpful in reinforcing desired behaviour. In an organization, effective performance by employees must be positively reinforced, poor performance should not be reinforced and in some situations punishment may be effective in influencing human behaviour. Salary plans are effective in maintaining performance at satisfactory levels but do not influence performance beyond that level. Commission pay is effective in initiating higher levels of performance but cannot sustain the behaviours and usually does not raise performance to the full potential of the employee. There is a contention that extrinsic rewards may actually reduce intrinsic motivation but there is not much empirical evidence to support this belief. It has also been asserted that in a task with intrinsic potential to motivate performance, pay for performance could reduce employee motivation and block improved performance. This suggests that relational rewards have an important role in influencing performance.

An important non financial reinforcer is self management. The reinforcer operates through training individuals in self observation and the comparison of their behaviours with the goal they have set. To achieve and sustain the established goals the individuals will administer reinforcers or punishment based on self observation. The main advantage of self management is that it generates a belief among the individuals that they have control over their behaviour. The role of self management will grow in importance in future as work assignments are becoming team oriented, organizational structures are being flatter and employees are seeking autonomy. Outcomes provided by the organization, consciously or unconsciously reinforce employee behaviours. This reinforcement can be offered through the wide array of transactional and relational reward.

VII. ADAM'S EQUITY THEORY

This theory is based on the formulation of fairness suggesting that an individual's assessment of
equity is based on comparison with another party. Individual’s, while assessing equity compare their situation with that of other people rather than that with an absolute standard. It is based on the premise that individuals are motivated by their desire to be equitably treated in their work relationships. Employees working in an organization exchange their contributions for the rewards offered by the organization. The equity theory proposes that individuals attempt to reduce any inequity they feel resulting from this exchange relationship.

Employees make comparisons of their job inputs like effort, experience, education and competence and outcomes like salary, promotions and recognitions relative to those of others. From this comparison, three outcomes are possible. First, if these two ratios are assessed to be equal by the party making the comparisons a state of equity exists. Second, the party making the comparison may find that the other person’s ratio is greater than his or her ratio. Third, it may be found that the other person’s ratio is less than his or her ratio. The party doing the comparison perceives the second and third outcomes as inequitable. The feeling of being under rewarded or over rewarded creates an equity tension called cognitive dissonance. This negative state of tension provides the motivation to do something to correct it. The comparisons made by the employees are relative to friends, neighbors, co-worker or colleagues in other similar organizations or compare their present job with jobs they have had in the past.

**Equity Theory : Compensative Perspective.** Rewards received with a feeling of equity can foster job satisfaction and performance while those received with a feeling of inequity can damage these key work results. Research has also shown that unless the organization’s pay and benefit rates are seen as equitable relative to other firms, the organization may find it difficult to attract and retain employees. In theory, employee’s perception of inequity can result in six actions:

1. Change inputs, for example, decrease or increase effort or time investment.
2. Change outputs, for example, ask for a raise, or take time off.
3. Attempt to persuade others to change their inputs, for example, try to get co-workers to work harder or to work less.
4. Abandon the present outcome and input ratio for a new one. For example, consider different outcomes and input in the equation. This can be done by using a different comparison person.
5. Rationalize any difference in outcomes of inputs. For example, start believing that it is fair for the other person to be paid more perhaps because the job he is doing is more boring as compared to his.
6. Withdraw, for example, quit, ask for a transfer or leave the inequitable work situation.

These theoretical propositions are generally supported by empirical research. However, inequities due to overpayment do not seem to have a very significant impact on behaviour in most work situations. People seem to have move tolerance of overpayment inequities than of under payment inequities and are better able to rationalize them. In studies of underpaid employees, the results indicate that individuals try to restore equity. This restoration of equity can take the form of coming late to work, availing all possible leaves or engaging in negative behaviour such as sabotage and theft.

Recent research has enlarged the meaning of equity, fairness or justice. For making compensation decisions, justice can be considered as an outcome and as a process. Distributive justice is the employee’s perceived fairness of the amount and allocation of rewards or outcomes among the individuals. Procedural justice refers to the perceived fairness of the process used to determine the distribution of these rewards. Research in compensation management has mainly focused on outcome fairness and its relationship to desired employee attitudes and behaviour. Equity, can also be considered from the standpoint of organizational justice which refer to the overall perception of what is fair in the work place. The organization is perceived as fair when the employees perceive the outcomes they have received and the way in which these outcomes were received are fair. Organizational justice is subjective and is formed by the perception of the employee. Research on organizational justice has yielded one more from of justice referred to as interactional justice. Interactional justice is the individual's perception of the degree to which he or she is treated with dignity, concern and respect. Of these forms of justice, distributive justice is most strongly related to satisfaction with outcome and organizational commitment. Procedural justice relates more strongly to job satisfaction, employee trust, job performance and citizenship behaviour.

Equity theory and related research offer important insights for assessing the considerations of applicants and employees regarding joining, remaining and performing in an organization. The most basic prescription of maintaining both internal and external equity has been stressed all through besides considering other facets of equity and justice. Individuals compare their reward situation with people having similar skills and abilities. Serious negative consequences to the organization result from any feeling of inequity. Perceptions of distributive and procedural justice shape the attitudes about outcome received and the agents and institutions responsible for these outcomes. Distributive justice perceptions are more strongly directed towards evaluation of outcomes while procedural justice perceptions are focused on evaluation of the agents and institutions responsible for these outcomes. Distributive justice perceptions are more important to voluntary turnover while procedural justice perceptions are more important to job performance.

Equity comparison are evoked more by pay basis decisions like merit increase or bonuses than other pay decisions. This is because individuals judge the level of their pay in relative rather than absolute terms. Moreover, pay basis decisions often involve comparisons among people doing a similar nature of
work in the same organization while pay structure decisions involve comparisons across jobs. For this reason, pay basis decisions can be a source of considerable monitoring and reactivity.

VIII. CONCLUSION

Transactional and Relational rewards are powerful motivators in themselves and their effectiveness can be further enhanced by their integration as a total reward process. For compensation decision making, the alidity of these rewards as motivators can be linked to the different theories of motivation. The various theories of motivation have significant compensation implications. Even the earlier need fulfillment theories, in spite of their shortcomings, indicate the importance of pay process. For compensation decision making, the can be further enhanced by their integration as a total motivators in themselves and their effectivity can be considerably monitored and reactive.

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