

motivation and reward systems

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An overview of motivation and reward systems is given in the international context. Two questions are addressed: (i) what is the impact of reward systems on motivation? and (ii) are there cultural differences in the impact of reward systems on motivation?

THE IMPACT OF REWARD SYSTEMS ON MOTIVATION

Definitions. Organizations need motivated employees to maintain an effective workforce that is willing to achieve strategic organizational goals. Motivation can be defined as “a set of energetic forces that originate both within as well as beyond an individual’s being to initiate work-related behavior, and determine its form, direction, intensity, and duration” (Pinder, 1984, p. 8).

Rewards can be used to influence motivation. By no means are financial rewards the only way to motivate, as there are many HRM practices that aim to motivate (*see* HUMAN RESOURCE MANAGEMENT). The literature on reward systems has broadened its scope to include nonfinancial rewards, as these are also important to direct and shape desired behaviors (Chiang and Birtch, 2007), but usually reward systems refer to the allocation of pay.

A reward system consists of the policies and mechanisms by which organizations administer employee rewards, for example, by annual pay increases. A reward system should satisfy the goals associated with the strategy of an organization, while at the same time be attractive, cost effective, and fair. There are many variations possible, as a mix of components that include fixed, variable, and indirect rewards.

Within a particular system, it is important to consider two aspects: First, the *reward type*, the nature of the reward itself that may be financial or not, and fixed or contingent on a certain criterion. Second, the *reward criteria*, the norms and principles on which rewards are allocated, for example, individual or team performance. Criteria that are agreed on and liked by employees in many countries in the

world are performance (e.g., individual output), job inputs (e.g., responsibility), and human capital (e.g., skills and knowledge) (Chiang and Birtch, 2005).

Pay in exchange for efforts devoted to the organization allows people to spend money on things they value, but in addition, it provides other meanings (Thierry, 1992). Specifically, it provides information on the achievements, status, and appreciation of a person or team. The meaning of pay is of importance to the individual receiving the pay, but is also interpreted by peer workers (Larkin *et al.*, 2012, p. 1209) and others within and beyond an organization.

Within organizations, pay differentiation helps to distinguish the appreciation of the efforts of an individual for the organization. When the pay is contingent on performance, the different aspects of its meaning may become more salient. When rewards are small, they may become meaningless. When they are large, they may even motivate behaviors that are detrimental to the organization, as the famous example of the rogue trader Nick Leeson demonstrated.

Between organizations, pay may help to compete with other organizations to attract and retain the people with those skills and knowledge needed in an organization, provided it is considered more valuable than what others offer. This mechanism is referred to as the sorting effect which assumes that organizations attract certain people, and higher skilled persons are attracted to the highest paying organizations.

Principles. On the basis of the literature, the principles as laid out in reinforcement theory, and EQUITY THEORY would explain why reward systems can enhance motivation. Reinforcement theory states that behavior can be reinforced by basic stimulus–response linkages. As such, having been rewarded for desired behavior or output makes the occurrence of the behavior more likely in the future. Variations in the size and the timing of the reward account for the size of the motivating effect. Expectancy theory states that not only past experiences but also the expected rewards are important motivators. Certain rewards are more motivating than others. Specifically, rewards which are attainable and valued because they are instrumental to attractive outcomes are further motivating than

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those that are less so. Equity theory principles would build on this, but would also include a judgment of effort and rewards in comparison to others. In other words, a system with motivating principles should include predictable rewards as a result of effort that are considered fair when compared to others who invest the same efforts. Social exchange principles would explain that enhanced effort would be spent in systems that are appreciated.

Pay dispersion can be considered in this context: how just is the difference between lowest and highest pay in an organization (distributive justice)? Often, it is equally important how the process is experienced that accounts for the allocation of the rewards (procedural justice), for example, based on performance output or rankings. There are signs that equity principles are more or less universal; people in different cultures prefer performance-based systems over nonperformance-based systems (e.g., seniority) (Chiang and Birtch, 2005, 2007; Fischer and Smith, 2003).

Summarizing, the size of the rewards, the way in which the rewards follow performance, whether people expect to obtain valuable rewards and what they find fair in relation to what others receive play an important role in the appreciation of rewards. In exchange for these rewards, employees would increase efforts for the organization.

Psychological meaning of pay. Pay has meaning besides the instrumental value of being able to buy goods with it. This implies that besides the simple rule “more is better,” pay is experienced as more or less rewarding dependent on its psychological interpretation or meaning. There is no straightforward best practice in pay strategy, and of all HRM tools, evaluation, and reward systems appear to be the most controversial.

Much of the debate centers on individual pay-for-performance. With respect to this issue, it is important to realize that “... the efficacy of individual pay-for-performance is powerfully influenced by psychological factors which if not considered a priori could have considerable unintended consequences for the firm. In choosing whether to implement such a pay system, managers must not only consider

easily quantifiable economic costs related to the observability of worker pay and productivity, but also psychological costs due to social comparisons and overconfidence.” (Larkin *et al.*, 2012, p. 1209). This debate focuses on the previously ignored disadvantages of using individual pay-for-performance. The debate focuses on three aspects: (i) the crowding out of intrinsic motivation, because a number of studies have shown that rewards may lead to lower performance than no rewards in certain conditions. For example, performance decreases when the payment is experienced as controlling and as an indication of decreased autonomy, or when the task is experienced as enjoyable and interesting; (ii) undesired effects due to the violation of equity principles, such as lower motivation or sabotage in reaction to feeling treated unfairly; and (iii) the short term gains that may induce certain individuals to taking irresponsible risks in terms of a long-term perspective.

CULTURAL DIFFERENCES IN IMPACT OF REWARD SYSTEMS ON MOTIVATION

Culture can be seen as referring to a set of relatively stable characteristics of a group that differentiate it from other groups (*see CULTURE*). Cultural values may be summarized along several dimensions, such as described in Hofstede’s model (*see HOFSTEDE’S CULTURAL DIMENSIONS*) and the Globe project (*see PROJECT GLOBE: INSIGHTS INTO THE STUDY OF CULTURE AND LEADERSHIP*). Although these two approaches are not without criticism regarding the measurement and assumed stability of the dimensions, these have been most widely used.

Only rarely, research considers motivation or reward allocation cross-culturally (for an excellent overview, *see Tsui et al.*, 2007). Yet, if need structures are culturally bound then it is reasonable to assume that motivation and the appreciation of rewards are equally affected. By no means can cultural differences be seen as the only contextual difference that may impact on the motivating effect of reward systems. For example, the cultural differences may be confounded with the national legal restrictions of how to allocate pay. However, there

is some research that pointed out the underlying cultural dimensions that may influence the effects of reward systems. As such, culture may be seen as an independent variable or as a moderating variable on distributive justice (Tsui *et al.*, 2007). Tsui *et al.* summarize the studies conducted in this area.

From a more fundamental point of view, a meta-analysis of experimental studies investigating cultural differences in the pay allocation (Fischer and Smith, 2003) found systematic differences. These revealed that collectivists allocated pay according to equality principles, or indicated a preference for this, and individualists according to equity principles. However, this review included only two studies among employees, and these studies appeared to contradict the findings among students. Recently, there have been a number of cross-cultural studies in which employees indicate pay preferences, in terms of what they prefer to receive.

Pay practices and preferences in different cultures. Motivation and pay preferences in international context have received very little research attention. Some studies (e.g., (Chiang and Birtch, 2005, 2007)) found support for the idea that cultural dimensions systematically relate to differences in preferences for reward types, systems, and criteria. Other studies focused on outcomes that are closely related to motivation, such as engagement, job satisfaction, and turnover intentions, and possibly these can be extrapolated. Also, some studies focused on the occurrence of practices, rather than pay preferences (e.g., (Papalexandris and Panayotopoulou, 2004; Schuler and Rogovsky, 1998)). The picture which arises from these studies shows that pay and rewards may indeed take on a different meaning in different cultures. Most of the studies involved East–West comparisons. However, also within Asia some differences were noted. Some examples are given below.

Individualism. Japanese preferred task input as a basis for pay rather than the maintenance of relations, which was preferred in two other Asian countries (Fischer and Smith, 2003; Kim and Leung, 2007). Japanese see themselves as more independent from others than South Koreans and Hong Kong Chinese. Seeing

oneself as independent from others may be seen as an indication of individualism.

Power distance. Power distance was negatively correlated to individual pay determination within 19 European countries (Papalexandris and Panayotopoulou, 2004).

Uncertainty avoidance. More seniority-based pay and less individual performance-based pay practices were found in countries with a high degree of uncertainty avoidance (Schuler and Rogovsky, 1998).

Competition/masculinity. In competitive (masculine) cultures, financial type of rewards appear to be more valued than social rewards, which are valued higher in noncompetitive (feminine) cultures. Overall, Nordic countries such as Finland (Chiang and Birtch, 2007) but also Germanic (Segalla *et al.*, 2006) appear to prefer egalitarian systems, whereas Anglo Saxon and Asian countries prefer individual type competitive systems. Gender egalitarianism at the societal level was related to national level pay determination of payment of managers (Papalexandris and Panayotopoulou, 2004).

It should be kept in mind that many other contextual differences besides culture may play a role in motivation, such as the centrality of work in a culture and the general standard of living (Huang and Van De Vliert, 2003). The cultural context that shapes beliefs and values is difficult to distinguish from other types of international contexts. As such, the motivational effects of pay systems should be considered in a polycontextual approach (Tsui *et al.*, 2007). This means besides cultural contexts, the economic context may be equally important, for that matter, the political, historical, social, or physical context. As for the transferability of the so-called calculative HRM, in which individual performance is evaluated and rewarded, there are indications that the institutional context in terms of labor relations is more important than the cultural values (Brookes *et al.*, 2011). Whether this implies that what is transferred and is applied more often is also experienced as motivating to a higher degree, as suggested by the idea that “compensation systems that tend to be more effective will be used more often” (Larkin *et al.*, 2012, p. 1196), or whether

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unconventional reward systems in a particular context may be motivating, remains a topic for future research.

CONCLUSION

There is much variation in reward systems between organizations and between countries in which these organizations operate. Organizations may use different reward types and criteria. It is important to know how these different systems affect motivation. However, the complexity of the effects of reward systems in a day-to-day context is enormous. To apply cost effective reward systems strategically in organizations, it is important to realize that both intended and unintended consequences may arise. Overall, fairness appears to be a universal aspect of a good system. What this exactly means in different cultures, however, remains a question that can be inspected in more detail. Finally, it is important to consider that cultural changes may influence reward systems. For example, some research points out that societies may become more individualistic over time as a function of economic growth. This may lead to different cultural values, preferences in reward systems, and motivation, as well as institutional changes, for example in tax systems. How reward systems affect motivation in an international context remains difficult to assess. However, the more that can be said about it, the better, because knowledge is important. Decisions on reward systems affect the competitiveness of organizations and the happiness of employees.

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