CHAPTER 6

Promoting Excellence through Well-Designed Motivation and Reward Systems

CHAPTER OUTLINE

- Understanding Employee Motivation
- Theories of Motivation
- Designing Effective Reward Systems
- Incorporating Intrinsic Rewards into the Reward System
- Allocating Extrinsic Rewards and Employee Benefits
- Compensation and Financial Incentives
- Paid Time Off
- Insurance and Retirement Benefits
- Employee Service Benefits
- Alternative Work Arrangements
- Job Security and Internal Mobility
- Recognition
- The Cafeteria Plan
- Motivation, Rewards, and Internal Consistency

CHAPTER OBJECTIVES

Upon completion of this chapter, the reader will be able to:

- Identify and summarize five different theoretical perspectives on motivation.
- Itemize and explain the basic criteria for a well-designed reward system.
- Define and explain the differences between intrinsic factors and extrinsic factors and how they affect motivation.
- Summarize eight different components of a complete reward system.

Assumptions

- That employees are most productive when they are highly motivated.
- That different people are motivated in different ways, and it is the responsibility of managers to find ways to motivate staff.
- That high levels of productivity should be rewarded; if not, motivation and morale are affected.
- That many intrinsic and extrinsic factors can be incorporated into a well-designed reward system.
Understanding Employee Motivation

Designing a well-integrated motivation and reward system is arguably one of the most important functions of management in its quest to achieve excellence in organizational performance. The basic functions of a human service agency in meeting the expectations of its mission have to do with serving clients. These core functions are carried out by line staff—not by managers or administrators. So the question becomes how do managers get line staff to work hard and to be as productive as they can possibly be in providing high-quality, effective services to clients?

Many newly appointed supervisors and managers take worker motivation for granted. There often seems to be the assumption that because workers are being paid a salary, it is reasonable to expect them to work to the limits of their abilities. It is not uncommon for managers, when confronted with the problem of an unproductive employee, to take a punitive approach; to issue a warning or put a memo into the employee’s personnel record. Taking employee motivation for granted or using a punitive approach as a first resort usually proves to be shortsighted. A more positive and potentially more successful approach is to design a motivation and reward system that is self-perpetuating and synergistic to keep staff performing at high levels. There are many theories about what motivates people to work hard, some of these theories are reviewed in the following sections. Equally important when examining the issue of motivation is an analysis of the fit of rewards to performance.

There are many organizations that reveal glaring inconsistencies when the concepts of motivation and rewards are examined and analyzed together in relation to each other. Some of the most counterproductive and destructive acts of management can come in relation to the giving of rewards. Unfairness can take a variety of forms. For example, an agency’s mission may proclaim its commitment to improving the quality of life for the client population it serves. Some workers take the mission seriously and demonstrate their dedication by performing in a way that goes far beyond minimum expectations in the interest of helping their clients. Some coworkers, however, decide instead to spend much of their time currying favor with influential people in the organization and, in general, “playing politics.” When the time comes to distribute rewards—whether they come in the form of salary increases, bonuses, days off, or employee of the month awards—if those who demonstrate success in working with clients are not rewarded over those who befriend and show loyalty to management, the organization is sending a powerful message. Lofty statements about commitment to mission and values made by managers who choose to reward their friends instead of rewarding performance tend to ring hollow. This is why an attempt to focus solely on motivation without also dealing with the design of the reward system is likely to achieve limited success.

Theories of Motivation

The concept of motivation has been explored from a variety of perspectives. Montana and Charnov (1993), drawing on the work of previous studies, identified twenty-five factors that motivate employees (see Figure 6.1). They then examined a number of studies to determine perceptions about motivation and how these perceptions compared to the twenty-five factors.
Figure 6.1
Questionnaire Used in Surveys on Motivation

Please indicate by placing an “X” next to the six items from the list below which you believe are the most important in motivating you to do your best work.

1. _____ Steady employment
2. _____ Respect for me as a person
3. _____ Good pay
4. _____ Good physical working conditions
5. _____ Adequate rest periods or coffee breaks
6. _____ Chance to turn out quality work
7. _____ Getting along well with others on the job
8. _____ Having a local employee paper
9. _____ Chance for a promotion
10. _____ Opportunity to do interesting work
11. _____ Pensions and other security benefits
12. _____ Not having to work too hard
13. _____ Knowing what is going on in the organization
14. _____ Feeling my job is important
15. _____ Having an employee council
16. _____ Having a written job description
17. _____ Being told by my boss when I do a good job
18. _____ Getting a performance rating
19. _____ Attending staff meetings
20. _____ Agreement with organization’s objectives
21. _____ Opportunity for self-development and improvement
22. _____ Fair vacation arrangements
23. _____ Knowing I will be disciplined if I do a bad job
24. _____ Working under close supervision
25. _____ Large amount of freedom on the job (Chance to work not under direct or close supervision)

The interesting finding among the four groups that completed the questionnaire was that out of the twenty-five factors only nine factors were selected by respondents in the four studies that were reviewed. Some differences emerged that seemed to reflect the point at which the respondents were in their careers. The following nine factors indicate the top preferences for each of the four studies:

1. Respect for me as a person
2. Good pay
3. Chance to turn out quality work
4. Chance for promotion
5. Opportunity to do interesting work
6. Feeling my job is important
7. Being told by my boss when I do a good job
8. Opportunity for self-development and improvement
9. Large amount of freedom on the job

There is a remarkable degree of consistency among these four groups of respondents in terms of what motivates them to work hard on the job. Over all it is clear that motivation emerges from only a few selected factors.

A number of different theoretical perspectives have been developed and research studies undertaken in an attempt to understand the phenomenon of motivation. In the following sections motivation is explored as understood from the perspectives of (1) meeting personal needs, (2) being challenged by the quality of the job, (3) pursuing achievement, (4) reinforcing performance with rewards, and (5) achieving a feeling that fairness and equity exist in the organization.

Motivating by Meeting Personal Needs

The classic work on understanding needs was developed by Maslow (1962). He identified five levels of need, which he described as (1) physiological, (2) safety and security, (3) social/affiliation, (4) esteem/recognition, and (5) self-actualization. For many years Maslow’s framework has defined the way in which we look at and understand need. Physical needs such as food, clothing, and shelter are basic to life, and until these needs are met it is difficult to focus on any other level of need, simply because the drive to satisfy these needs will consume almost all the energy and resources available. Safety and security needs have to do with freedom from fear of physical danger and deprivation, with some sense of predictability that one will be safe and secure for the foreseeable future. Social or affiliation needs are represented by the need to belong and to be accepted by various groups so that one’s basic humanity can be expressed and reinforced in interpersonal interactions. Esteem or recognition needs refer to the need to have recognition and respect from others in the interest of developing a sense of uniqueness, self-confidence, and prestige. Self-actualization needs are those needs that have to do with the desire to become what one is capable of becoming, to perform at the highest levels in one’s chosen areas of pursuit. Figure 6.2 illustrates Maslow’s hierarchy of needs.

To understand and make use of Maslow’s framework for management purposes, one must understand that a satisfied need is not a motivator. For example, if employees are fearful that
they may not be able to feed their children or pay the rent, then meeting physiological needs will motivate them to work. However, if they are highly skilled and in demand in the job market, and if they have a home, two incomes, two cars, and their basic needs are met, then simply meeting physiological, as well as safety and security needs, will not serve as a motivator. For these individuals social, esteem, or self-actualization needs must be addressed. In short, as each level is satisfied, that level will no longer motivate. One must look to the next higher level. The argument might be made that full self-actualization is never really achieved, so there are always challenges at this level when all other levels of need are satisfied. In addition, the ways in which needs are fulfilled can change over time, so that it is possible that one could move down the hierarchy as well as up.

One should be cautious about using Maslow’s hierarchy too rigidly. He intended that it be seen as an overall framework, useful in tracking general patterns of need and fulfillment, not one that applies to every individual. A number of experts in the fields of culture and gender have pointed out that the drive for individualization, personal recognition, and uniqueness does not necessarily apply across all cultural and ethnic groups (Green, 1995; Locke, 1992). Ethnicity and gender are important factors to consider when attempting to understand employee motivation. When Maslow’s concepts are used, the meanings of such concepts as esteem and self-actualization must be understood within cultural and gender contexts rather than attempt to apply a universal set of definitions across all work situations. However interpreted, Maslow does make an important contribution to the understanding of this complex concept of motivation in the workplace.

Motivating by Enhancing the Quality of Work Assignments

The idea that employees can be motivated by the nature of the job itself was first raised by McGregor (1960) in his discussion of Theory Y (for a review of McGregor’s ideas, see Chapter 2). He believed that the opportunity to make use of talent and creativity on the job can meet some important needs for employees, and that every individual has the potential to be mature and self-motivated. Given these assumptions, the job of the manager becomes one of
removing the barriers to high performance within the organization. This will enable the worker to maximize his or her potential. The way to squelch motivation, he believed, was to break responsibilities down into simple tasks and to closely supervise and control people in their efforts to complete their assignments, hence, the notion that motivation comes from the amount of freedom, flexibility, and creativity that can be exercised in carrying out the job.

An important study in support of the idea that motivation comes from the substance and structure of the job itself was published by Herzberg (1966) and is referred to as the two-factor theory of satisfaction and motivation. Herzberg and his colleagues divided work into two factors that they called motivating factors and hygiene factors. Motivating factors included items such as personal growth in competence, achievement, responsibility, and recognition. These factors are intrinsic to the work that is done and are called motivators because employees were motivated to obtain these factors and were willing to improve their work performance to do so.

Factors extrinsic to or outside of the work itself, such as wages, hours, working conditions, company policies, and supervisory practices, are called hygiene factors. Hygiene factors have the potential to raise or lower dissatisfaction but do not motivate employees to increase productivity or performance. This theory specifies that the tasks and responsibilities assigned to a job will enhance motivation only to the degree that motivators are designed into the work itself. Good pay and working conditions will keep down the level of dissatisfaction but will, in the long run, not inspire employees to perform at high levels. Intrinsic and extrinsic factors are depicted in Table 6.1.

Looking at the studies cited by Montana and Charnov (1993) referred to earlier in this chapter, it is evident that factors such as the opportunity to do quality work, the opportunity for self-development and improvement, the opportunity to do interesting work, and a large amount of freedom on the job are motivating factors today just as they were in the 1960s when Herzberg’s studies were being conducted. When combining the two-factor theory with Maslow’s framework, we can see that motivating or intrinsic factors would be defined in terms of esteem or self-actualization needs, whereas hygiene or extrinsic factors would fit with physiological, safety, and security needs. Social needs might fit into either category,

<table>
<thead>
<tr>
<th>Motivating Factors/Intrinsic to the Job (Motivate people to work hard)</th>
<th>Hygiene Factors/Extrinsic to the Job (Keep down the level of dissatisfaction)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Achievement</td>
<td>Organizational policy and administration</td>
</tr>
<tr>
<td>Recognition</td>
<td>Supervision</td>
</tr>
<tr>
<td>Work itself</td>
<td>Working conditions</td>
</tr>
<tr>
<td>Responsibility</td>
<td>Interpersonal relations with superiors, subordinates, and peers</td>
</tr>
<tr>
<td>Advancement</td>
<td>Salary</td>
</tr>
<tr>
<td>Growth</td>
<td>Status</td>
</tr>
<tr>
<td></td>
<td>Job security</td>
</tr>
<tr>
<td></td>
<td>Personal life</td>
</tr>
</tbody>
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depending on the extent to which they related to the work to be performed as compared to interpersonal relationships in a social context.

Motivating employees by focusing on the quality of work assignments offers the manager some interesting insights as well as some useful tools for increasing and enhancing productivity and performance.

Motivating by Providing Access to Achievement

Over the years, behavioral scientists have observed that certain people have an intense need to achieve whereas others may be mildly motivated and still others not at all. McClelland (1961) studied the achievement motive for many years and found that people who are highly motivated to achieve need to set moderately difficult but potentially achievable goals. They tend to take a middle ground relative to risk. They are not gamblers who will choose the big risk in hope of a significant gain, but if they fail, their failure cannot necessarily be attributed to personal responsibility. Neither are they conservative individuals who choose small risks in which the gain is small but secure, and there is little danger of anything going wrong that might reflect on their abilities. Rather, achievement-oriented people tend to prefer a moderate degree of risk because they want to feel that their efforts and abilities had something to do with the outcome.

Achievement-motivated people are not necessarily motivated by the rewards of success. Motivation is directed more toward accomplishments. They are very much interested in their performance on the job and seek concrete feedback about what they can do to improve. They are less interested in feedback on personal qualities than on job performance. They tend to work well in positions that allow for autonomy and entrepreneurial behavior. They can make many positive contributions to organizations because they are constantly looking for ways to solve problems and make the organization better. However, some experts question whether achievement-motivated people make good managers. Because they are highly task oriented and work to their capacity, they tend to expect these behaviors from others. Accomplishing work through others presents a set of tasks and skills that does not always fit for those with high achievement motivation (Montana and Charnov, 1993).

Motivating by Reinforcing Performance with Rewards

A theoretical framework commonly referred to as expectancy theory, developed by Vroom (1964) attempts to expand on earlier findings that behavior is influenced by an individual’s needs. Vroom discovered that productive behavior in a work setting is enhanced if the employee sees a positive relationship between effort, performance, rewards, and valued outcomes. In essence the theory proposes that motivated behavior is increased if extended efforts on the part of the employee produce higher levels of performance, if enhanced performance produces rewards, and if the rewards and outcomes of performance are valued by the organization. Montana and Charnov (1993) express expectancy theory as follows:

\[
\text{Motivation} = \frac{\text{the expectancy that increased effort will lead to increased performance}}{\text{the expectancy that increased performance will lead to rewards}} \times \text{preference of the individual for the rewards}
\]
For example, a manager may decide that in order to reduce the size of a waiting list for a counseling program, caseloads will be increased by 10 percent. In order to ensure that there is not a drop-off in quality of services, the manager asks first-line supervisors to track caseworker progress and success with clients and to record findings in quarterly performance reviews. Bonuses and compensatory time are promised in return for high levels of performance.

If the foregoing formula is correct, then it will mean that increased effort on the part of caseworkers will lead to greater progress and success with clients, and that progress and success with clients will lead to increased salaries and compensatory time off. However, if working longer hours and investing greater effort to keep up with the increased workload does not produce a higher level of performance, or if quality of counseling deteriorates with the increase in caseloads, motivation will suffer. Likewise, if promised rewards are not forthcoming or not considered to be worth the increased effort, motivation and performance will deteriorate.

Closely related to this is the work of B. F. Skinner (1969) on reinforcement. His research demonstrated that reinforced behavior will be repeated, and behavior that is not reinforced will be extinguished. Skinner’s ideas about behavior modification were found to be relevant to the field of management when applied to reinforcing employee behavior. Reinforcers applied selectively tend to reproduce the desired behavior and performance. Positive reinforcers include rewards or positive feedback. Negative reinforcers include the withdrawal of an unpleasant experience or consequence, which has the effect of encouraging the desired behavior. Punishments are negative consequences designed to extinguish a behavior. Skinner’s concepts can be useful in constructing a motivation and reward system.

The work of Vroom and Skinner on motivation and rewards might seem on the surface to contradict the work of Herzberg (1966). Herzberg found that factors extrinsic to the job itself, such as wages, hours, and working conditions, did not motivate higher levels of performance but rather served to reduce dissatisfaction with the job and the work environment. The important difference, however, is that Vroom and Skinner both focused on making a conscious and positive connection between a behavior and a reward. This approach is different from simply increasing salaries or modifying working conditions for workers across the board.

Both expectancy theory and reinforcement theory support the concept that a positive interrelationship between performance and rewards is critical to achieving high levels of motivation. A manager who attempts to motivate simply by meeting needs, enhancing the quality of the work assignment, or providing access to achievement will find that the effects dissipate quickly if they are not part of a systematic effort to reward positive behavior and extinguish unproductive behavior.

Motivating through Fairness and Equity

One of the most difficult challenges for managers is ensuring that fairness and equity exist in the distribution of pay and other rewards. The perception by employees that there is unfairness in the system has proved to be a powerful disincentive to optimum performance. According to Montana and Charnov (1993), perceptions of fairness and equity are affected by two factors:

1. Comparison of the compensation received to such factors as effort, job performance, education, experience, skill, and seniority.
2. Comparison of the perceived equity of pay and rewards received to those received by other people.
The first issue raises the question: Am I being paid a fair wage for what I do for this organization? The second raises the question: Am I being paid equitably in relation to coworkers? Because of the difficulty in measuring such factors as job effort and performance, few organizations can claim perfect balance in terms of fairness and equity. As a result, when individuals receive less than they believe they should, they are dissatisfied; when they receive more than they should, they are uncomfortable with the perceived overpayment and attempt to justify it in a variety of ways, but it does not serve as a motivator (Adams, 1965).

Motivation and rewards are very much intertwined. When certain conditions exist, reward systems have been demonstrated to motivate performance (Lawler, 1971; Vroom, 1964). The conditions are that rewards that are perceived to be important to employees are tied to effective performance in a timely manner. All of the variables mentioned—rewards, perception, importance, performance, and timeliness—come into play in using rewards to motivate employees. What is given to employees must be seen as a reward, and it must be important to employees in general and the recipient in particular. Rewards must be tied to performance, and it must be done in a manner that will ensure that employees perceive the relationship. All of this must be done within a time frame that ensures that employees will make the connection between the performance and the reward. Finally, for this system to have a positive, motivating impact on employees, they have to have a sense of trust that the system has integrity and will remain trustworthy in the future (Lawler, 1977).

Designing Effective Reward Systems

Lawler (1977) identifies a number of features that contribute to an effective reward system. In terms of overall considerations, he points out, reward systems must contribute to both organizational effectiveness and the quality of work life. If a system serves only to support the organization, for example, by rewarding only for extremely high workloads, but fails to improve the quality of work life, the system will not accomplish its objectives. Likewise, if it serves only to make employees happy and improve morale but fails to contribute to organizational effectiveness, the system again will be flawed and fail to achieve its objectives. For an organization to have an effective reward system its managers must understand how effectiveness is to be achieved and what its employees consider to be the important factors in determining quality of work life.

Building on these two principles, Lawler (1977, p. 167) identifies four necessary reward system properties:

1. **Basic Needs Satisfied.** A reward system cannot be expected to meet its objectives in a system in which the overall salary structure does not allow employees to meet their basic needs, or a system in which employees are frequently being terminated. Some degree of satisfaction with salary and job security must exist. On top of these factors, salary increases or other rewards must be sufficient enough that they can be spread among a majority of employees and still be perceived as meaningful in terms of satisfying basic needs.

2. **Competitive Benefits.** The reward levels in the organization must compare favorably with those in other organizations. If an organization is not competitive with salaries and benefits in other comparable organizations, employee turnover will increase, and the reward system will fail to meet its objectives.
3. **Equitable Distribution.** The rewards that are available must be distributed in a way that is seen as equitable by the people in the organization. The factors that determine how rewards are distributed should be as objective and as quantified as possible, and there should be an openness about the system so that all employees are aware of the criteria for performance and the rules for distribution of rewards. A system that allows for modification based on employee input is more likely to be seen as fair and equitable by employees.

4. **Employees as Individuals.** The reward system must deal with organization members as individuals. This principle relates to the discussion of Maslow’s work at the beginning of this chapter. Not every employee has the same needs. Some will place a high value on salary increases whereas others may prefer a flexible schedule or the opportunity to work out of the home.

One of the ways in which individualization is accomplished is referred to as the Need-Path-Goal Model (Miles, 1975; Porter and Lawler, 1968). Following this model, a manager would attempt to (1) identify an employee’s needs, (2) determine the employee’s goals, and (3) establish a path designed to meet the needs and achieve the goal. The path is defined in terms of work performance and achieving organizational and program objectives. Working from this simple concept, Miles developed an expanded Need-Path-Goal Model based on Maslow’s framework. This expanded model is illustrated in Figure 6.3.

<table>
<thead>
<tr>
<th>Needs</th>
<th>Paths</th>
<th>Goals</th>
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<tbody>
<tr>
<td>Self-realization</td>
<td>Outstanding performance (high commitment, effort, and regular improvement in skill and capability)</td>
<td>Challenging work (job with opportunity for growth, creativity, responsibility)</td>
</tr>
<tr>
<td>Esteem (ego)</td>
<td>Group norms determine (may emphasize high or low effort-performance)</td>
<td>Promotions, recognition from superiors, titles and other marks of status, pay</td>
</tr>
<tr>
<td>Social (belonging)</td>
<td>Minimally acceptable performance (meeting at least lower limits of standards—no major violations of rules and regulations)</td>
<td>Recognition from peers Esteem of coworkers Acceptance by group</td>
</tr>
<tr>
<td>Safety (security)</td>
<td>Job tenure, seniority, pension plans, etc., avoidance of censure from superiors</td>
<td>Regular pay and benefits, working conditions</td>
</tr>
<tr>
<td>Physiological</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(food, clothing, shelter, etc.)</td>
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Incorporating Intrinsic Rewards into the Reward System

In exploring the elements of a sound reward system, it is useful to return briefly to the work of Herzberg (1966) and his concepts of intrinsic or motivating factors versus extrinsic or hygiene factors.

Designing a reward system so that intrinsic factors are incorporated into the system involves changes primarily in the areas of organizational structure and job design (topics covered in the previous two chapters). Well-designed work assignments will ensure meaningful work, achievement, and other such intrinsic rewards. Well-designed structure will ensure responsibility, will support recognition, and will provide opportunity for advancement. Organizational structure and job design should be systematically addressed as a part of the motivation and reward system. The relationships between motivation, performance, and rewards should be clear. Both intrinsic and extrinsic rewards are necessary components of a complete reward system.

Allocating Extrinsic Rewards and Employee Benefits

Many of the issues to be addressed in defining an effective reward system come under the heading of extrinsic rewards. Most organizations make available a number of options within their reward systems. In a competitive market within a strong economy, employers are increasingly discovering that creativity and flexibility in designing rewards pay off in terms of satisfied employees and reduced turnover. Several decades ago when the issues surrounding rewards were first raised for discussion, options were limited to such considerations as salary increases, a few basic fringe benefits, promotions, and special awards or recognition. As we move into the twenty-first century, CEOs of major corporations are recognizing that the creative use of benefits not only reduces turnover and increases employee loyalty but also affects the bottom line. Here a number of factors that go into a complete reward system are examined, including (1) compensation and financial incentives, (2) paid time off, (3) insurance benefits, (4) employee service benefits, (5) alternative work arrangements, (6) job security and internal mobility, and (7) recognition.

Compensation and Financial Incentives

Determining the Basic Salary Structure

Designing fair compensation systems is a challenge to any manager but is especially difficult for those who manage nonprofits in which resources are typically scarce and the workload demanding. Designing a fair and equitable compensation system requires an analysis of the worth and value of each position to the organization. Among the many factors to be considered are (1) the complexity of the job, (2) the importance to overall orga-
izational effectiveness, (3) the responsibilities carried, including supervision of subordinates, (4) the level of knowledge and skill required to perform the job, (5) the number and level of other employees, and (6) the current and future financial stability of the agency.

Jensen (1997) points out that attempting to deal with these issues as they emerge and failing to design a systematic salary policy are major impediments to productivity. Designing such a policy, he says, should include the following principles:

- **Put your basic compensation policies in writing before making decisions about anyone’s pay.** This increases clarity and allows for the development and refinement of an official agency position on compensation. He states that the following factors must be prioritized: (1) attraction and retention of employees, (2) employee confidence in and acceptance of the pay plan, (3) client or funding source confidence in and acceptance of the pay plan, (4) control of costs, and (5) facilitation of equitable salary adjustments.

- **Decide how salaries will be increased.** The two basic options are by merit or by automatic progression. Some organizations opt for automatic progression that advances individuals on a predetermined schedule, regardless of work quantity or quality. This can be demoralizing to staff. Rewarding merit is ideal but difficult to define and quantify in a way that makes the rewards fair and equitable.

- **Determine the value of each job in your agency.** A job analysis should be conducted for each position. The job analyses, collectively, should be analyzed in relation to each other in order to develop a hierarchy of jobs in the agency, from the highest levels of responsibility for organizational success to the lowest. Jobs within the job hierarchy are then clustered in terms of similar levels of responsibility, and grade levels are assigned, with Grade 1 being the lowest salary category on up through the highest grade.

- **Devise a permanent structure for your pay system, including dollar values for each job.** Dollar values for each job are determined through a salary survey, which is used to establish the market value of key jobs in each salary grade. Once a market value is established for each grade, that salary figure is used as the midpoint for the salary structure. Jensen suggests that a salary range from –15 percent to +15 percent of the midpoint be established for each grade, but percentages can be tailored to the needs and resources of the agency. Within this structure, individual salary levels are then set.

- **Anticipate the problems you will have in everyday administration of salaries.** Jensen suggests that these problems will include the following: How often should salaries be reviewed? How large and how frequent should raises be? Who should make decisions about pay? How confidential should salary matters be? What laws must be considered in administering salaries? How can funds be generated for regular salary increases?

### Merit Increases

If they are truly to reflect merit, increases must be tied in some way to performance. This means that the performance appraisal system must be integrated into the overall motivation and reward system. Performance appraisal will be discussed in detail in Chapter 13. At this point we need to look only at how employee performance relates to the reward system. For example, some organizations devise a system in which performance appraisal instruments
are tailored to positions, and after all items have been evaluated and scored, an overall score is determined and placed into categories similar to the following:

1 = Unsatisfactory. This employee completed less than 80 percent of activities and/or achieved less than 80 percent of the objectives established in the performance contract at the beginning of the performance year. Requires a major commitment of supervisory time.

2 = Below expectations. This employee was able to complete at least 80 percent of activities and achieve at least 80 percent of the major objectives but requires considerable direction and guidance.

3 = Meets expectations. This employee’s performance demonstrates completion of at least 90 percent of the activities, and meets at least 90 percent of the objectives established in the performance contract at the beginning of the performance year.

4 = Above expectations. The results of this employee’s performance surpass expectations established in the performance contract at the beginning of the performance year, and he or she is able to perform with minimal direction and guidance.

5 = Clearly superior. The results of this employee’s performance clearly surpass expectations established in the performance contract at the beginning of the performance year. The employee performs independently, and the effects of this employee’s work can be seen in program results.

Within this type of a framework, pay increases may be divided into five levels, with a percentage of increase tied to each level. Employees who achieve the highest rating within each job classification receive the highest percentage of merit increase. Employees who receive a rating of three or below would get a cost-of-living adjustment but no merit increase. This scheme is depicted in Table 6.2.

<table>
<thead>
<tr>
<th>Level of Staff</th>
<th>Performance Appraisal Overall Score</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Unsatisfactory</td>
</tr>
<tr>
<td>Management/Administration</td>
<td>No merit</td>
</tr>
<tr>
<td></td>
<td>increase</td>
</tr>
<tr>
<td>Supervisory Staff</td>
<td>No merit</td>
</tr>
<tr>
<td></td>
<td>increase</td>
</tr>
<tr>
<td>Direct Service Staff</td>
<td>No merit</td>
</tr>
<tr>
<td></td>
<td>increase</td>
</tr>
<tr>
<td>Paraprofessional Staff</td>
<td>No merit</td>
</tr>
<tr>
<td></td>
<td>increase</td>
</tr>
<tr>
<td>Support Staff</td>
<td>No merit</td>
</tr>
<tr>
<td></td>
<td>increase</td>
</tr>
</tbody>
</table>
The value of this approach is that it brings together a number of important principles of salary increases. First, it establishes the principle that employees will be rewarded when performance is exemplary. This can serve to reinforce what has been stated in mission, vision, and philosophy statements. Second, it ties performance to the size of the increase.

If the framework for the system is made available to all employees, they will know in advance what is required to maximize their merit increases and will see that those who perform get rewarded. Finally, it enforces the principle that people who perform below expectations or who need a great deal of supervision will likely remain at low salary levels until performance changes.

### Considerations

#### For Planning Merit Increases

**Basic Questions:** What types of behaviors and performances does the organization want to reward? How can performance be evaluated in a way that is fair and equitable to all? How can the organization provide meaningful rewards and yet keep within cost-containment guidelines?

**Time Frame:** Criteria for rewards should be reevaluated on an annual basis.

**Process:** Supervisory and management personnel should review performance and reward data after each round of annual performance evaluations and merit increases.

**Analysis:** Performance scores and merit increases should be rank ordered and correlated to determine if there is consistency within the system. The rank ordering of employees by performance scores should be evaluated against some other criteria as a check of validity.

**Policy Changes:** If any criteria or scoring systems are changed as a result of the analysis, the policy statement on merit increases should be revised to reflect the changes.

### COLA, Lump-Sum Salary Increases, and Bonuses

Cost-of-living allowances (COLA) are typically tied in some formal or informal way to the consumer price index (CPI), which establishes an inflation rate for each year. COLA increases are given with the assumption that failure to enable employees to keep up with inflation results in a net decrease in disposable income. COLA is awarded across the board to all employees, usually in terms of a percentage of salary. COLA may be at, above, or below the CPI, depending on the resources available to an agency in any given year.

Both COLA and merit increases generally come in the form of a percentage increase in salary. Some employers are concerned that percentage increases can lead to significant salary discrepancies over time. For example, an employee who is making $75,000
is making $50,000 more than a person with a $25,000 salary. If a 5 percent salary increase is awarded, the higher-paid person is now making $78,750 and the lower person is making $26,250. The discrepancy is now $52,500, and it grows every year that a percentage increase is awarded.

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<tr>
<th></th>
<th>Current salary</th>
<th>Increase of 5%</th>
<th>New Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manager</td>
<td>75,000</td>
<td>3,750</td>
<td>78,750</td>
</tr>
<tr>
<td>Caseworker</td>
<td>25,000</td>
<td>1,250</td>
<td>26,250</td>
</tr>
<tr>
<td>Difference</td>
<td>50,000</td>
<td>2,500</td>
<td>52,500</td>
</tr>
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To counteract this growing discrepancy, some organizations design a salary structure that will permit a fixed-dollar amount across the board instead of a percentage. This plan runs the risk of discouraging higher-salaried employees, but this effect may be softened if they are included in the planning and implementation of the system, helped to recognize its benefits to lower-salaried employees, and perhaps compensated in some other ways not affecting salary.

Another option that some organizations have found useful is to award bonuses for achieving individual or program objectives. Merit and COLA increases are typically added to base salary. This means that a salary increase awarded for good performance in one year is paid for in every subsequent year as well, regardless of performance. In addition, employee-related expenses such as taxes, insurance premiums, and retirement contributions are figured on an ever-increasing salary base.

For example, if an employee makes a salary of $40,000 and employee-related expenses (fringe benefits) are 20 percent of base salary, then the total package of salary and benefits comes to $48,000 ($40,000 base plus $8,000 fringe benefits). A salary increase to $45,000 means that costs to the organization will escalate by $6,000, from a total package of $48,000 to $54,000, $5,000 for the salary and $1,000 for employee-related expenses.

Base salary = $40,000
Fringe benefits at 20% = $8,000
Total salary and benefits = $48,000
Salary increase at 12.5% = $45,000
Fringe benefits at 20% = $9,000
New salary and benefits = $54,000
Total increased cost to agency = $6,000

Each year as COLA and merit increases are added to base salary, the total benefit package escalates. Employees and unions support this trend as a way of allowing workers to increase their base salaries beyond the inflation factor reflected in COLA. Some employers, however, believe that a year of exemplary performance ought to be rewarded in that year but not added to base salary. In these systems, salaries may be increased by a cost-of-living factor for all employees and then one-time bonuses awarded in relation to performance and the organization’s ability to pay.
Paid Time Off

One of the most expensive benefits awarded to employees is the pay received for time not worked. This pay comes as a result of such benefits as vacation, sick leave, unemployment insurance, pregnancy or parental leave, holidays, sabbaticals, and other such arrangements. In a survey published in 1995, payments for time not worked amounted to 10.4 percent of total payroll costs (Bureau of National Affairs, 1995). The only item that was larger than payment for time not worked was medical and related benefits, which amounted to 11 percent of total payroll costs.

Vacation and holidays are typically part of an employer’s benefit package. The number of days varies considerably from one employer to another and is usually tied in some way to time in service to the organization. A typical plan might offer two weeks of vacation for one to five years of service, three weeks for six to ten years, and four or more weeks for eleven or more years of service. Most organizations offer about ten paid holidays per year, days on which the agency is closed and services to clients are not available. These holidays usually include all the major federal government-declared holidays, often with a mix of state-observed holidays and special holidays offered by the agency such as the day after Thanksgiving.

Sick leave, like vacation, is earned through time on the job. Typically, one-half to one day per month is earned. Days may be accumulated and taken as needed, and most sick leave policies grant full pay when sick days are used. Some organizations also offer what is referred to as personal days where employees are allowed to take time off to handle personal business or perhaps to celebrate a birthday.

Over the years, paid time off has become a complex benefit to administer because it requires extensive tracking to ensure that employees take off only the time that they have

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<th>CONDERATIONS</th>
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**For Assessing COLA, Lump-Sum Increases, and Bonuses**

**Basic Questions:** Can the agency afford to commit itself to an annual cost-of-living adjustment so that employee salaries will keep up with inflation? Can the agency afford additional salary increases tied to performance? If so, should these increases come in terms of a percentage of salary, a fixed-dollar amount, or a bonus?

**Time Frame:** Salary issues should be reconsidered on at least an annual basis.

**Process:** The management team should include this discussion as a regular agenda item for consideration at the beginning of the fiscal year. Input should be solicited from employees at all levels.

**Analysis:** Budget figures should be used to determine the pool of dollars available. The impact of COLA, fixed-dollar increases, or bonuses should be calculated and the findings compared.

**Policy Changes:** Existing policies on salary increases should be modified to reflect any changes.
earned in each category of paid time off. In addition, the paid time off benefit raises the
question of whether policies and practices are structured in a way that provides an incen-
tive to employees to take off the maximum number of days to which they are entitled,
thereby reducing overall organizational productivity. To counteract this incentive, some orga-
nizations will pay employees for vacation and sick days accumulated but not used. This
provides an incentive to minimize time off the job.

Because of the many complexities in monitoring the various types of paid time off,
the complexity of administering and monitoring employees’ use of time off, the complex needs of working families, and the high value
placed on paid time off by employees, it is important that a plan is designed that takes into
consideration employee needs for flexibility as well as agency needs for cost containment
and ease of administration.

## CONSIDERATIONS

For Assessing Policies for Paid Time Off

**Basic Questions:**
- What is the financial and workload impact on the agency of one day of paid
time off for one employee? How much paid time off can the agency afford?
- How much paid time off do the agency’s competitors offer? What form of
paid time off is most efficient for the agency—categories such as sick and
vacation time, or simply a total number of hours off per year?

**Time Frame:**
- The impact of paid time off on the budget and on worker performance,
  together with employee satisfaction with current practices, should be evalu-
  ated toward the end of each fiscal year.

**Process:**
- Supervisory and management staff should review the budget and assess the
  impact of paid time off on workload. Workers should be surveyed for their
  satisfaction with current practices.

**Analysis:**
- The impact of current paid time off policies on the budget and on worker
  performance should be assessed. Worker input should be analyzed. Budget
  projections for the coming year, together with employee feedback, should
  be used to propose modifications.

**Policy Changes:**
- Policies on paid time off should be revised as needed.
Insurance and Retirement Benefits

Insurance and retirement benefits are generally considered part of the total system of compensation rather than part of the reward system. In the early days of creating benefit packages, the most common type of insurance provided was health insurance. According to a 1991 survey of employers, about 92 percent of medium and large firms and 69 percent of small firms make some type of health insurance available to their employees (Bureau of National Affairs, 1991). A survey published in 1995 indicated that medical and related benefits accounted for, on average, just over 11 percent of total payroll costs (Bureau of National Affairs, 1995). The percentage of premium paid by employer and employee varies, but in most organizations the employer pays the major share while the employee pays the remainder.

Over the years various types of insurance programs have been introduced into benefit packages. A survey of 1,020 companies nationwide indicates that in 1998 40 percent of the respondents offered some assistance with elder care. Of those employers offering elder care programs, 81 percent offer resource and referral services; 35 percent offer long-term care insurance, and 14 percent offer counseling (Langdon, 1999). Long-term care insurance is offered to employees who expect to have responsibility for caring for their aging parents. The national average cost for long-term care was about $38,000 per year in 1995, but in New York State costs were $75,000 to $80,000 per year (Spragins, 1995). By some estimates, cost for full-time nursing care will soon reach $100,000 per year. For this reason, a number of insurance plans are offered that will underwrite some of the costs of long-term care when it is needed. Some organizations work in a collaborative way with insurance companies to make these types of policies available to their employees. The agency may pay some of the cost of premiums or the employee may be expected to pay the full cost.

Some organizations also offer group life insurance. The share of the premium paid by the employer varies with the type of organization and available resources. In some cases, group life insurance premiums are paid entirely by the employer. In others, the employer will negotiate the best benefits possible and will then make the opportunity available to the employee with the expectation that the employee will pay the entire premium.

Retirement plans are also an important part of a complete benefit package. They are generally designed in a way that encourages loyalty and longtime employment with the organization. A defined-benefit-pension plan is one that includes a formula for determining retirement benefits. Any employee can calculate ahead of time how much income may be expected at the point of retirement (Dessler, 1997). These plans typically incorporate the number of years of employment and average salary for the last few years prior to retirement. This type of plan is designed to reward long-term employment and also to protect the organization from having any dramatic increase in salary in the last year of employment carry over to many years of retirement. Averaging the last few (usually three to five) years tends to produce a more realistic salary base from which a defined-benefit plan may be calculated, as illustrated below.

\[\text{Policy: Pension equals 2\% of the average salary for the last five years prior to retirement times the number of years of employment, as follows:}\]

\[
\text{Average salary for the last five years} = \$57,500 \\
2\% \text{ of } \$57,500 = \$1,150 \\
\text{Number of years of employment} = 32 \\
\text{Total annual pension amount} = \$36,800
\]
Another alternative is a defined-contribution plan, which allows the employee to set up a retirement account and specifies what contribution an employer will make (Dessler, 1997). In this type of plan, no commitment is made to the eventual benefit amount, only to the contribution. One popular type of defined contribution plan is the 401(k) plan, based on Section 401(k) of the Internal Revenue Code. Employees may have a portion of their salary deducted before it is taxed and invested in an approved retirement plan. Retirement or pension plans are offered at the discretion of the employer, and the size and attractiveness of the benefits often depend on the supply of and demand for workers as well as the nature of benefit packages that competitors are offering.

Social Security should also be considered when calculating the benefit package. However, financial planners warn that it should never be considered as a main source of retirement income—only as one leg of a three-legged stool that includes a retirement plan, personal savings and investments, and Social Security. Like company retirement plans, Social Security includes contributions from both employer and employee. An important difference is that Social Security is mandated by the federal government and is an entitlement to those who qualify. Regular annual benefit statements are sent to participants in the Social Security program.

Organizations use insurance and retirement benefits primarily to attract and hold good employees. They are not expected to serve as motivational factors or to influence day-to-day performance. In addition to providing insurance and retirement benefits that are competitive with other similar organizations, it is also recognized that for employees to achieve maximum productivity, they need to be relieved of stress as much as possible. Worrying about health, about caring for elderly parents, or about providing for survivors in the event of an untimely and unexpected death can cause unnecessary stress for employees that experience these events. Viewed from this perspective, insurance and retirement benefits become a way of protecting employees from situations of financial disaster and supporting a continuation of quality of life, thereby allowing employees to focus on the work at hand.

For many employees, the connection between insurance and retirement benefits and day-to-day performance is fairly remote. Workers seldom make the connection in the same way that they do with salary, merit increases, or bonuses. Some organizations prepare an annual statement of benefits designed to remind employees that there is more to their compensation package than salary alone.

If benefits are intended to be valued by employees and seen as a reward for performance, they must be designed in a way that employees have input into what particular benefits are meaningful to them. A flexible design that seems to accomplish this objective, referred to as the cafeteria plan will be discussed toward the end of this chapter.

### Considerations

**For Assessing Insurance and Retirement Benefits**

*Basic Questions:* How much of the budget can be allocated to insurance and retirement benefits? What formula will provide the most generous retirement benefits possible while keeping within budgeted amounts? What types of insurance are most in demand by employees?
One area of benefits that has increased dramatically in the last decade is that of personal support services. This covers a wide range of resources that are made available to employees to help meet family needs (such as child care or counseling for substance abuse problems), educational and career needs, health and wellness needs, or financial planning needs. These services are in response to a recognition that keeping up with the demands of raising a family, maintaining good health, achieving career goals, and remaining financially stable can be overwhelming, especially in a family in which both parents are working. Many employers attempt to relieve some of the burden by providing easy access to various resources that are designed to support employees in meeting some of these areas of need.

One of the most popular of these employee service benefits is the provision of child care or a child care subsidy. The percentage of U.S. women with children under age 6 in the workforce has increased dramatically over the past few decades. Finding good-quality child care is an extremely high priority for families in which both parents work. Some of the larger corporate employers, in recognition of this concern, have developed child care programs that are provided within the employer’s facility. Others pay all or part of child care expenses at approved child care facilities. In a 1998 survey of employers, 97 percent of employers surveyed offered dependent care spending accounts to help employees cover child care costs. Eleven percent offered on-site child care, 15 percent sick or emergency child care programs, and 48 percent resource and referral services (Langdon, 1999).

When financial planning services or prepaid legal services are offered as a benefit, the arrangement usually involves professional consultation made available to agency employees with a financial planner or attorney who negotiates a special rate with the agency in exchange for the opportunity to expand his or her clientele. Shared payment arrangements between agency and the employee vary depending on agency resources available and the importance of this benefit to employees as compared to other options.
Another benefit that has been popular in the field of human services is the educational subsidy to allow employees to continue their education. This can include reimbursement for tuition, subsidy for expenses such as books and other equipment, or it could involve a flat scholarship amount per year. Many of these types of subsidies are dependent on successful completion of course work, and demonstrated progress toward the employee’s stated educational objective. Some employers pay only for courses directly related to the job, but others will also reimburse for courses that are not directly related but may contribute to employee growth or the completion of a degree. Periodically the federal government will make subsidies available for education in an area such as child welfare in which there is a high demand for trained personnel. The contract usually calls for one year of obligation to the agency for each year of subsidized education.

Over the years, many employers have discovered that it is a good investment to provide counseling services to employees to help them overcome problems with such issues as indebtedness, family discord, abuse of drugs or alcohol or other personal problems. This service has evolved into what has become known as the employee assistance program (EAP). There are four basic models of EAP in use today: (1) the in-house model in which the services are offered by a company-employed counselor, (2) the out-of-house model in which the company contracts with an individual or with a social service agency that specializes in this type of counseling, (3) the consortium model in which several organizations pool resources for the purpose of establishing EAP services, and (4) the affiliate model in which a vendor already under contract to an employer subcontracts with a professional counselor to provide counseling to employees (Dessler, 1997).

These examples barely scratch the surface of employee service benefit options. Essentially employers are limited only by their own creativity and the resources available for these types of benefits. Employers have learned that such benefits as wellness programs, sometimes including health club memberships, smoking cessation clinics, weight reduction programs, and others can improve health and increase energy levels as well as raise company morale. Overall trends show an increasing investment in these types of benefits as employees seek to improve their quality of life in their professional as well as their personal lives.

### Considerations

**For Assessing Employee Service Benefits**

**Basic Questions:** What budget resources are available to underwrite the cost of employee service benefits? What benefits are important to employees?

**Time Frame:** Whenever resources become available, employees express an interest, or an opportunity is presented to the organization.

**Process:** Business manager explores opportunities, solicits input from staff, presents alternative plans to the management team.

**Analysis:** Explore costs and benefits to other organizations that have provided similar employee service benefits.

**Policy Changes:** Write or refine the policy on employee service benefits if there are changes.
Alternative Work Arrangements

As the number of families with two adults working has increased, so has the demand for more flexible work schedules. Managing a household often requires that someone be available during the working day, and employers have discovered that employees can be more productive when they are relieved of worries about household management. This concern for employee quality of life both on and off the job has led to a variety of alternative work arrangements including (1) flexible working hours, (2) job sharing, and (3) telecommuting.

The idea of giving employees flexible working hours was first introduced by a German aerospace firm in 1967 (Kossen, 1978). Thousands of U.S. corporations and government entities have subsequently adopted the practice. Often referred to as flextime, the concept enables workers to adapt their work schedules to blend with the demands of their personal lives. Workers are still expected to work the full number of hours, but they are able to choose their start and completion times, within the limitations established by the employer. This permits a parent, for example, to take a child to school or day care in the morning, and to pick the child up in the afternoon at times that coincide with the child’s needs and schedule rather than being dictated by the parent’s work schedule. In a 1998 survey of employers, 79 percent of the companies surveyed offered flextime; 66 percent offered part-time employment, and 40 percent offered job sharing (Langdon, 1999).

Another approach to alternative work arrangements is job sharing. This practice requires that two workers share a single job, including all work responsibilities as well as salary and fringe benefits. The advantages include many of those cited earlier for flextime. In addition, employers have found that part-time employees tend to approach their work with greater energy and often put in more than a half-day’s work for a half-day’s pay (Kossen, 1978). A disadvantage is that job sharing can be more expensive for the employer in terms of the cost of benefits as well as the increased need for training and staff development.

Telecommuting is the practice of allowing employees to work at home with the understanding that a home computer will be connected to the employer’s electronic network and the employee will stay in touch through the use of e-mail, fax, voice mail, or other forms of telecommunication. This arrangement works only for those positions in which the majority of responsibilities can be fulfilled through the use of the computer. The primary advantages are that telecommuting allows employees to work out of their homes, thus meeting both home and work responsibilities, and also allows them to use time for work that would otherwise be spent in travel. The disadvantages are that it requires precise definitions of work expectations and performance measures and often reduces or eliminates the kind of face-to-face dialogue that is needed for problem solving. Interpersonal interaction in human service organizations can be important in such functions as client staffings or staff meetings in which policy and procedural issues may be addressed. This can be remedied by requiring that the telecommuting employee be present on site at certain specified times for these regularly scheduled functions or be available for a conference call.
Job security is one factor that influences career decisions (Schein, 1978). Some employees are willing to make sacrifices (including limiting their career options) in exchange for maintaining a stable, secure career in familiar surroundings. Insecurity about employment status can produce a high level of stress on the job and can limit productivity and performance. Some organizations deal with this factor by awarding some type of permanent status. Within educational institutions this status is referred to as tenure. In government employment it is referred to as permanent civil service status. A probationary period is usually required during which the employer has flexibility relative to termination, based on established performance criteria.

Few employers in the field of human services have the stability of resources to guarantee lifetime employment. Employment arrangements need the flexibility to allow for termination subject to certain fiscal or performance conditions. However, this doesn’t prevent an employer from conveying to staff a philosophy that supports permanency of employment to the extent that workload and resources permit.

Recruiting, selecting, orienting, and training staff are expensive. Losing experienced employees can affect the capacity to meet program and organizational expectations. Written policies for reductions-in-force can be designed to convey to employees that long-term loyalty and high performance are valued and will be rewarded with job security to the greatest extent possible within the resources available.
Internal mobility can include lateral mobility, allowing workers to move to other positions at the same level or vertical mobility, rewarding workers with a promotion. Policies can be designed to ensure that when a vacancy occurs, an internal search will be conducted first, before anyone outside the organization will be considered. This type of open-posting system allows employees to self-nominate for open positions or for promotions. It is also possible for management to identify employees who appear to have potential for making significant contributions to the organization and to plan with them for career development. This plan may include a systematic rotation through selected jobs within the agency, or it may include special assignments. These approaches can be helpful in communicating to an employee that he or she is valued, and that the organization will make every attempt possible to provide stability of employment.

### Considerations

**For Assessing Practices of Job Security and Mobility**

**Basic Questions:**
What types of job security and mobility benefits can the agency offer? What benefits are meaningful to staff? What are the legal and financial implications?

**Time Frame:**
When the management team is convinced that the issues of job security or mobility, if not addressed, may cause the agency to lose good staff members.

**Process:**
Business manager explores the implications of job security and mobility practices on the budget, including data collected from other agencies. Management team participates in deliberation. Staff input is solicited. Proposals go to the agency director and board for final approval.

**Analysis:**
Cost-benefit analysis should be prepared. Legal advice on implications for employee rights and agency commitments.

**Policy Changes:**
Policies on job security and mobility should specify who is eligible and under what conditions. Rights and responsibilities of agency and employee should be stated.

### Recognition

Lawler (1977) identifies five characteristics that rewards should have, including (1) importance, (2) flexibility, (3) frequency of award, (4) visibility, and (5) low cost. A reward should be seen as important by staff and especially by recipients if it is to be valued and pursued. Second, there should be enough flexibility to allow the reward to be tailored to meet the needs of the employee. Third, an award should be given frequently enough that it is identified with performance but not so frequently that it loses its meaning. Fourth, other employees in the organization should know about the reward. This meets the esteem needs of the recipient while, at the same time, communicating to workers that they, too,
can achieve the reward through high levels of performance. Finally, the lower the cost the easier it is for the organization to provide the reward consistently over time.

Using these criteria, one reward that has many positive characteristics is some type of recognition through a special award, certificate, plaque, or designation as employee of the month. Lawler (1977) points out that these types of recognitions rate high on flexibility, high on visibility, low in cost, and frequency is discretionary. The major disadvantage is that they may be seen as low in importance. If the status of recognition can be enhanced through staff and management participation, or by adding a modest benefit such as a gift certificate, this technique can be valued as at least a small part of the overall reward system.

### C O N S I D E R A T I O N S

**For Assessing Recognition as Part of Reward System**

**Basic Questions:**
- What kinds of awards will have meaning to staff? Can some gift or monetary value be attached to the award? How often should awards be given?
- How can visibility and prestige be maximized?

**Time Frame:**
- Policy and practices on awards should be reevaluated on an annual basis, based on the experience the previous year.

**Process:**
- The human resources director may be the appropriate person to take the lead in consultation with the management team. Input from staff should be solicited. Changes should be presented to the management team for approval.

**Analysis:**
- Review staff input. How meaningful are the awards to staff? Are timing and frequency appropriate?

**Policy Changes:**
- Revise policies on recognition as needed. Notify staff of changes.

### The Cafeteria Plan

Many benefits and extrinsic rewards within organizations tend to be offered to all employees across the board. Employers typically allocate a percentage of salary to be available for what is referred to as employee-related expenses (ERE), including the employer’s share of taxes, insurance, retirement, and other benefits offered. Over the years employers have discovered that such factors as age, marital status, number of children, and other factors affect how employees perceive their benefit package. For example, young families tend to prefer more flexible hours whereas older workers may appreciate the opportunity to purchase long-term care insurance for aging parents. When a fringe benefit program is structured rigidly with exactly the same benefits to all, the program may fail to match up with the needs of some workers. The result is that bene-
fits are valued less than they might be if employees could tailor their benefit package to their needs.

In the interest of being responsive to individual preferences while remaining within the resources allocated to employee benefits, some organizations opt for what is called the cafeteria-benefit plan. This plan involves setting aside a dollar figure or percentage of salary for each employee and allowing employees to spend the resources to buy the fringe benefits they want and need at this point in their lives. Often retirement benefits are exempted from the cafeteria options in the interest of ensuring that some type of pension will be guaranteed to each employee at the point of retirement and will not have been exhausted in earlier years. A typical cafeteria plan might offer some of the following options:

- **Policy:** Total employee-related expenses may not exceed 26 percent of base salary; 5 percent will be allocated to a retirement plan. Employer's share of Social Security, Medicare, worker's compensation, unemployment compensation, and other applicable taxes will be set aside. The remaining dollars may be allocated among the following options:
  - Health insurance
  - Dental insurance
  - Life insurance
  - Long-term care insurance
  - Short- or long-term disability insurance
  - Child care subsidy

### Motivation, Rewards, and Internal Consistency

Given the extensive theory and research developed around how to motivate workers, it is clear that employee motivation is a complex phenomenon and cannot be addressed in a simplistic or unidimensional manner. The research seems to indicate that employees will work hard and aspire to be productive if they:

- feel challenged by their work.
- have the resources and the flexibility necessary to achieve performance expectations.
- find that performing at a high level brings them a sense of competence.
- believe that their performance is valued, as measured by the ways in which rewards are allocated.

Dealing with all of these issues requires both a balance and an integration of what Herzberg (1966) refers to as intrinsic and extrinsic rewards.

The intrinsic dimension must be addressed by ensuring that there is a sense of job satisfaction and accomplishment for each employee. Attention to the overall organizational
structure and to how each individual job is designed is an important step in creating a motivation and reward system. In addition, each employee needs to feel that he or she has a positive, supportive relationship with immediate supervisor and upper management. This relationship, however, exists within a context in which the primary focus is on meeting organizational and program goals and objectives. An employee’s personal and professional goals are established within the organizational context. As we have seen, extrinsic rewards vary widely and offer a range of creative options including various approaches to pay, to individually tailored benefits, and to incentives.

A critical issue in evaluating an organization’s motivation and reward system is whether rewards are consistent with (1) the agency’s mission, (2) management’s theories and philosophies about motivation, and (3) employee uniqueness and individuality. As with all components of organizations, the first standard of measurement for internal consistency is the mission statement. If the mission, for example, is “to ensure a safe, healthy, and nurturing environment for all children served by the agency,” then policies and procedures for the allocation of rewards must ensure that those who support the mission in some tangible way are rewarded for their performance. Establishing measurable criteria and monitoring performance are complex undertakings and will be addressed in later chapters on job analysis and performance appraisal.

A second criterion used to determine consistency is management’s position on motivation. This is an elusive criterion because seldom is there a consensus position coming from a management team on employee motivation. In fact, it may be the rare management team that even discusses motivation from a theoretical or philosophical perspective. In this chapter five different perspectives on employee motivation have been identified: (1) motivating by meeting personal needs, (2) motivating by enhancing the quality of the work assignment, (3) motivating by providing access to achievement, (4) motivating by reinforcing performance with rewards, and (5) motivating through fairness and equity.

These perspectives provide frameworks for creating a motivation and reward system, beginning with an attempt to achieve consensus on a consistent philosophy. Does the organization support the notion that employee personal needs ought to be taken into consideration in making workload assignments? Does the organization believe that the role of management is, at least in part, to address the quality of work life, including the quality of jobs as they have been defined for staff? Does the organization agree that access to achievement is an important motivator? Are managers and administrators convinced that rewards directly tied to performance can motivate high levels of performance? Should fairness and equity be considerations in assessing motivation? Achieving consensus on these types of perspectives will help management develop a consistent philosophy around which a reward system can be constructed.

Finally, system integrity will be affected by the extent to which management recognizes employee uniqueness and individuality. Each employee will have his or her own interests, commitments, and talents. Ideally each should be encouraged to apply them in a way that maximizes benefits to the organization, its programs, and its clients. If employees can be rewarded in a way that is meaningful to them, the rewards will have a greater chance of contributing to the quality of work life and organizational effectiveness.
1. **Understanding Employee Motivation.** Employees are motivated by a variety of factors. Managers need to understand how each of these factors affects their employees.

2. **Theories of Motivation.** There are some motivating factors that are common to all employees and some factors that are unique to certain individuals.
   - *Motivating by Meeting Personal Needs.* Maslow identified a hierarchy of needs that is useful in understanding employee motivation.
   - *Motivating by Enhancing the Quality of Work Assignments.* For some, motivation comes from use of their creative abilities.
   - *Motivating by Providing Access to Achievement.* Achievement-motivated people are motivated by personal accomplishments.
   - *Motivating by Reinforcing Performance with Rewards.* Some are motivated by a positive relationship between effort, performance, rewards, and outcomes.
   - *Motivating through Fairness and Equity.* Some are motivated by the perception that the distribution of rewards is based on rational criteria.

3. **Designing Effective Reward Systems.** Lawler says reward systems should satisfy basic needs, offer competitive benefits, distribute them equitably, and treat employees as individuals.

4. **Incorporating Intrinsic Rewards into the Reward System.** Job-design factors can become part of a reward system.

5. **Allocating Extrinsic Rewards and Employee Benefits.** Benefits go to all employees; rewards are for merit.

6. **Compensation and Financial Incentives.** The following three factors should be considered in constructing a compensation and incentive package:
   - *Determining the Basic Salary Structure.*
   - *Merit Increases.*
   - *COLA, Lump Sum Salary Increases, and Bonuses.*

7. **Paid Time Off.** These benefits include vacation, holidays, sick leave, and other days off.

8. **Insurance and Retirement Benefits.** A wide variety of insurance and retirement benefits are offered by employers.

9. **Employee Service Benefits.** Services to meet family needs are increasingly being offered by employers.

10. **Alternative Work Arrangements.** Flexible working hours, job sharing, and telecommuting offer additional employee benefits and rewards.

11. **Job Security and Internal Mobility.** Not all organizations can guarantee permanent employment, but longevity can be encouraged and rewarded.

12. **Recognition.** Recognizing high-performing employees is inexpensive and can be made meaningful.

13. **The Cafeteria Plan.** Employees choose a mix of benefits that is meaningful to them.

14. **Motivation, Rewards, and Internal Consistency.** Rewards given must be consistent with overall agency philosophy and mission.
Please complete the following sections of your manual based on the content covered in Chapter 6.

**Section 6: Motivation and Rewards**

6.1 **Philosophy on motivation.** State the organization’s philosophy or assumptions about motivation and its relationship to performance and productivity.

6.2 **Benefits.** List all the benefits to be made available to employees and explain how each is calculated.

Example: 6.2.1 **Compensation.** Compensation for each position shall be determined by using the salary structure document attached as Document 6.2.1a.

6.2.2 **Paid time off.**

6.3 **Rewards earned by meritorious performance.** List the rewards that are available to staff, and explain how each can be earned through performance on the job.

**REFERENCES**


