

# Influencing Employee Performance and Motivation

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## WHAT'S COVERED

In this lesson, you will learn how companies use rewards strategies to influence employee performance and motivation. Specifically, this lesson will cover:

## 1. Performance Management and Rewards Systems

Both performance management and rewards systems are key levers that can be used to motivate and drive individual and group performance, which leads to overall organizational performance, productivity, and growth. Performance and rewards systems are also “cultural” in that they provide a glimpse into the way a company manages the performance (or nonperformance) of its employees, and to what extent they are willing to differentiate and reward for that performance. There has been a great deal of discussion over the years to identify best practices in the ways we differentiate and reward employees, which will also drive employee performance and motivation.

Before we can talk about best practices and findings in rewards and motivation systems, we must first define the terms. **Rewards systems** are the framework that an organization (generally via human resources) creates and manages to ensure that employee performance is reciprocated with some sort of reward (e.g., monetary or other extrinsic reward) that will drive and motivate the employee to continue to perform for the organization. Rewards programs consist primarily of compensation programs and policies, but can also include employee benefits and other extrinsic rewards that fulfill employee needs.

Within human resource management, the primary focus of a rewards program in an organization is to successfully implement a compensation system. Most organizations strive to implement a **pay-for-performance** compensation program that offers competitive pay in the marketplace and allows differentiation of compensation based on employee performance. Pay for performance begins with a philosophy that an organization adopts which states that they seek to reward the best-performing employees to enhance business performance and take care of those who can have the greatest impact.

In the 2011 SHRM article by Stephen Miller, entitled “Study: Pay for Performance Pays Off,” Miller says that companies’ top four drivers for moving to a pay-for-performance strategy are to:

- Recognize and reward high performers (46.9%)

- Increase the likelihood of achieving corporate goals (32.5%)
- Improve productivity (7.8%)
- Move away from an entitlement culture (7.8%)

The study also showed that the drivers differed depending on whether the company was high performing or lower performing (Miller, 2011). Almost half of high-performing organizations indicated that recognizing and rewarding top performers was the main driver of their pay-for-performance strategy, making it number one on the list of primary drivers. Lower-performing organizations did not appear to be as sure about the drivers behind their strategy. The number one driver among this group was achieving corporate goals. It appears that those top-performing organizations that implement a pay-for-performance strategy truly believe in the idea of differentiating among different levels of performance.



#### TERMS TO KNOW

##### Rewards Systems

The framework that an organization creates and manages to ensure that employee performance is reciprocated with some sort of reward that will drive and motivate the employee to continue to perform for the organization. Rewards programs consist primarily of compensation programs and policies, but can also include employee benefits and other extrinsic rewards that fulfill employee needs.

##### Pay-for-Performance Model

The process and structure for tying individual performance levels to rewards levels.

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## 2. Performance Management Program Components

A pay-for-performance program may have many components, and the human resources organization has the challenge of designing, analyzing, communicating, and managing the different components to ensure that the philosophy and the practices themselves are being carried out appropriately and legally. Human resource management's role in establishing pay for performance is that HR must engage business leadership to establish the following elements of the framework:

1. *Define* the organization's pay philosophy. Leadership needs to agree that they will promote a culture that rewards employees for strong performance.
2. *Review* the financial impacts of creating pay-for-performance changes. How much differentiation of performance will we have? What is the cost of doing this?
3. *Identify* any gaps that exist in the current processes. If any of the current human resources and compensation policies conflict with pay for performance, they should be reviewed and changed. Examples may lie in the performance management process, the merit increase process, and the short-term and long-term bonus processes. If the performance management process has gaps, these should be corrected before pay for performance is implemented; otherwise this will generate more distrust in the system. The salary structure should also be benchmarked with market data to ensure that the organization is compensating according to where it wishes to be in the marketplace.
4. *Update* compensation processes with new pay-for-performance elements. This includes the design of a **merit matrix** that ties employee annual pay increases to performance. Other areas of focus should be the

design of a short-term bonus matrix and a long-term bonus pay-for-performance strategy. In other words, how does performance drive the bonus payouts? What is the differential (or multiplier) for each level?

5. *Communicate* and train managers and employees on the pay-for-performance philosophy and process changes. Explain the changes in the context of the overall culture of the organization. This is a long-term investment in talent and performance.



#### TERM TO KNOW

##### **Merit Matrix**

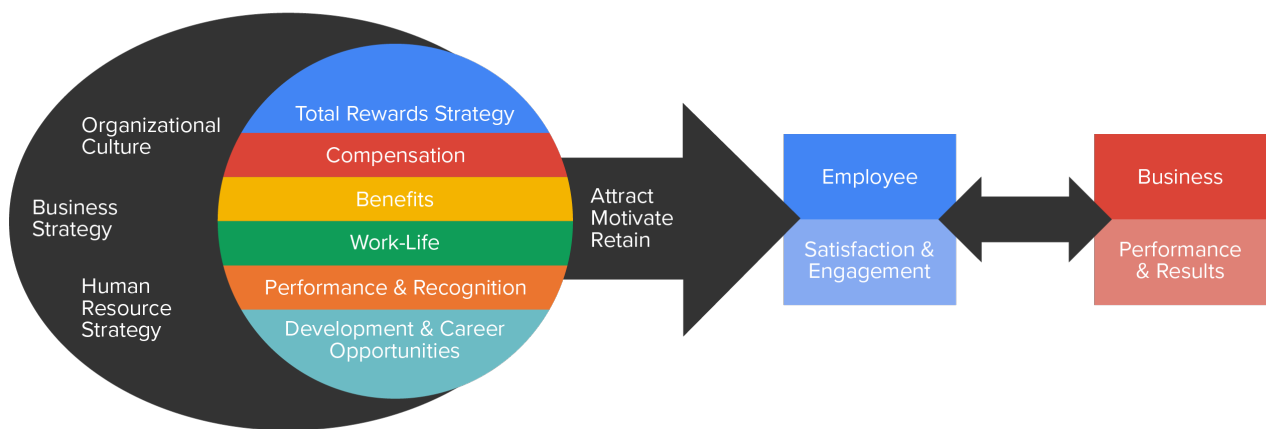
A calculation table that provides a framework for merit increases based on performance levels.

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## 3. Rewards System Processes

Human resource management professionals play a key role in the rewards processes, and employee compensation is only one piece (although a key piece!) of the “total rewards” pie. World at Work defines a **total rewards strategy** as comprised of six elements of total rewards, including:

- *Compensation*—Pay provided by an employer to its employees for services rendered (i.e., time, effort, and skill). This includes both fixed and variable pay tied to performance levels.
- *Benefits*—Programs an employer uses to supplement the cash compensation employees receive. These health, income protection, savings, and retirement programs provide security for employees and their families.
- *Work-life effectiveness*—A specific set of organizational practices, policies, and programs, plus a philosophy that actively supports efforts to help employees achieve success at both work and home.
- *Recognition*—Formal or informal programs that acknowledge or give special attention to employee actions, efforts, behavior, or performance and support business strategy by reinforcing behaviors (e.g., extraordinary accomplishments) that contribute to organizational success.
- *Performance management*—The alignment of organizational, team, and individual efforts toward the achievement of business goals and organizational success. Performance management includes establishing expectations, skill demonstration, assessment, feedback, and continuous improvement.
- *Talent development*—Provides the opportunity and tools for employees to advance their skills and competencies in both their short- and long-term careers.



## REFLECT

1. What does a pay-for-performance strategy mean for a company?
2. What is the first step in defining an organization's pay-for-performance strategy?



## TERM TO KNOW

### Total Rewards Strategy

As coined by World at Work, includes compensation, benefits, work-life effectiveness, recognition, performance management, and talent development.



## SUMMARY

In this lesson, you learned how companies use rewards strategies to influence employee performance and motivation. You learned that both **performance management and rewards systems** are key levers that can be used to motivate and drive individual and group performance, which leads to overall organizational performance, productivity, and growth. You learned that rewards programs consist primarily of compensation programs and policies, such as a pay-for-performance model, although the drivers for moving to this type of program differ between high-performing and lower-performing companies. You also learned that HR management's role in establishing pay for performance involves engaging business leadership to establish key **performance management program components**: defining the organization's pay philosophy; reviewing the financial aspects; identifying gaps in the current processes; updating compensation processes; and communicating and

training managers and employees. Lastly, you learned that HR management professionals play a key role in **rewards system processes**, including compensation, benefits, work-life effectiveness, recognition, performance management, and talent development.

Best of luck in your learning!

Source: Access for free at <https://openstax.org/books/principles-management/pages/1-introduction>

## REFERENCES

Stephen Miller, S. (2011, September 14). Study: Pay for performance pays off. *Society for Human Resource Management*. [www.shrm.org/resourcesandtools/hr-topics/compensation/pages/paysoff.aspx](http://www.shrm.org/resourcesandtools/hr-topics/compensation/pages/paysoff.aspx)



## TERMS TO KNOW

### Merit Matrix

A calculation table that provides a framework for merit increases based on performance levels.

### Pay-for-Performance Model

The process and structure for tying individual performance levels to rewards levels.

### Rewards Systems

The framework that an organization creates and manages to ensure that employee performance is reciprocated with some sort of reward that will drive and motivate the employee to continue to perform for the organization. Rewards programs consist primarily of compensation programs and policies, but can also include employee benefits and other extrinsic rewards that fulfill employee needs.

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