

Management by Incentives

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1 Introduction

Incentives are something that motivates one to do something. In the following text, incentives are defined as something the company gives its employees to motivate them to improve their performance. Due to generation conflicts and questions concerning "fair pay", it is important to take a closer look on different theories and models dealing with incentives.

2 Different Kinds of Incentives

Incentives are differentiated into two kinds – material and immaterial rewards. Immaterial incentives are for example: flexible work time models, a good and inspiring working atmosphere, flexible and generous vacation models, after work activities, and other aspects concerning company culture. Material incentives are valuable considerations beside the fixed salary. This category is splitted in three other categories: fixed payments like additional Christmas and holiday pay, social benefits like health insurance and retirement provisions and variable compensations. These compensations can occur on an individual level as individual performance bonuses or on an organizational level if certain business goals are reached [2].

3 How to quantify work?

How and why is work compensated? Salary is the exchange of money for the time, mental and physical resources the employee offers to the company [2]. Before the employees performance can be improved using incentives a fair and comparable fixed salary is needed. There exist several theories discussing the question how to develop a fair payment in a company. The following paper focuses on the Geneva Scheme and the Hay Guide Points.

3.1 The "Geneva Scheme"

In the 1950s the "Geneva Scheme" was invented to identify and classify different job requirements. The scheme differentiates between four categories that can be measured in abilities and pressure.

- **Intellectual requirements:** Mental pressured, thinking-processes, professional skills
- **Physical requirements:** Physical pressure and burden of senses
- **Responsibility:** Safety and personnel management
- **Environmental influences:** Temperature, radiation, dust and background noise

This was the first attempt to create a scheme to make jobs and their income comparable to other jobs inside a company and to other companies as well. The scheme is used and developed until today.

3.2 Hay Guide Chart

The Hay Guide Chart is another method to face the complex issue of job evaluation. Using the Hay Standard can help to provide an international standard of job evaluation that brings different benefits to the company and the employees. Employees can check if they get a fair within the company and even in comparison to international competition remuneration [3].

3.3 Manager to Worker Pay Ratio

The manager to worker pay ratio compares two dimensions: the annual compensations of managers (CEOs) compared to the annual total compensation of all employees (excluding the CEOs and part-time workers). For this comparison, the median value is most commonly used. Several HR textbooks recommend to pay the CEOs income depending on the median or even the lowest income [2]. A managers' income 20 or 30 times higher than the income of a normal worker can be tolerated, but super high incomes are hard to justify. Therefore a Swiss referendum in 2013 claimed for a national regulation that the maximum income per month in a company is not allowed to be higher than 12 times the minimum income per month [6]. The initiative was rejected. Regarding the actual manager to worker pay ratios in Germany (57:1) and USA (312:1) might give the referendum a new actuality [4] [5].

4 More Money – More Motivation?

Yes and no. Extra payments for reached goals and bonuses can help to improve the employees performance. But only in a limited way. For so called lower skilled, boring and repetitive jobs a better performance can be reached due to monetary incentives. At the same time, this kind of incentive can harm the employees performance if it comes to more intellectual and creative jobs. Employees could only work until they fulfill the goals for an extra payment, or try to sell as much as they can in order to get the bonus and forget about the customer satisfaction. This might lead to bad image of the company.

It might be a better strategy to focus and itemize intrinsic motivation. This includes a good working atmosphere, a respectful supervisor-employee communication and loyalty to the company and its products [7].

5 Comparing Different Generations

Using incentives to improve the employees motivation to reach a better work performance can be a attempt. But not all incentives work for all employees. Different generations seek for different aims.

	Baby Boomer	Generation X	Generation Y	Generation Z
Geboren	Ab 1950	Ab 1965	Ab 1980	Ab 1995
Grundhaltung	Idealismus	Skepizismus	Optimismus	Realismus
Hauptmerkmal	Selbsterfüllung	Perpektiven- losigkeit	Leistungs- bereitschaft	„Flutterhaftigkeit“
Bezug	(lokale) Gemeinschaft	(lokale) Gemeinschaft	(internationale) Gesellschaft	(globale) Gesellschaft
Rolle	Kollektivismus	Individualismus	Kollektivismus	Individualismus
Aktivitätsniveau	Mittel	Niedrig	Mittel	Hoch
Informiertheit	Mittel	Wenig	Mittel	Stark
Qualifikation	Lernen für das Unternehmen	Wenig lernen	Bezahltes Lernen	Für sich lernen
Ausrichtung	Nur Beruf	Privat (trotz Beruf)	Beruf, verbunden mit Privat	Privat (und Beruf getrennt)

Quelle: Univ.-Prof. Dr. Christian Scholz – Generation Z: Willkommen in der Arbeitswelt

Source: [8]

As shown in the graphic, Generation Z prefers a fixed salary. This matches their individual aims. A high income is not that important. This is completely different for Generation Y. A fixed salary can lead to lack of productivity and motivation. An individual income is seen as appreciation of the own achievements. To satisfy the different needs of different generations, new compensation systems are evolving.

5.1 Cafeteria Systems

The idea of the cafeteria systems is to individualize payments. All employees can choose whether they want more holidays or a higher income. It is also possible to cut down the weekly working time and lower the income. These systems are pretty popular in the US, where health insurance and other social benefits are not obligatory by law. Employees can individualize their compensation model to the maximum corresponding to their private and financial situation. On the other hand are cafeteria systems linked with a high administration effort [2].

5.2 Current Trends in Compensation

New generations insist on new working models and payment ideas. Therefore companies are in need to create new ways to handle these new generations of employees. This lead to the term "new pay". New Pay focuses on more participation of the employees in creating new payment systems, is open for new kinds and alternative ways of incentives, like days off, sabbaticals, trainings and workshops instead of cash [9].

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