Abstract. – Research shows that employees are more motivated to work when given the opportunity to make more money. However, companies must consider the issue of job quantity versus job quality. Employees have different motives for acquiring wealth. Because of this, money as the sole reward motivates employees less than when money is given along with non-financial reinforcements. We review the differences of financial incentives and recommend forms of compensation as well as incentive policies.

The 20 Skills™ assessment is the only evaluation, selection and training assessment guaranteed to satisfy professional testing and legal standards. The assessment was designed for the hospitality-service industry. During the assessment test takers must indicate the intensity to which they disagree or agree with a number of statements that pertain to their personality or approach to professional situations. One of those statements is:

“Acceptance is more important to me than money”

How well does that statement describe you, your coworkers or executive team? More importantly, what does your attitude towards money as a motivator actually reveal? This article analyzes this question pertaining to the workplace and beyond. Our goal is to describe the differences of financial incentives for improving job performance.

Understanding Materialism

Materialism is defined as when a person values money, wealth and possessions more than other things in life\textsuperscript{14}. Studies show that a materialistic focus in life is associated with a lower psychological well-being\textsuperscript{2,6,7,8,12}. Even though poor people become happier when their income rises, the intensity of desire for wealth remains negatively correlated with psychological wellbeing\textsuperscript{2}. A possible reason for this data is that materialistic pursuits do not provide what people are really looking for to obtain happiness; people who are unhappy or lacking in social connections may seek comfort in material products\textsuperscript{2}.

Some researchers\textsuperscript{16} argue that the reason a person focuses on money is more relevant than the overall intensity of that focus. Two types of materialism are instrumental materialism and terminal materialism. Instrumental materialism describes using products to attain personal goals and fulfillment; terminal materialism is using possessions to achieve social status and obtain envy from other people. There are three different categories of motives for materialistic pursuit: positive, negative and freedom of action. Positive motives
Money and employee motivation 3.

involve using money for basic necessities and as a measure of achievement. Negative motives refer to using money to gain power or superiority over others. Motives concerning freedom of action refer to spending money in any desired way.

When the negative correlation between personal well-being and money importance was analyzed, while controlling for the influence of motivation, the correlation lost its statistical significance. In addition, when calculated independently, the relationship between negative motives and money importance was both negative and statistically significant. As a result, the authors\textsuperscript{16} attributed the correlation between psychological well-being and money importance to solely negative motives. This suggests that not all motives for wanting money lead to decreased happiness. Their results suggest that it is not the importance of money that contributes to well-being; but instead attempting to use money to lessen self-doubt and increase self-esteem leads to problems. They also say that such motives become problematic when money is used for things it cannot provide, like self-esteem, happiness and genuine friendship.

The research suggests that having money is not related to personal happiness, but the amount of importance people place on money can cause unhappiness. Individuals who consider money important tend to be less happy than those who place less importance on money\textsuperscript{2,16}.

Financial Incentives in the Workplace

Pursuing money based on negative motives can lead to a poorer psychological well-being, but this is not the same as pursuing money to provide security and comfort for a person and his or her family. Employees want to earn fair wages and salaries, and employers want their workers to believe they are getting that. It is logical that employees and employers view money as the fundamental incentive for satisfactory job performance.

The use of monetary or other financial incentives in the classic “work performance standard” comes from reinforcement theory. Reinforcement theory\textsuperscript{15} is the relationship between a behavior, such as work performance, and its consequences, such as pay. It comes from the principles and techniques of organizational behavior modification\textsuperscript{9,17}. Organizational behavior modification is a structure within which employee behaviors are identified, measured and analyzed in terms of their consequences, such as existing reinforcements, and where an intervention is developed using principles of reinforcement\textsuperscript{10,17}.

In a publicized study, Gupta and her colleagues\textsuperscript{5} analyzed thirty-nine studies conducted over forty years and found that money motivates workers whether their jobs are exciting or boring, in both labs and real-world settings. But the research team acknowledges that money is not the only thing employees want. Higher salaries will make employees
Money and employee motivation

happier, but it will not buy better performance. Still, Gupta warns that employers who give small merit raises – less than 7% of average pay – may harm job performance. According to her, small raises can decrease motivation because employees become irritated that their hard work earned so little money. Because of this, she advises employers who must give small raises to link them to results and to be fair.

Monetary incentives can extend beyond the raises discussed by Gupta’s team to include individual and small-group rewards, merit pay, pay-for-performance, variable pay plans, or group bonus plans as well as profit-sharing and gain-sharing incentive plans.

Perry and his colleagues analyzed job performance literature in a review and discussed two ideas relevant to the service industry:

- **Financial incentives improve task performance, but their effectiveness is dependent upon organizational conditions.** Differences in institutional arrangements, as well as differences in employee’s preferences for specific incentives, contribute to the possibility and effectiveness of monetary incentives. Therefore, companies are wise to study these issues before implementing changes to existing incentive plans. This is especially important for service organizations, where financial reinforcements produce a stronger effect on task performance than solely non-financial rewards. Even stronger results are seen with a combined approach. For example, one meta-analysis of 72 field studies found that monetary incentives improved task performance by 23%, social recognition improved task performance by 17% and feedback elicited a 10% improvement. Simultaneously combining all three types of reinforcements improved performance by 45%.

- **Group incentive systems are effective in private sector settings.** Team-based or small-group incentives are defined as rewards in which a portion of individual pay is dependent on measurable group performance. Its effectiveness is dependent on the characteristics of the reward system, the organization, the team and the individual team members. Studying this issue by employee surveys or interviews is useful. Research suggests that equally divided small-group incentives maintain high levels of productivity and satisfaction for group members, and that small-group incentives are at least as effective as individual incentives with groups of two to twelve people.

Qualitative, quantitative and survey research studies of alternative pay systems such as profit-sharing or gain-sharing plans are more consistent in their results. These incentive programs include various pay-for-performance approaches that connect financial rewards for employees to improvements in the performance of the work unit. Research shows that these types of incentive systems are associated in practice – and in employer and employee minds – with both higher productivity and improvements in organizational performance.
Profiting by the Latest Research

We have shared several useful insights into the relationship between money and employee motivation. For readers wanting more in-depth discussions of this information, we recommend the resources listed below. These sources also give guidance on how to translate some of these principles into practice:


Employee surveys and interviews can help organizations identify what type of monetary incentives are the most motivating to the average employee, and those incentives must be practical for the organization to use. The best technique stems from Stajkovic and Luthans’ influential meta-analysis\(^\text{18}\) which concluded that *feedback combined with money and social recognition produced the strongest effect on job performance*.

We recommend that performance feedback should maximize its benefit both to the employee and the company. For example, many employees respond well to coaching or mentoring. And there are many tools, such as the 20│20 Skills™ assessment that can restructure goal-setting for individual employees or even entire departments. Goal-setting enhances job performance. One review\(^\text{19}\) found that *goal-setting and monetary incentives independently influence job performance* (for more information, see Perry et al.\(^\text{13}\)).

HVS has also completed research on the effectiveness of pay-for-performance metrics in the hotel, gaming and restaurant industries, and its results reinforce the findings of researchers like Gupta and Perry. That is, “money ranks below other factors relative to job satisfaction, but high on the motivational matrix when all other factors have been met.” As professionals, we understand what motivates people to change jobs and employers. Job importance, range of responsibilities, employer reputation and other important criteria need to be completed before payment negotiations begin. Once negotiations begin, employers must negotiate a higher salary than their competitors.
Money and employee motivation

HVS Executive Search and 20 | 20 Skills™ assessment offers consultation on employee compensation and coaching issues. But for those companies seeking simple guidance the following quote summarizes how most employees view the relationship between money and employee motivation…

“Show me the money, show me respect and show me attention… or show me the door.”

About the Authors

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References


Money and employee motivation


