The Effect On Motivation of A Change in Rewards

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This paper reports on the impact of the introduction of a bonus scheme – to some employees – on a Not-For-Profit (NFP) organisation providing services for people with disabilities. This situation raises the question of how an extrinsic reward impacts staff of NFP organisations, and, particularly, how it changes organizational culture. Data was gathered through semi-structured interviews with employees of the organisation about intrinsic and extrinsic rewards. Responses of staff are reported in this study. The important findings of the study are that intrinsic rewards play a significant role in the motivation of staff in NFP organisations; that a bonus scheme does not cause tension between its recipients and non recipients; and that the culture of the organisation is not affected, particularly with respect to camaraderie between staff, the relationship of trust between management and staff, and the maintenance of an attitude of service to clients.

keywords: intrinsic rewards, extrinsic rewards, motivation, not-for-profit organisations

1. Introduction

The aim of this study is to understand the impact of the introduction of an extrinsic motivator on the motivation of staff, on staff collegiality, and on staff attitudes toward service to clients. An important aspect of the study is that the motivational effect of an extrinsic reward is examined in an organisation made up of two “units” in which the staff of one unit are eligible to receive a performance bonus while staff of the other unit are not. The organisation in question provides services for people with disabilities. A Lifestyles unit provides training in life-skills for people with intellectual disabilities while an Employment unit finds employment for disabled people. The Employment unit was faced with a changed funding model introduced by the Australian Federal Government.

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The unit will no longer receive block funding, i.e. a fixed amount, paid irrespective of employment found for clients but will be paid on the basis of clients being placed in employment. The payment from the government will be reduced the longer it takes to find employment for the client. The funding changes have the potential to create uncertainty and increased pressure to find placements for unemployed clients as speedily as possible, irrespective of their needs.

The issue to be considered in this article is what are the impacts of the introduction of a bonus scheme on: (1) the motivation of staff, (2) the relationship between staff – in particular, between recipients and non-recipients of the bonus, and (3) aspects of the organization’s culture, including trust between management and staff, staff camaraderie, and the attitude toward serving clients. Gupta and Mitra (1998) argue that money is an important motivator. However, the NFP literature indicates that intrinsic rewards are important to staff in the NFP sector and argues that classical agency theory is inadequate to explain the motivation of employees in this sector. Extrinsic rewards, such as monetary bonuses, common in the business sector, are incentives provided by others and are external to the recipient. Simsa (2003) argues that each sector has its own “logic” and language, so that introducing a management technique from the business sector into the NFP sector might be disruptive, as the change might not be accepted by NFP staff. Intrinsic rewards are personal, “internal” responses, such as satisfaction or pride in an accomplishment. According to Ryan and Deci (2000) fun and challenge are of greater significance to an intrinsically motivated person than external pressures and rewards.

Much of the evidence indicating the importance of extrinsic rewards comes from the business sector or was obtained using an experimental research method in which the context of the task is not considered. However, in a human services context the nature of the task is not trivial and in all likelihood is the reason for the employee being in the sector (Schepers et al., 2005). The fact that an individual is working in a NFP organisation is indicative of a set of values in which extrinsic rewards are not the first consideration Weisbrod (1983), Preston (1989), Roomkin and Weisbrod (1999). It is clear from the literature that intrinsic rewards play a significant role. Frey (1997) argues that extrinsic rewards can crowd out intrinsic rewards resulting in staff only undertaking tasks that are rewarded extrinsically and therefore likely reducing the commitment to the organisation.

The paper continues (section 2) with a statement of the context of the study, including a description of the organisation. In section 3 the literature dealing with intrinsic and extrinsic rewards is discussed, followed by section 4 in which there is a brief theoretical discussion of organizational change. In section 5 the research method and questions raised by the theoretical issues highlighted in section 3 (literature review) are presented, while section 6 reports on the data of the study – staff interviews. Section 7 presents the discussion resulting from the findings, and in section 8 conclusions are drawn.
2. The Context Of This Study

The organization – staff and management of which expressed a strong sense of camaraderie – has two main sources of funding. The Employment unit has, to date, received block funding from the Australian Federal Government, while the Lifestyles unit is funded by Victorian State Government grants. The Federal Government has decided to fund employment agencies on the basis of the number of clients they find employment for rather than by a set grant, paid irrespective of the number of clients who had been found employment. This change had been mooted for a number of years and management decided to improve Employment unit staff performance by offering a bonus if they were able to increase the number of clients placed in employment. However, management did not extend the bonuses to Lifestyles unit staff as it was considered to be inappropriate.

3. Rewards In The Not-For-Profit Sector

Agency theory suggests that people are motivated by extrinsic rewards and that employees, considered to be self-interested, will engage in employment that provides maximum extrinsic rewards (Jensen and Meckling 1976; Eisenhardt 1989; Baiman 1990). According to Jensen and Meckling (1976) agency theory states that individuals are wealth maximisers. Also employees will concentrate on tasks that provide opportunities to increase their pay, via such methods as a bonus scheme. Altruism is not considered to be a part of the agency relationship. Almer, Higgs and Hooks (2005) argue that most agency models of compensation are only concerned with financial benefits. Gupta and Mitra (1998) using meta-analysis found that financial incentives have a strong relationship with performance. They found that financial incentives were particularly powerful with respect to performance quantity. However, results were uncertain when regarding performance quality – an important consideration in the human services sector.

The results of research in the public sector would appear to contradict the conclusions of Gupta and Mitra. According to O'Donnell and Shields (2002) the application of performance-related pay in the Australian Public Service (APS) has been problematic. Similarly the research of Marsden and Richardson (1994) found that performance-related pay had limited motivational effects. Also, there were widespread concerns about the procedural fairness of the system. O'Donnell (1998) found that the attempt to apply performance bonuses to senior officers of the APS did not contribute to an improvement in performance. Also, the OECD (1993) questioned the motivational effects of pay increases and bonuses, particularly for senior public service managers. However, Gaertner and Gaertner (1985) report that performance appraisals that placed emphasis on the development needs of public sector managers had the potential to increase the performance of the manager.

Gaertner and Gaertner (1985), Dowling and Richardson (1997), Redman et al. (2000) and O'Donnell and Shields (2002) suggest that extrinsic rewards by themselves are problematic and that staff motivation also involves intrinsic rewards such as pride at
doing a good job and a sense of doing something worthwhile. In summary, people working in the third sector do so despite generally lower pay, because they consider the task to be important. Williams (1998) points out that people have different values, motives and perceptions and are not passive recipients who will automatically respond to work systems as management wishes – hence the introduction of a bonus scheme will not necessarily improve performance. Some argue that it is individual’s values that are important as motivators (Etzioni (1988), Larson (1977)) and not extrinsic rewards. Jobome (2006) found in his study of management pay in large UK NFPs that intrinsic rewards dominated extrinsic ones.

Holcombe (1995), in her study of the Grameen Bank in Bangladesh, demonstrates how important employee identification with the organization’s goals and values is to the achievement of the organization’s mission. According to Brown and Yoshioka (2003) NFP staff, particularly volunteers, tend to be motivated by the values and mission of the organisation, but that extrinsic rewards cannot be ignored. According to Berry, Broadbent and Otley (1995), people working in the ‘caring services’ may consider remunerative reward as less important than the normative reward of ‘doing a worthwhile job’. Similar conclusions were drawn by Bouillon et al (2006) in their study of hospital managers. Data they reported indicated that hospital managers were not motivated by individual opportunism alone. This is in keeping with the argument of Etzioni (1988) and Larson (1977) and also that of Brown and Yoshioka (2003). The position of these authors has been supported empirically by Weisbrod (1983), Preston (1989), and Roomkin and Weisbrod (1999).

The literature quoted so far has argued that intrinsic rewards are important in the NFP context. In fact Deckop and Cirka (2000) are of the opinion that intrinsic rewards have a greater impact in NFP organisations than in other organisations. Results reported by them support the contention of Osterloh and Frey (2002) that extrinsic rewards can ‘crowd out’ intrinsic motivation. Deckop and Cirka (2000) found that a merit pay scheme may reduce intrinsic motivation for those employees who were highly motivated intrinsically before the scheme was introduced. However, this position has been questioned by Gupta and Mitra (1998) who argue that their meta-research does not show the crowding out of intrinsic rewards by extrinsic rewards.

4. Issues

In this study the context is particularly relevant as it defines the activities and rewards (Jobome, 2006). Specifically, Schepers et. al. (2005) argue that employees working in third sector organisations would be predominantly motivated by social contact, working for and with people, altruism personal growth and intrinsic rewards. Hence, the issue arises as to the effect upon motivation of the introduction of an extrinsic reward into an NFP organisation, particularly with respect to the culture of the organisation and the impact of this culture on motivation.

In summary, there are two issues that are considered in this paper:
1) Has the introduction of an extrinsic reward (the bonus) impacted intrinsic motivation?
2) Has the bonus resulted in changes in the culture of the organization: in particular, camaraderie between staff, “openness” and having fun at work, a relationship of trust between management and staff, success of clients as an intrinsic motivator, and the maintenance of an attitude of service to clients?

5. Research Method

Interviews were conducted with 14 staff of the organization. The interviewees were selected with respect to age, gender, and the unit to which they belonged.

6. Staff Interviews

The first issue to be considered was that of identifying the main source of motivation in the organization. Most interviewees expressed the view that they were motivated by the success of their clients. When asked why they continued to work in the organization one respondent stated:

The clients definitely, that’s my prime source of motivation, being part of client achievement or client progress, however small or however grand that may be.

According to a second interviewee:

I think the real payoff is to hear a good outcome or a story about a client, that may not have been on the radar twelve months ago.

From another interviewee:

When the clients come they are usually at a low point. We pick them up, motivate them and turn them around…supporting them, getting them a job, and in a few months time seeing them independent, participating and happy…So it is the success of our clients that makes it all worthwhile.

From a further interviewee was expressed the rejection of money as a source of motivation:

I think people know what the deal is when they sign on and they understand that the Employment unit (which pays the bonus) is one type of area and day services (Lifestyles unit, which does not pay the bonus) is another type of area and we don't care about whether or not we get the same money… we are not interested in becoming astronauts and earning an astronaut’s wage. Most people made that decision a long time ago – money is not the prime drive why they remain with the unit.

Employment unit staff, eligible for the bonus, were of the opinion that it acted more as a confirmation of their efforts rather than being a source of motivation. Most of the
respondents stated that the organization was good to work for. When asked if they would consider applying for another position most said no:

…They’re a terrific bunch of staff, with connections and relations with each other and with the clients…I like the Unit, I like the way the people go about things, their sort of fierce determination. For me that’s the exciting part…

The second issue to be considered is whether the bonus has resulted in changes in the culture of the organisation. Some of the comments made by staff indicated that the organisation’s culture was a factor in attracting and motivating them:

For me the job versus the company, the job makes it a lot more enjoyable, I enjoy dealing with people contact with my clients, as far as working for the organization I enjoy the people I work with…a really good culture.

Another staff member stated:

I have been in other places where you walk in and no one says hello and the boss is in the worst mood and is likely to yell at you at the drop of a hat. You don’t get that kind of feeling here; no, no one holds grudges, it is just a really nice atmosphere to work in.

A number of interviewees were of the opinion that the work undertaken by the organization and its attitudes and priorities had a significant impact on them:

I saw the ad in the newspaper…there was an hour interview with the CEO at the time who was very passionate and had an infectious, determined, hard-line approach to things which I admired at the time; and it had a big impact on me, and here I am nine years later.

An aspect of the attractiveness of the organisation to employees is that many of them know disabled people outside of the organization. There appears to be a link between knowing a disabled person and working in the organization, irrespective of the pay disincentive, and this supports the contention that the mission of the organization is a source of motivation.

My partner and I grew up with a lot of people with disabilities, everyone knows someone.

Of relevance to the culture of the organisation is whether or not the bonus has caused tensions between those able to receive it and those who cannot. A Lifestyles unit employee commented on the ability to transfer to the Employment unit where there is the opportunity to earn the bonus. However, irrespective of this, Lifestyles employees remained with the unit. When staff from the Lifestyles unit were asked about whether the bonus being paid to case managers in the Employment unit was a cause tension between the two units, they were of the opinion that it was not:
Having been there for nine years and having been the union representative, people were ever ready to come to me with complaints, but I can honestly say I never heard anyone raise that as an issue. No, I would say it is a non issue.

Further, Lifestyles interviewees (those excluded from earning the bonus) were of the opinion that a bonus scheme would be inappropriate for their unit, and that Employment unit staff were entitled to earn a bonus because of the nature of their work – it puts them under pressure:

I mean people understand what the Employment unit side of the business is about and of the specific skills they must have. They also know that the option is always there, if they wanted to, to move across to the Employment unit.

Although all Employment unit staff were eligible to participate in the bonus scheme, not all received it. When questioned about the fairness of this system, one employee stated that the new system was not considered to be fair:

I know previously, before these changes (the introduction of the bonus), if you helped another Case Manager get a client employed then you were given some credit for that help. But that’s no longer the case. Similarly if you are supporting someone else’s client in a work place, you were given credit for that, too, but now not so…I think an issue for me is that the bonus system is not a team-based system – it has to be individually based. But there is a conflict of trying to work as a team and getting a bonus – because a team is not eligible for a bonus. You have contributed to the team, and it can create problems because if you are measuring people individually then they are not going to share as much, they are going to be more concerned about their own clients being placed, rather than working and sharing with other people.

Also, two case managers expressed concern about the fairness of the scheme. An instance was cited of one case manager being reluctant to undertake work not directly related to achieving a bonus. The second case manager was not able to earn a bonus as she had to take time to nurse an ill relative. This experience had left her with a negative attitude toward management.

I suppose it does cause tensions for those who did not get the bonus. I know last year they did give bonuses but I didn’t get it and I don’t know, I have spent all my time at work, I haven’t had a holiday in years, and just took time off and spent it with my parents, my father, my mother – took care of him and he was diagnosed with cancer and I spent the time taking dad for radiation treatment…I tried to explain to the manager what had been going on but she didn’t accept…Now I can’t trust that she understands me.

Another employee was ambivalent about the bonus scheme being a motivator, but did refer to it as causing “pressure”:
I believe it is four weeks pay if we reach a target, I am not sure it motivates people. It is probably not something always in my mind all through the year, although it is the sort of thing that, just a month or two before hand, I try and do “all the bits”. For me it has been effective because it puts pressure on so that I might get the bonus.

With respect to camaraderie between staff, “openness” and having fun at work, a relationship of trust between management and staff, and the maintenance of an attitude of service to clients, employees commented on the camaraderie and having fun at work – both of which are part of the organisational culture, and which have continued after the introduction of the bonus.

…the way that we celebrate success I guess is that you either see or you are told of it at a staff meeting of what has been the positive outcomes of the client and that generates its own amount of good will and it generates its own reward.

It appears that the introduction of the bonus has had no effect on “openness”. Interviewees spoke of it freely, with the implication being that it is a continuing cultural trait of the organisation. One interviewee stated:

*We are characterised by openness – absolutely – openness with clients and other staff.*

With respect to the effect of the bonus upon attitude of service to clients, there was a consensus amongst interviewees that the organisation had the welfare of clients at heart. One suggested that he would leave the organisation if he felt that the welfare of clients was being ignored by management. However, in the following manager’s comments there is detection of a subtle concern that client service may suffer as a result of employees being asked to get clients into jobs as quickly as possible:

*The organizational environment at the moment is going through unprecedented change...We have probably been lenient in the past, we haven’t enforced KPIs vigorously or strongly, which I think we need to do now, and part of what staff have been asked to do in terms of assessments and things, they’re lacking in those areas. So we need to get them up to up to scratch and tell them this is what they have to maintain and these are the KPIs, this is what you need to meet, and have them formally written and agreed to and then enforce them.*

An employee stated:

*But I can see what management are going through, they are pushing us more in that direction, so that the sense of community is going to be lost.*

7. Discussion

With regard to the question of motivation, the individual bonus scheme is not a significant motivator. The interviews reveal that staff were attracted to the organization
because of its mission and remained there because of an interest in their clients’ success and the culture of the organisation. This finding is in accordance with Graffam et al. (2005). Despite the introduction of the bonus scheme, the main source of motivation still appears to be the intrinsic rewards of achievement of clients and collegiate atmosphere. Employees from both units were in strong agreement about the importance of their clients as a source of motivation. This result supports the contention of Berry, Broadbent, and Otley (1995), and Speckbacher (2003), that people working in the caring services are more concerned with doing a worthwhile job than with remuneration.

In respect of the bonus scheme causing tensions within the organisation, this did not occur. However, minor tensions have arisen between management and staff within the Employment unit in regard to some staff eligible to receive, but not actually receiving, the bonus. Two aspects of these tensions are that, first, some interviewees suggested they would no longer assist clients of other staff members, and second, employees that could not meet the performance requirements felt the system had treated them unfairly. However, there were no tensions between those who were eligible and those who were not. The bonus scheme appears to have resulted in little if any change in the organisational culture. The organisation is still seen as involving camaraderie between staff and “openness” and having fun at work. Further, managers are still highly regarded and trusted, and the organisation is still considered to be client orientated. However, there is subtle evidence that the bonus has prompted concerns about the level of service to clients possibly not being maintained.

8. Conclusions

Intrinsic motivational factors have been found to be important, in both the presence and absence of an employee bonus scheme. Extrinsic motivators do play a role, but not to the extent that classical agency theory would suggest. The introduction of a bonus had very little impact on motivation, tensions, or organisational culture. The attitude of service to clients appears to remain unchanged; and there has been no conflict between recipients and non-recipients of the bonus. The only apparent negative impact of the bonus is that there is minor evidence of a degree of distrust between staff and management, and some diminishing of co-operation between staff in the care of their clients, with staff inclining towards offer service only to their own clients.

The fact that both motivation and camaraderie appear to have been unaffected, and that there is only minor evidence of dissatisfaction, indicates that no deinstitutionalisation occurred. Given the continuing strength of the culture of the organisation and the significant degree of intrinsic motivation, it appears that organisational change consequent upon the introduction of the bonus scheme has been minor. This finding is in line with expected outcomes of mimetic change, and is in line with the argument of Modell and Wiesel (2007). The results reported in this paper were gained from one NFP organisation and therefore the conclusions should be tentative. However, the findings do give direction for future research.
9. References


### Appendix: Staff Profile

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