CHAPTER 6

MOTIVATION: FROM CONCEPTS TO APPLICATIONS

CHAPTER OUTLINE

Set me anything to do as a task, and it is inconceivable the desire I have to do something else.
—G. B. Shaw

LEARNING OBJECTIVES

After studying this chapter, you should be able to

1. Identify the four ingredients common to MBO programs
2. Explain why managers might want to use employee involvement programs
3. Contrast participative management with employee involvement
4. Define quality circles
5. Explain how ESOPs can increase employee motivation
6. Contrast gainsharing and profit sharing
7. Describe the link between skill-based pay plans and motivation theories
8. Explain how flexible benefits turn benefits into motivators
9. Contrast the challenges of motivating professional employees versus low-skilled employees
10. Contrast the challenges in motivating professional employees with temporary workers

Shamee Samad and Jamie Sokalsky have struck gold. But that's appro-priate since they work for Barrick Gold Corporation of Toronto. The world's most profitable and third-largest gold mining operation, Barrick employees are enjoying the benefits from the company's generous stock-option program.[1]

Barrick introduced the idea of supplementing regular paychecks with stock in 1984. At the time, the company was strapped for cash so management decided to use stock options as a way to attract and motivate its employees. But in contrast to most stock-option plans, Barrick's plan covers all 5,000 employees, not just upper-level managers. So far, the program has seemed to be a winner for both employees and the company.

Ms. Samad, for example, has been an accounts payable clerk with the company for ten years—she joined Barrick as a 19-year-old, fresh out of high school. In her first year with the company, she earned stock options worth $11,000, on top of her $24,000 salary. In the decade she's been with Barrick, Samad has cashed in $51,000 from options she's been granted and still holds another $64,000 worth. Mr. Sokalsky, meanwhile, has only been with the company for two years. As corporate treasurer, however, he's already racked up $320,000 worth of options. Not bad considering that his annual salary is just over $100,000.

Do stock options motivate? Ms. Samad thinks they do. "If I have to come in early or stay late, I do it. No questions asked." And the company has come

a long way from the days when it was strapped for money. A share of Barrick stock bought in 1983 at an initial price of $1.75 is now worth more than $42. The company has consistently outperformed other gold producers even during some very lean years in the gold business. A fall in gold prices to a three-year low in 1989, for example, hardly left a dent, as Barrick's earnings were up 21 percent and its share price rose 94 percent. The following year, earnings were up 73 percent and Barrick shares climbed another 38 percent, even as the Toronto Stock Exchange's Gold and Silver Index declined more than 20 percent. ◆

In this chapter, we want to focus on how to apply motivation concepts. We want to link theories to practice. For it's one thing to be able to regurgitate motivation theories. It's often another to see how, as a manager, you could use them.

In the following pages, we review a number of motivation techniques and programs that have gained varying degrees of acceptance in practice. For example, we discuss variable-pay plans such as the stock-option program used by Barrick. And for each of the techniques and programs we review, we specifically address how they build on one or more of the motivation theories covered in the previous chapter.

Management by Objectives

Goal-setting theory has an impressive base of research support. But as a manager, how do you make goal setting operational? The best answer to that question is: Install a management by objectives (MBO) program.

What Is MBO?

Management by objectives emphasizes participatively set goals that are tangible, verifiable, and measurable. It's not a new idea. In fact, it was originally proposed by Peter Drucker more than 40 years

management by objectives (MBO)
A program that encompasses specific goals, participatively set, for an explicit time period, with feedback on goal progress.

ago as a means of using goals to motivate people rather than to control them.[2] Today, no introduction to basic management concepts would be complete without a discussion of MBO.

MBO's appeal undoubtedly lies in its emphasis on converting overall organizational objectives into specific objectives for organizational units and individual members. MBO operationalizes the concept of objectives by devising a process by which objectives cascade down through the organization. As depicted in Exhibit 6-1, the organization's overall objectives are translated into specific objectives for each succeeding level (that is, divisional, departmental, individual) in the organization. But because lower-unit managers jointly participate in setting their own goals, MBO works from the "bottom up" as well as from the "top down." The result is a hierarchy of objectives that links objectives at one level to those at the next level. And for the individual employee, MBO provides specific personal performance objectives.

◆ No introduction to basic management concepts would be complete without a discussion of MBO.

There are four ingredients common to MBO programs. These are goal specificity, participative decision making, an explicit time period, and performance feedback.[3]

The objectives in MBO should be concise statements of expected accomplishments. It's not adequate, for example, to merely state a desire to cut costs, improve service, or increase quality. Such desires have to be converted into tangible objectives that

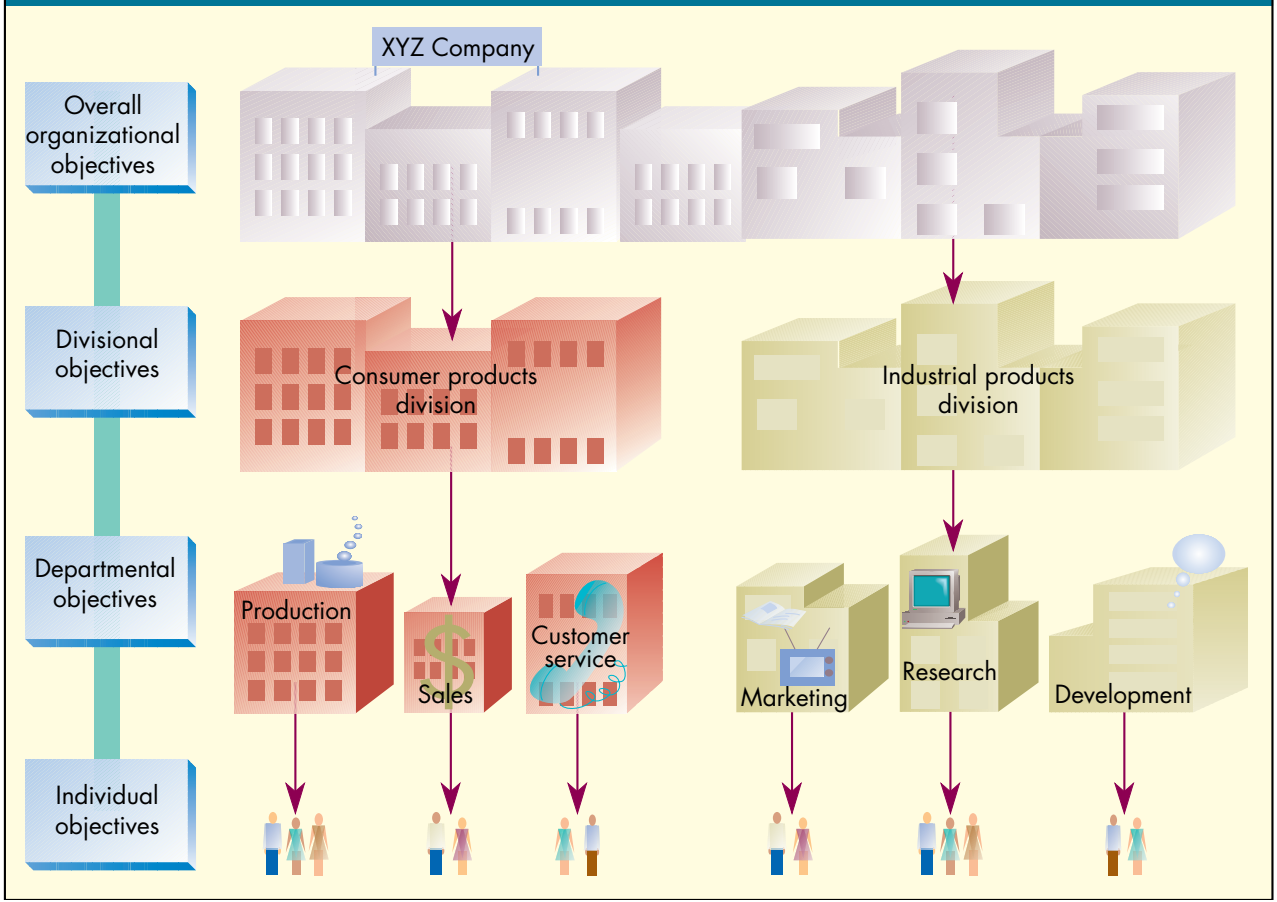
can be measured and evaluated. To cut departmental costs *by 7 percent*, to improve service by ensuring that all telephone orders are processed *within 24 hours of receipt*, or to increase quality by keeping returns to *less than 1 percent of sales* are examples of specific objectives.

The objectives in MBO are not unilaterally set by the boss and then assigned to subordinates. MBO replaces imposed goals with participatively determined goals. The superior and subordinate jointly choose the goals and agree on how they will be measured.

Each objective has a specific time period in which it is to be completed. Typically the time period is three months, six months, or a year. So managers and subordinates have specific objectives and stipulated time periods in which to accomplish them.

The final ingredient in an MBO program is feedback on performance. MBO seeks to give continuous feedback on progress toward goals. Ideally, this is accomplished by giving ongoing feedback to individuals so they can monitor and correct their own actions. This is supplemented by periodic managerial evaluations, when progress is reviewed. This applies at the top of the organization as well as at the bottom. The vice president of sales, for instance, has objectives for overall sales and for each of his or her major products. He or she will monitor ongoing sales reports to determine progress toward the sales division's objectives. Similarly, district sales managers have objectives, as does each salesperson in the field. Feedback in terms

Exhibit 6-1 Cascading of Objectives



of sales and performance data is provided to let these people know how they are doing. Formal appraisal meetings also take place at which superiors and subordinates can review progress toward goals and further feedback can be provided.

Linking MBO and Goal-Setting Theory

Goal-setting theory demonstrates that hard goals result in a higher level of individual performance than do easy goals, that specific hard goals result in higher levels of performance than do no goals at all or the generalized goal of "do your best," and that feedback on one's performance leads to higher performance. Compare these findings with MBO.

MBO directly advocates specific goals and feedback. MBO implies, rather than explicitly states, that goals must be perceived as feasible. Consistent with goal setting, MBO would be most effective when the goals are difficult enough to require the person to do some stretching.

The only area of possible disagreement between MBO and goal-setting theory relates to the issue of participation—MBO strongly advocates it, while goal-setting theory demonstrates that assigning goals to subordinates frequently works just as well. The major benefit to using participation, however, is that it appears to induce individuals to establish more difficult goals.

MBO in Practice

How widely used is MBO? Reviews of studies that have sought to answer this question suggest that it's a popular technique. You'll find MBO programs in many business, health care, educational, government, and nonprofit organizations.[4]

MBO's popularity should not be construed to mean that it always works. There are a number of documented cases where MBO has been implemented but failed to meet management's expectations.[5] A close look at these cases, however, indicates that the problems rarely lie with MBO's basic components. Rather, the culprits tend to be factors such as unrealistic expectations regarding results, lack of top-management commitment, and an inability or unwillingness by management to allocate rewards based on goal accomplishment. Nevertheless, MBO provides managers with the vehicle for implementing goal-setting theory.

Employee Recognition Programs

Laura Schendell only makes $5.50 an hour working at her fast-food job in Pensacola, Florida. And the job isn't very challenging or interesting. Yet Laura talks enthusiastically about her job, her boss, and the company that employs her. "What I like is the fact that Guy (her supervisor) appreciates the effort I make. He compliments me

regularly in front of the other people on my shift. And I've been chosen "Employee of the Month" twice in the past six months. Did you see my picture on that plaque on the wall?"

Organizations are increasingly recognizing what Laura Schendell is acknowledging: Recognition can be a potent motivator.

What Are Employee Recognition Programs?

Employee recognition programs can take numerous forms. The best ones use multiple sources and recognize both individual and group accomplishments. Convex Computer Corporation, a supercomputer manufacturer based in Texas that employs 1,200 people, provides an excellent illustration of a comprehensive recognition program.[6]

On a quarterly basis, Convex's vice president of operations recognizes individuals who have been nominated by their managers as having gone "above and beyond the call of duty." Annually, individuals may nominate their peers for the Customer Service Award, which recognizes such categories as risk taking, innovation, cost reduction, and overall customer service. And at the department level, recognition takes the form of team or department T-shirts, coffee mugs, banners, or pictures. Supervisors have used movie tickets, Friday afternoon bowling get-togethers, time off, and cash awards to acknowledge such achievements as three months of

defect-free assembly, five years of perfect attendance, and completing a project early.

Linking Recognition Programs and Reinforcement Theory

A few years ago, 1,500 employees were surveyed in a variety of work settings to find out what they considered to be the most powerful workplace motivator. Their response? Recognition, recognition, and more recognition![7]

Consistent with reinforcement theory, rewarding a behavior with recognition immediately following that behavior is likely to encourage its repetition. Recognition can take many forms. You can personally congratulate an employee in private for a good job. You can send a handwritten note or an e-mail message acknowledging something positive that the employee has done. For employees with a strong need for social acceptance, you can publicly recognize accomplishments. And to enhance group cohesiveness and motivation, you can celebrate team successes. You can use meetings to recognize the contributions and achievements of successful work teams.

Employee Recognition Programs in Practice

In today's highly competitive global economy, most organizations are under severe cost pressures. That makes recognition programs particularly attractive. In contrast to most other motivators, recognizing an employee's superior performance often costs little or no money. Maybe that's why a recent survey of 3,000 employers found that two-thirds use or plan to use special recognition awards.[8]

One of the most well-known and widely used recognition devices is the use of suggestion systems. Employees offer suggestions for improving processes or cutting costs and are recognized with small cash awards. The Japanese have been especially effective at making suggestion systems work. For instance, a typical high-performing Japanese plant in the auto components business generates 47 suggestions per employee a year and pays approximately the equivalent of U.S. $35 per suggestion. In contrast, a comparable Western factory generates about one suggestion per employee per year, but pays out $90 per suggestion.[9]

Employee Involvement Programs

The Donnelly Corporation, a major supplier of glass products to automobile manufacturers, uses committees of elected representatives to make all key decisions affecting Donnelly employees.[10] At a

General Electric lighting plant in Ohio, work teams perform many tasks and assume many of the responsibilities once handled by their supervisors. In fact, when the plant was faced with a recent decline in the demand for the tubes it produces, the workers decided first to slow production and eventually to lay themselves off. Marketing people at USAA, a large insurance company, meet in a conference room for an hour every week to discuss ways in which they can improve the quality of their work and increase productivity. Management has implemented many of their suggestions. Childress Buick, an automobile dealer in Phoenix, allows its salespeople to negotiate and finalize deals with customers without any approval from management. The laws of Germany, France, Denmark, Sweden, and Austria require companies to have elected representatives from their employee groups as members of their boards of directors.[11]

The common theme through the preceding examples is that they all illustrate employee involvement programs. In this section, we clarify what we mean by employee involvement, describe some of the various forms that it takes, consider the motivational implications of these programs, and show some applications.

What Is Employee Involvement?

Employee involvement has become a convenient catchall term to cover a variety of techniques.[12] For instance, it encompasses such popular ideas as employee participation or participative management, workplace democracy, empowerment, and employee ownership. Our position is, although each of these ideas has some unique characteristics, they all have a common core—that of employee involvement.

What specifically do we mean by **employee involvement**? We define it as a participative process that uses the entire capacity of employees and is designed to encourage increased commitment to the organization's success.[13] The underlying logic is that by involving workers in those decisions that affect them and by increasing their autonomy and control over their work lives, employees will become more motivated, more committed to the organization, more productive, and more satisfied with their jobs.[14]

employee involvement A participative process that uses the entire capacity of employees and is designed to encourage increased commitment to the organization's success.

Does that mean that participation and employee involvement are synonyms for each other? No. Participation is a more limited term. It's a subset within the larger framework of employee involvement. All of the employee involvement programs we describe include some form of employee participation but the term *participation*, per se, is too narrow and limiting.

Examples of Employee Involvement Programs

In this section we review four forms of employee involvement: participative management, representative participation, quality circles, and employee stock ownership plans.

PARTICIPATIVE MANAGEMENT The distinct characteristic common to all **participative management** programs is the use of joint decision making. That is, subordinates actually share a significant degree of decision-making power with their immediate superiors.

participative management
A process where subordinates share a significant degree of decision-making power with their immediate superiors.

Participative management has, at times, been promoted as a panacea for poor morale and low productivity. One author has even argued that participative management is an ethical imperative.[15] But participative management is not appropriate for every organization or every work unit. For it to work, there must be adequate time to participate, the issues in which employees get involved must be relevant to their interests, employees must have the ability (intelligence, technical knowledge, communication skills) to participate, and the organization's culture must support employee involvement.[16]

◆ Is participative management an ethical imperative?

Why would management want to share its decision-making power with subordinates? There are a number of good reasons. As jobs have become more complex, managers often don't know everything their employees do. Thus, participation allows those

Through its Employee Involvement program, Ford Motor Company empowers employees to make decisions that are best for customers and shareholders. Ford wants its employees to keep learning, and to be empowered to make decisions at the level closest to the action. Participation in decision making increases employees' commitment to Ford's goals of breakthroughs in product design and engineering, cost reduction, quality improvement, manufacturing efficiency, and overall productivity.

who know the most to contribute. The result can be better decisions. The interdependence in tasks that employees often do today also requires consultation with people in other departments and work units. This increases the need for teams, committees, and group meetings to resolve issues that affect them jointly. Participation additionally increases commitment to decisions. People are less likely to undermine a decision at the time of its implementation if they shared in making that decision. Finally, par-

ticipation provides intrinsic rewards for employees. It can make their jobs more interesting and meaningful.

Dozens of studies have been conducted on the participation–performance relationship. The findings, however, are mixed.[17] When the research is reviewed carefully, it appears that participation typically has only a modest influence on variables such as employee productivity, motivation, and job satisfaction. Of course, that doesn't mean that the use of participative management can't be beneficial under the right conditions. What it says, however, is that the use of participation is no sure means for improving employee performance.

REPRESENTATIVE PARTICIPATION Almost every country in Western Europe has some type of legislation requiring companies to practice **representative participation**. That is, rather than participate directly in decisions, workers are represented by a small group of employees who actually participate. Representative participation has been called "the most widely legislated form of employee involvement around the world."[18]

representative participation
Workers participate in organizational decision making through a small group of representative employees.

The goal of representative participation is to redistribute power within an organization, putting labor on a more equal footing with the interests of management and stockholders.

The two most common forms which representative participation takes are works councils and board representatives.[19]

Works councils link employees with management. They are groups of nominated or elected employees who must be consulted when management makes decisions involving personnel. For example, in the Netherlands, if a Dutch company is taken over by another firm, the former's works council must be informed at an early stage, and if the council objects, it has 30 days to seek a court injunction to stop the takeover.[20] **Board representatives** are employees who sit on a company's board of directors and represent the interests of the firm's employees. In some countries, large companies may be legally required to make sure that employee representatives have the same number of board seats as stockholder representatives.

works councils
Groups of nominated or elected employees who must be consulted when management makes decisions involving personnel.

board representatives
A form of representative participation; employees sit on a company's board of directors and represent the interests of the firm's employees.

The overall influence of representative participation on working employees seems to be minimal.[21] For instance, the evidence suggests that works councils are dominated by management and have little impact on employees or the organization. And while this form of employee involvement might increase the motivation and satisfaction of those individuals who are doing the representing, there is little evidence that this trickles down to the operating employees whom they represent. Overall, "the greatest value of representative participation is symbolic. If one is interested in changing employee attitudes or in improving organizational performance, representative participation would be a poor choice."[22]

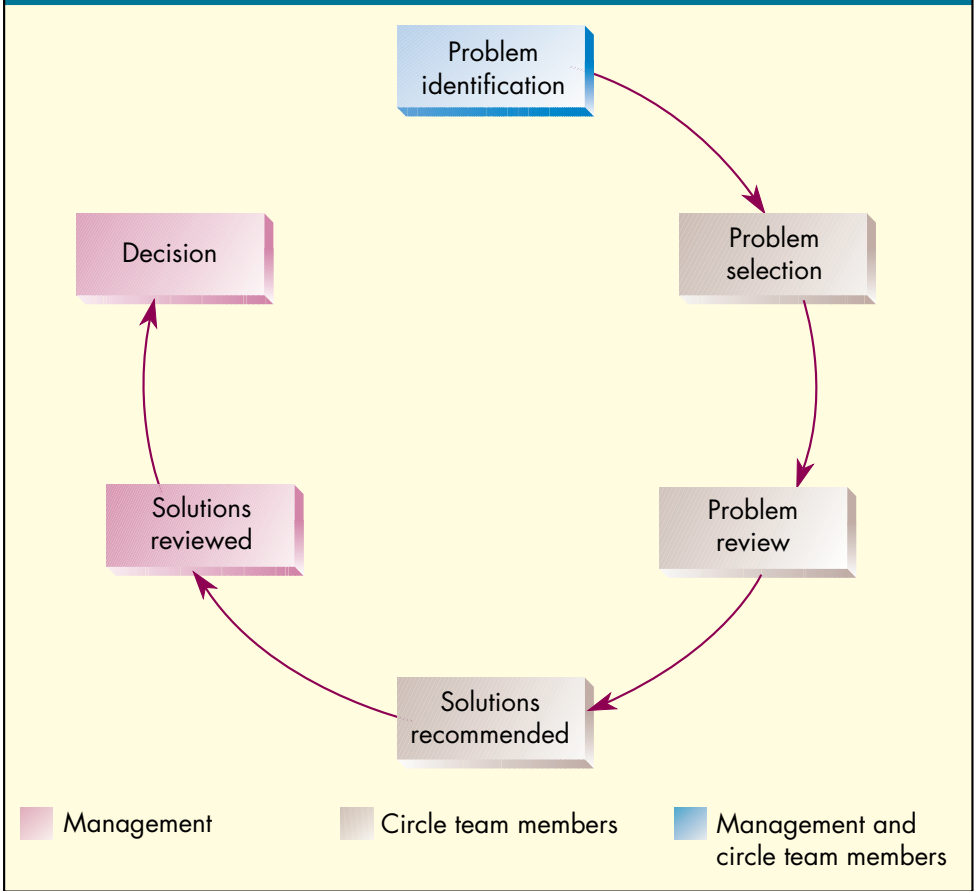
◆ Representative participation is the most widely legislated form of employee involvement around the world.

QUALITY CIRCLES "Probably the most widely discussed and undertaken formal style of employee involvement is the quality circle."[23] The quality circle concept is frequently mentioned as one of the techniques that Japanese firms utilize that has allowed them to make high-quality products at low costs. Originally begun in the United States and exported to Japan in the 1950s, the quality circle became quite popular in North America and Europe during the 1980s.[24]

What is a **quality circle**? It's a work group of eight to ten employees and supervisors who have a shared area of responsibility. They meet regularly—typically once a week, on company time and on company premises—to discuss their quality problems, investigate causes of the problems, recommend solutions, and take corrective actions. They take over the responsibility for solving quality problems, and they generate and evaluate their own feedback. But management typically retains control over the final decision regarding implementation of recommended solutions. Of course, it is not presumed that employees inherently have this ability to analyze and solve quality problems. Therefore, part of the quality circle concept includes teaching participating employees group communication skills, various quality strategies, and measurement and problem analysis techniques. Exhibit 6-2 describes a typical quality circle process.

quality circle
A work group of employees who meet regularly to discuss their quality problems, investigate causes, recommend solutions, and take corrective actions.

Exhibit 6-2
How a Typical Quality Circle Operates



Do quality circles improve employee productivity and satisfaction? A review of the evidence indicates that they are much more likely to positively affect productivity. They tend to show little or no effect on employee satisfaction; and while many studies report positive results from quality circles on productivity, these results are by no means guaranteed.[25] The failure of many quality circle programs to produce measurable benefits has also led to a large number of them to be discontinued.

One author has gone as far as to say that while quality circles were the management fad of the 1980s, they've "become a flop."[26] He offers two possible explanations for their disappointing results. First is the little bit of time that actually deals with employee involvement. "At most, these programs operate for one hour per week, with the remaining 39 hours unchanged. Why should changes in 2.5 percent of a person's job have a major impact?"[27] Second, the ease of implementing quality circles often worked against them. They were seen as a simple device that could be added on to the organization with few changes required outside the program itself. In many cases, the only significant involvement by management was funding the program. So quality circles became an easy way for management to get on the employee involvement bandwagon. And, unfortunately, the lack of planning and top-management commitment often contributed to quality circle failures.

EMPLOYEE STOCK OWNERSHIP PLANS The final employee involvement approach we'll discuss is **employee stock ownership plans (ESOPs)**.[28]

employee stock ownership plans (ESOPs) Company-established benefit plans in which employees acquire stock as part of their benefits.

Employee ownership can mean any number of things from employees owning some stock in the company where they work to the individuals working in the company owning and personally operating the firm. Employee stock ownership plans are company-established benefit plans in which employees acquire stock as part of their benefits. Approximately 20 percent of Polaroid, for example, is owned by its employees. Forty percent of Canadian-based Spruce Falls, Inc. is owned by its employees. Employees own 71 percent of Avis Corporation. And Weirton Steel is 100 percent owned by its employees.[29]

In the typical ESOP, an employee stock ownership trust is created. Companies contribute either stock or cash to buy stock for the trust and allocate the stock to employees. While employees hold stock in their company, they usually cannot take physical possession of their shares or sell them as long as they're still employed at the company.

The research on ESOPs indicates that they increase employee satisfaction.[30] In addition, they frequently result in higher performance. For instance, one study compared 45 ESOPs against 238 conventional companies.[31] The ESOPs outperformed the conventional firms both in terms of employment and sales growth.

ESOPs have the potential to increase employee job satisfaction and work motivation. But for this potential to be realized, employees need to psychologically experience ownership.[32] That is, in addition to merely having a financial stake in the company, employees need to be kept regularly informed on the status of the business and also have the opportunity to exercise influence over the business. The evidence consistently indicates that it takes ownership *and* a participative style of management to achieve significant improvements in an organization's performance.[33]

Linking Employee Involvement Programs and Motivation Theories

Employee involvement draws on a number of the motivation theories discussed in the previous chapter. For instance, Theory Y is consistent with participative management, while Theory X aligns with the more traditional autocratic style of managing people. In terms of motivation-hygiene theory, employee involvement programs could provide employees with intrinsic motivation by increasing opportunities for growth, responsibility, and involvement in the work itself. Similarly, the opportunity to make and implement decisions, and then seeing them work out, can help satisfy an employee's needs for responsibility, achievement, recognition, growth, and enhanced self-esteem. So employee involvement is

OB in the News

Employee Ownership Is Working at United Airlines

In July 1994, United Airlines' employees bought their company for $5 billion. In the first 18 months following the purchase, the evidence indicates that this ESOP is working. As the largest airline in the United States, United is outperforming most of its rivals—gaining market share from number-two American Airlines and number-three Delta Air Lines, and posting fatter operating margins and higher stock gains. For instance, United's stock has soared 120 percent since the buyout, compared to a 46 percent gain for the Standard & Poor's airline-industry average (which includes American, Delta, Southwest, and USAir).

At the employee level, United has seen similarly positive results. Productivity of the company's 83,000 employees has risen and grievances are way down. Additionally, employees have enjoyed a marked increase in their net worth as the price of their stock has more than doubled.

A good part of the credit for this success belongs to Gerald Greenwald, a former Chrysler executive, who was hired by the employees for United's top-management spot. The company that Greenwald inherited had a long history of autocratic management. He immediately began changing that by increasing employee involvement in all aspects of the company. For

instance, he created a half-dozen employee task teams to examine everything from reducing workers' sick time to improving cash management. Maybe his most visible action was his effort to pull employees into the decision on whether or not United should acquire USAir. Instead of the usual secrecy surrounding merger talks, Greenwald actively sought union leaders' input. They recounted the disasterous record of most airline mergers, mostly due to the difficulty of combining union seniority lists. Greenwald listened intently—and killed the bid.

Based on S. Chandler, "United We Own," *Business Week*, March 18, 1996, pp. 96–100.

Take It to the Net

We invite you to visit the Robbins page on the Prentice Hall Web site at:

http://www.prenhall.com/robbinsorgbeh

for this chapter's World Wide Web exercise.

compatible with ERG theory and efforts to stimulate the achievement need.

Employee Involvement Programs in Practice

Germany, France, Holland, and the Scandinavian countries have firmly established the principle of industrial democracy in Europe, and other nations, including Japan and Israel, have traditionally

practiced some form of representative participation for decades. Participative management and representative participation were much slower to gain ground in North American organizations. But nowdays, employee involvement programs that stress participation have become the norm. While some managers continue to resist sharing decision-making power, the pressure is on managers to give up their autocratic decision-making style in favor of a more participative, supportive, coaching-like role.

What about quality circles? How popular are they in practice? The names of companies that have used quality circles reads like a *Who's Who of Corporate America*: Hewlett-Packard, Digital Equipment, Westinghouse, General Electric, Texas Instruments, Inland Steel, Xerox, Eastman Kodak, Polaroid, Procter & Gamble, Control Data, General Motors, Ford, IBM, Motorola, American Airlines, and TRW.[34] But, as we noted, the success of quality circles has been far from overwhelming. They were popular in the 1980s, largely because they were easy to implement. In more recent years, many organizations have dropped their quality circles and replaced them with more comprehensive team-based structures (which we discuss in Chapter 8).

And what about ESOPs? They have become the most popular form of employee ownership. They've grown from just a handful in 1974 to around 10,000 now, covering approximately 10 million employees. Many well-known companies, including Anheuser-

Busch, Procter & Gamble, and Polaroid, have implemented ESOPs.[35] But so too have many not so-well-known companies. Phelps County Bank in Rolla, Missouri, for instance, employs only 55 people. While the bank's ESOP has been in place for 13 years, the average employee's ownership balance exceeds $70,000. Connie Beddoe, a teller who annually earns less than $20,000, has managed to save almost three times that amount through her ESOP after seven years at the bank.[36]

Variable-Pay Programs

Allied-Signal has recently changed its compensation program for production workers at its Forstoria, Ohio, spark-plug plant.[37] The company cut the traditional 3 percent annual raise to 2 percent, but it created the opportunity for employees to earn more if they can increase productivity. Specifically, the plant's 1,200 employees will get their former 3 percent raise if they raise productivity 6 percent a year. If they push productivity up 9 percent, they get a 6 percent raise.

Dana Murray got a surprise in her recent paycheck. Her employer, Bookman's Used Books of Arizona, had established a bonus system linked to increases in the company's profits. As the firm's marketing manager, she knew business had been good but was not privy to financial details. She expected an extra thousand

dollars or so as her part of Bookman's semiannual bonus payout. To her surprise, her bonus check was for more than $6,000—almost 20 percent of her base pay.

Traders at Bayerische Vereinsbank, Germany's fourth largest bank, earn 75,000 marks (about $55,000) a year in base pay. They also can earn as much as a 50,000-mark bonus if they meet their individual performance goals.[38]

Charles Sanford, CEO of Bankers Trust, took a 57 percent cut in his salary and bonus in 1994.[39] This is because his pay package is closely tied to his company's performance and Bankers Trust's return-on-equity was sliced in half in 1994.

The common thread in each of the previous examples is that they all illustrate variable-pay programs.

What Are Variable-Pay Programs?

Piece-rate plans, wage incentives, profit sharing, bonuses, and gain-sharing are all forms of **variable-pay programs**. What differentiates these forms of compensation from more traditional programs is that instead of paying a person only for time on the job or seniority, a portion of an employee's pay is based on some individual and/or organizational measure of performance. Unlike more traditional base-pay programs, variable pay is not an annuity. There is no guarantee that just because you made $60,000 last year that

variable-pay programs
A portion of an employee's pay is based on some individual and/or organizational measure of performance.

you'll make the same amount this year. With variable pay, earnings fluctuate up and down with the measure of performance.[40]

It is precisely the fluctuation in variable pay that has made these programs attractive to management. It turns part of an organization's fixed labor costs into a variable cost, thus reducing expenses when performance declines. Additionally, by tying pay to performance, earnings recognize contribution rather than being a form of entitlement. Low performers find, over time, that their pay stagnates, while high performers enjoy pay increases commensurate with their contribution.

Four of the more widely used variable-pay programs are piece-rate wages, bonuses, profit sharing, and gainsharing.

Piece-rate wages have been around for nearly a century. They have long been popular as a means for compensating production workers. In **piece-rate pay plans** workers are paid a fixed sum for each unit of production completed. When an employee gets no base salary and is paid only for what he or she produces, this is a pure piece-rate plan. People who work ball parks selling peanuts and soda pop frequently are paid this way. They might get to keep 25 cents for every bag of peanuts they sell. If they sell 200 bags during a game, they make $50. If they sell only 40 bags, their take is a mere $10. The harder they work and the more peanuts they sell, the more they earn. Many organizations use a modified piece-rate plan, where employees earn a base hourly wage plus a piece-rate differ-

piece-rate pay plans
Workers are paid a fixed sum for each unit of production completed.

ential. So a legal typist might be paid $6 an hour plus 20 cents per page. Such modified plans provide a floor under an employee's earnings, while still offering a productivity incentive.

Bonuses can be paid exclusively to executives or to all employees. For instance, annual bonuses in the millions of dollars are not uncommon in American corporations. Robert A. Watson, for instance, received a $10 million incentive bonus in 1993 for his success in dismantling Westinghouse's financial operation.[41] Increasingly, bonus plans are taking on a larger net within organizations to include lower-ranking employees. One of the most ambitious bonus systems has recently been put in place by Levi Strauss.[42] If the company reaches cumulative cash flow of $7.6 billion for the next six years, each of the company's 37,500 employees in 60 countries, regardless of position, will get a full year's pay as a bonus. Levi Strauss estimates the potential cost of this bonus for the firm at about $750 million.

Profit-sharing plans are organizationwide programs that distribute compensation based on some established formula designed around a company's profitability. These can be direct cash outlays or, particularly in the case of top managers, allocated as stock options. When you read about executives like Michael Eisner, the CEO at Disney, earning over $200 million in one year, almost all of this comes from cashing in stock options previously granted based on company profit performance.

profit-sharing plans
Organizationwide programs that distribute compensation based on some established formula designed around a company's profitability.

The variable-pay program that has gotten the most attention in recent years is undoubtedly **gainsharing**.[43] This is a formula-based group incentive plan. Improvements in group productivity—from one period to another—determine the total amount of money that is to be allocated. The division of productivity savings can be split between the company and employees in any number of ways, but 50-50 is pretty typical.

gainsharing
An incentive plan where improvements in group productivity determine the total amount of money that is allocated.

Isn't gainsharing the same thing as profit sharing? They're similar but not the same thing. By focusing on productivity gains rather than profits, gainsharing rewards specific behaviors that are less influenced by external factors. Employees in a gainsharing plan can receive incentive awards even when the organization isn't profitable.

Do variable-pay programs work? Do they increase motivation and productivity? The answer is a qualified "Yes." Gainsharing, for example, has been found to improve productivity in a majority of cases and often has a positive impact on employee attitudes. An American Management Association study of 83 companies that used gainsharing also found, on average, that grievances dropped 83 percent, absences fell 84 percent, and lost-time accidents decreased by 69 percent.[44] The downside of variable pay, from an employee's perspective, is its unpredictability. With a straight base salary, employees know what they'll be earning. Adding in merit and cost-of-living increases, they can make fairly accurate predictions about

◆ Gainsharing has been able to improve productivity in a majority of cases.

At Geon Company, a producer of polyvinyl chloride resins, gainsharing keeps employees focused on continuous improvement so that the company can keep its competitive advantage as a low-cost producer. Each Geon location has a plant-specific gainsharing program that is tied to improvement in productivity, quality, and manufacturing. In recent years, the plan paid out an average of 11 percent of salaries in bonuses.

what they'll be making next year and the year after. They can finance cars and homes based on reasonably solid assumptions. That's more difficult to do with variable pay. Your group's performance might slip this year or a recession might undermine your company's profits. Depending how your variable pay is determined, these can cut your income. Moreover, people begin to take repeated annual performance bonuses for granted. A 15 or 20 percent bonus, received three years in a row, begins to become expected in the fourth year. If it doesn't materialize, management will find itself with some disgruntled employees on its hands.

Linking Variable-Pay Programs and Expectancy Theory

Variable pay is probably most compatible with expectancy theory predictions. Specifically, individuals should perceive a strong relationship between their performance and the rewards they receive if motivation is to be maximized. If rewards are allocated completely on nonperformance factors—such as seniority or job title—then employees are likely to reduce their effort.

The evidence supports the importance of this linkage, especially for operative employees working under piece-rate systems. For example, one study of 400 manufacturing firms found that those companies with wage incentive plans achieved 43 to 64 percent greater productivity than those without such plans.[45]

Group and organizationwide incentives reinforce and encourage employees to sublimate personal goals for the best interests of their department or the organization. Group-based performance incentives are also a natural extension for those organizations that are trying to build a strong team ethic. By linking rewards to team performance, employees are encouraged to make extra efforts to help their team succeed.

Variable-Pay Programs in Practice

Variable pay is a concept that is rapidly replacing the annual cost-of-living raise. "There is a veritable explosion in variable-pay plans," says one consultant.[46] One reason, as cited earlier, is its motivational power—but don't ignore the cost implications. Bonuses, gainsharing, and other variable-based reward programs avoid the fixed expense of permanent salary boosts.

◆ Variable pay is rapidly replacing the annual cost-of-living raise.

Pay for performance has been "in" for compensating managers for more than a decade. The new trend has been expanding this practice to nonmanagerial employees. Hughes Electronics, IBM, Wal-Mart, Pizza Hut, and John Deere are just a few examples of companies using variable-pay with rank-and-file employees.[47] In 1995, nearly 50 percent of all U.S. companies had some form of variable-pay plan for nonexecutives—nearly double the share of only four years earlier. An additional 26 percent said they were considering such plans.[48]

Variable-pay plans that use bonuses are also becoming increasingly popular in Canada.[49] In 1992, typical senior executives in Canada could expect bonuses equal to 9.7 percent of their salaries. In 1996, that had almost doubled to 18.5 percent. And the growth in bonuses was even greater among hourly employees. The average bonus for an hourly worker during the same time period went from 1.1 percent of base pay to 5.8 percent. About 35 percent of

Canadian companies now have companywide variable-pay incentive plans.

Gainsharing's popularity seems to be narrowly focused among large, unionized manufacturing companies.[50] It is currently being used in about 2,000 companies including such major firms as Bell & Howell, American Safety Razor, Champion Spark Plug, Cincinnati Milacron, Eaton, Firestone Tire, Hooker Chemical, and Mead Paper.[51]

Among firms that haven't introduced performance-based compensation programs, common concerns tend to surface.[52] Managers fret over what should constitute performance and how it should be measured. They have to overcome the historical attachment to cost-of-living adjustments and the belief that they have an obligation to keep all employees' pay in step with inflation. Other barriers include salary scales keyed to what the competition is paying, traditional compensation systems that rely heavily on specific pay grades and relatively narrow pay ranges, and performance appraisal practices that produce inflated evaluations and expectations of full rewards. Of course, from the employees' standpoint, the major concern is a potential drop in earnings. Pay for performance means employees have to share in the risks as well as the rewards of their employer's business.

Skill-Based Pay Plans

Organizations hire people for their skills, then typically put them in jobs and pay them based on their job title or rank. For example, the director of corporate sales earns $120,000 a year, the regional sales managers make $75,000, and the district sales managers get $60,000. But if organizations hire people because of their competencies, why don't they pay them for those same competencies? Some organizations do.

Workers at American Steel & Wire can boost their annual salaries by up to $12,480 by acquiring as many as ten skills. At AT&T's Universal Card service center in Jacksonville, Florida, the best-paid customer representatives have rotated through four to six troubleshooting assignments over two or three years, becoming adept at solving any billing, lost card, or other problem a credit card holder runs into. New employees at a Quaker Oats' pet food plant in Topeka, Kansas start at $8.75 an hour, but can reach a top rate of $14.50 when they master 10 to 12 skills like operating lift trucks and factory computer controls. Salomon Brothers, a major brokerage firm, is using a skills-based pay system to turn narrowly trained and independent specialists into well-rounded product experts and to encourage them to be team players. Frito-Lay Corporation ties its compensation for managers to progress they make in developing

their skills in leadership, group process facilitation, and communications.[53]

What Are Skill-Based Pay Plans?

Skill-based pay is an alternative to job-based pay. Rather than having an individual's job title define his or her pay category, **skill-based pay** (or also sometimes called competency-based pay) sets pay levels on the basis of how many skills employees have or how many jobs they can do.[54] For instance, at Polaroid Corporation, the highest pay you can earn as a machine operator is $14 an hour. However, because the company has a skill-based pay plan, if machine operators broaden their skills to include additional skills like material accounting, maintenance of equipment, and quality inspection, they can earn up to a 10 percent premium. If they can learn some of their supervisor's skills, they can earn even more.[55]

skill-based pay
Pay levels are based on how many skills employees have or how many jobs they can do.

What's the appeal of skill-based pay plans? From management's perspective: flexibility. Filling staffing needs is easier when employee skills are interchangeable. This is particularly true today, as many organizations cut the size of their work force. Downsizing requires more generalists and fewer specialists. While skill-based pay encourages employees to acquire a broader range of skills, there are also other benefits. It facilitates communication across the organization because people gain a better understanding of others' jobs.

It lessens dysfunctional "protection of territory" behavior. Where skill-based pay exists, you're less likely to hear the phrase, "It's not my job!" Skill-based pay additionally helps meet the needs of ambitious employees who confront minimal advancement opportunities. These people can increase their earnings and knowledge without a promotion in job title. Finally, skill-based pay appears to lead to performance improvements. A broad-based survey of *Fortune* 1000 firms found that 60 percent of those with skill-based pay plans rated their plans as successful or very successful in increasing organizational performance, while only 6 percent considered them unsuccessful or very unsuccessful.[56]

What about the downside of skill-based pay? People can "top out"—learning all the skills the program calls for them to learn. This can frustrate employees after they've become challenged by an environment of learning, growth, and continual pay raises. Skills can become obsolete. When this happens, what should management do? Cut employee pay or continue to pay for skills that are no longer relevant? There is also the problem created by paying people for acquiring skills for which there may be no immediate need. This happened at IDS Financial Services.[57] The company found itself paying people more money even though there was little immediate use for their new skills. IDS eventually dropped its skill-based pay plan and replaced it with one that equally balances individual contribution and gains in work team productivity. Finally, skill-based

plans don't address level of performance. They deal only with the issue of whether or not someone can perform the skill. For some skills, such as checking quality or leading a team, level of performance may be equivocal. While it's possible to assess how well employees perform each of the skills and combine that with a skill-based plan, that is not an inherent part of skill-based pay.

Linking Skill-Based Pay Plans to Motivation Theories

Skill-based pay plans are consistent with several motivation theories. Because they encourage employees to learn, expand their skills, and grow, they are consistent with ERG theory. Among employees whose lower-order needs are substantially satisfied, the opportunity to experience growth can be a motivator.

Paying people to expand their skill levels is also consistent with research on the achievement need. High achievers have a compelling drive to do things better or more efficiently. By learning new skills or improving the skills they already hold, high achievers will find their jobs more challenging.

There is also a link between reinforcement theory and skill-based pay. Skill-based pay encourages employees to develop their flexibility, to continue to learn, to cross-train, to be generalists rather than specialists, and to work cooperatively with others in the organization. To the degree that management wants employees to

demonstrate such behaviors, skill-based pay should act as a reinforcer.

Skill-based pay may additionally have equity implications. When employees make their input–outcome comparisons, skills may provide a fairer input criterion for determining pay than factors such as seniority or education. To the degree that employees perceive skills as the critical variable in job performance, the use of skill-based pay may increase the perception of equity and help optimize employee motivation.

Skill-Based Pay in Practice

A number of studies have investigated the use and effectiveness of skill-based pay. The overall conclusion, based on these studies, is that skill-based pay is expanding and that it generally leads to higher employee performance and satisfaction.

For instance, between 1987 and 1993, the percentage of *Fortune* 1000 firms using some form of skill-based pay increased from 40 percent to 60 percent.[58]

A survey of 27 companies that pay employees for learning extra skills found 70 to 88 percent reported higher job satisfaction, product quality, or productivity. Some 70 to 75 percent cited lower operating costs or turnover.[59]

Additional research has discovered some other interesting trends. The increased use of skills as a basis for pay appears particularly strong among organizations facing aggressive foreign competition and those companies with shorter product life cycles and speed-to-market concerns.[60] Also, skill-based pay is moving from the shop floor to the white-collar work force, and sometimes as far as the executive suite.[61]

◆ Skill-based pay is moving from the shop floor to the white-collar work force.

Skilled-based pay appears to be an idea whose time has come. As one expert noted, "Slowly, but surely, we're becoming a skill-based society where your market value is tied to what you can do and what your skill set is. In this new world where skills and knowledge are what really counts, it doesn't make sense to treat people as jobholders. It makes sense to treat them as people with specific skills and to pay them for those skills."[62]

Flexible Benefits

Todd Evans and Allison Murphy both work for PepsiCo, but they have very different needs in terms of fringe benefits. Todd is married, has three young children, and a wife who is at home full time. Allison, too, is married, but her husband has a high-paying job with the federal government, and they have no children. Todd is concerned about having a good medical plan and enough life insurance

to support his family if he weren't around. In contrast, Allison's husband already has her medical needs covered on his plan, and life insurance is a low priority for both her and her husband. Allison is more interested in extra vacation time and long-term financial benefits like a tax-deferred savings plan.

What Are Flexible Benefits?

Flexible benefits allow employees to pick and choose from among a menu of benefit options. The idea is to allow each employee to choose a benefit package that is individually tailored to his or her own needs and situation. It replaces the traditional "one-benefit-plan-fits-all" programs that have dominated organizations for more than 50 years.[63]

flexible benefits
Employees tailor their benefit program to meet their personal needs by picking and choosing from a menu of benefit options.

The average organization provides fringe benefits worth approximately 40 percent of an employee's salary. Traditional benefit programs were designed for the typical employee of the 1950s—a male with a wife and two children at home. Less than 10 percent of employees now fit this stereotype. While 25 percent of today's employees are single, a third are part of two-income families without any children. As such, these traditional programs don't tend to meet the needs of today's more diverse work force. Flexible benefits, however, do meet these diverse needs. An organization sets up a flexible spending account for each employee, usually

based on some percentage of his or her salary, and then a price tag is put on each benefit. Options might include inexpensive medical plans with high deductibles; expensive medical plans with low or no deductibles; hearing, dental, and eye coverage; vacation options; extended disability; a variety of savings and pension plans; life insurance; college tuition reimbursement plans; and extended vacation time. Employees then select benefit options until they have spent the dollar amount in their account.

Linking Flexible Benefits and Expectancy Theory

Giving all employees the same benefits assumes all employees have the same needs. Of course, we know this assumption is false. Thus, flexible benefits turn the benefits' expenditure into a motivator.

Consistent with expectancy theory's thesis that organizational rewards should be linked to each individual employee's goals, flexible benefits individualize rewards by allowing each employee to choose the compensation package that best satisfies his or her current needs. The fact that flexible benefits can turn the traditional homogeneous benefit program into a motivator was demonstrated at one company when 80 percent of the organization's employees changed their benefit packages when a flexible plan was put into effect.[64]

Flexible Benefits in Practice

In the early 1990s, about 38 percent of large companies had flexible benefits programs.[65] Flexible benefits also appear to be increasingly available in companies with fewer than 50 employees.[66]

Now, let's look at the benefits and drawbacks. For employees, flexibility is attractive because they can tailor their benefits and levels of coverage to their own needs. The major drawback, from the employee's standpoint, is that the costs of individual benefits often go up, so fewer total benefits can be purchased.[67] For example, low-risk employees keep the cost of medical plans low for everyone. As they are allowed to drop out, the high-risk population occupies a larger segment and the costs of medical benefits go up. From the organization's standpoint, the good news is that flexible benefits often produce savings. Many organizations use the introduction of flexible benefits to raise deductibles and premiums. Moreover, once in place, costly increases in things like health insurance premiums often have to be substantially absorbed by the employee. The bad news for the organization is that these plans are more cumbersome for management to oversee and administering the programs is often expensive.

Special Issues in Motivation

Various groups provide specific challenges in terms of motivation. In this section we look at some of the unique problems faced in trying to motivate professional employees, contingent workers, the diverse work force, low-skilled service workers, and people doing highly repetitive tasks.

Motivating Professionals

In contrast to a generation ago, the typical employee today is more likely to be a highly trained professional with a college degree than a blue-collar factory worker. These professionals receive a great deal of intrinsic satisfaction from their work. They tend to be well paid. So what, if any, special concerns should you be aware of when trying to motivate a team of engineers at Intel, a software designer at Microsoft, or a group of CPAs at Price Waterhouse?

Professionals are typically different from nonprofessionals.[68] They have a strong and long-term commitment to their field of expertise. Their loyalty is more often to their profession than to their employer. To keep current in their field, they need to regularly update their knowledge, and their commitment to their profession means they rarely define their workweek in terms of 8 to 5 and five days a week.

French computer services giant CAP Gemini Sogeti motivates its 17,000 software engineers and technicians by giving them the tools they need to tackle and solve challenging problems. The company's intranet, called Knowledge Galaxy, puts critical resources and expertise within every employee's reach, keeping the global work force current on the latest technologies. CAP Gemini even installed an Internet cafe at its Paris headquarters, shown here, so employees can surf the Net during their breaks.

What motivates professionals? Money and promotions typically are low on their priority list. Why? They tend to be well paid and they enjoy what they do. In contrast, job challenge tends to be ranked high. They like to tackle problems and find solutions. Their chief reward in their job is the work itself. Professionals also value support. They want others to think what they're working on is important. While this may be true for all employees, because professionals tend to be more focused on their work as their central life interest, nonprofessionals typically have other interests outside of work that can compensate for needs not met on the job.

The foregoing description implies a few guidelines to keep in mind if you're trying to motivate professionals. Provide them with ongoing challenging projects. Give them autonomy to follow their interests and allow them to structure their work in ways that they find productive. Reward them with educational opportunities—training, workshops, attending conferences—that allow them to keep current in their field. Also reward them with recognition, and ask questions and engage in other actions that demonstrate to them you're sincerely interested in what they're doing.

◆ Money and promotions are typically low on the priority list of professionals.

An increasing number of companies are creating alternative career paths for their professional/technical people, allowing employees to earn more money and status, without assuming managerial responsibilities. At Merck & Co., IBM, and AT&T, the best scientists, engineers, and researchers gain titles such as fellow and senior scientist. Their pay and prestige are comparable to those of managers but without the corresponding authority or responsibility.[69]

Motivating Contingent Workers

We noted in Chapter 1 that one of the more comprehensive changes taking place in organizations is the addition of temporary or contingent employees. As downsizing has eliminated millions of "permanent" jobs, an increasing number of new openings are for

part-time, contract, and other forms of temporary workers. For instance, in 1995, approximately 6 million Americans, or 4.9 percent of those with jobs, considered themselves as part of the contingent work force.[70] These contingent employees don't have the security or stability that permanent employees have. As such, they don't identify with the organization or display the commitment that other employees do. Temporary workers also are typically provided with little or no health care, pensions, or similar benefits.[71]

There is no simple solution for motivating temporary employees. For that small set of temps who prefer the freedom of their temporary status—some students, working mothers, seniors—the lack of stability may not be an issue. Additionally, temporariness might be preferred by those highly compensated doctors, engineers, accountants, and financial planners who don't want the demands of a stable job. But these are the exceptions. For the most part, temporary employees are so involuntarily.

What will motivate involuntarily temporary employees? An obvious answer is the opportunity for permanent status. In those cases where permanent employees are selected from the pool of temporaries, temporaries will often work hard in hopes of becoming permanent. A less obvious answer is the opportunity for training. The ability of a temporary employee to find a new job is largely dependent on his or her skills. If the employee sees that the job he or she is doing for you can help develop salable skills, then motiva-

tion is increased. From an equity standpoint, you should also consider the repercussions of mixing permanent and temporary workers where pay differentials are significant. When temps work alongside permanent employees who earn more, and get benefits too, for doing the same job, the performance of temps is likely to suffer. Separating such employees or converting all employees to a variable-pay or skill-based pay plan might help lessen this problem.

Motivating the Diversified Work Force

Not everyone is motivated by money. Not everyone wants a challenging job. The needs of women, singles, immigrants, the physically disabled, senior citizens, and others from diverse groups are not the same as a white American male with three dependents. A couple of examples can make this point clearer. Employees who are attending college typically place a high value on flexible work schedules. Such individuals may be attracted to organizations that offer flexible work hours, job sharing, or temporary assignments. A father may prefer to work the midnight to 8 a.m. shift in order to spend time with his children during the day when his wife is at work.

If you're going to maximize your employees' motivation, you've got to understand and respond to this diversity. How? The key word to guide you should be flexibility. Be ready to design work schedules, compensation plans, benefits, physical work settings,

and the like to reflect your employees' varied needs. This might include offering child and elder care, flexible work hours, and job sharing for employees with family responsibilities. Or flexible leave policies for immigrants who want occasionally to make extensive return trips to their homelands. Or work teams for employees who come from countries with a strong collectivist orientation. Or allowing employees who are going to school to vary their work schedules from semester to semester.

Motivating Low-Skilled Service Workers

One of the most challenging motivation problems in industries such as retailing and fast food is: How do you motivate individuals who are making very low wages and who have little opportunity to significantly increase their pay in either their current jobs or through promotions? These jobs are typically filled with people who have limited education and skills, and pay levels are little above minimum wage.

Traditional approaches for motivating these people have focused on providing more flexible work schedules and filling these jobs with teenagers and retirees whose financial needs are less. This has met with less than enthusiastic results. For instance, turnover rates of 200 percent or more are not uncommon for businesses like McDonald's. Taco Bell, PepsiCo's Mexican fast-food chain, has tried

to make some of its service jobs more interesting and challenging but with limited results.[72] It has experimented with incentive pay and stock options for cashiers and cooks. These employees also have been given broader responsibility for inventory, scheduling, and hiring. But over a four-year period, this experiment has only reduced annual turnover from 223 percent to 160 percent.

What choices are left? Unless pay and benefits are significantly increased, high turnover probably has to be expected in these jobs. This can be somewhat offset by widening the recruiting net, making these jobs more appealing, and raising pay levels. You might also try some nontraditional approaches as well. To illustrate, Judy Wicks has found that celebrating employees' outside interests has dramatically cut turnover among waiters at her White Dog Café in Philadelphia.[73] For instance, to help create a close and family-like work climate, Wicks sets aside one night a year where employees exhibit their art, read their poetry, explain their volunteer work, and introduce their new babies.

Motivating People Doing Highly Repetitive Tasks

Our final category considers employees who do standardized and repetitive jobs. For instance, working on an assembly line or transcribing court reports are jobs that workers often find boring and even stressful.

Motivating individuals in these jobs can be made easier through careful selection. People vary in their tolerance for ambiguity. A great many individuals prefer jobs that have a minimal amount of discretion and variety. Such individuals are obviously a better match to standardized jobs than individuals with strong needs for growth and autonomy. Standardized jobs should also be the first considered for automation.

Many standardized jobs, especially in the manufacturing sector, pay well. This makes it relatively easy to fill vacancies. While high pay can ease recruitment problems and reduce turnover, it doesn't necessarily lead to highly motivated workers. And realistically, there are jobs that don't readily lend themselves to being made more challenging and interesting or to being redesigned. Some tasks, for instance, are just far more efficiently done on assembly lines than in teams. This leaves limited options. You may not be able to do much more than try to make a bad situation tolerable by creating a pleasant work climate. This might include providing clean and attractive work surroundings, ample work breaks, the opportunity to socialize with colleagues during these breaks, and empathetic supervisors.

Summary and Implications for Managers

We've presented a number of motivation theories and applications in this and the previous chapter. While it's always dangerous to synthesize a large number of complex ideas into a few simple guidelines, the following suggestions summarize the essence of what we know about motivating employees in organizations.

RECOGNIZE INDIVIDUAL DIFFERENCES Employees have different needs. Don't treat them all alike. Moreover, spend the time necessary to understand what's important to each employee. This will allow you to individualize goals, level of involvement, and rewards to align with individual needs.

USE GOALS AND FEEDBACK Employees should have hard, specific goals, as well as feedback on how well they are faring in pursuit of those goals.

ALLOW EMPLOYEES TO PARTICIPATE IN DECISIONS THAT AFFECT THEM Employees can contribute to a number of decisions that affect them: setting work goals, choosing their own benefits packages, solving productivity and quality problems, and the like. This can increase employee productivity, commitment to work goals, motivation, and job satisfaction.

LINK REWARDS TO PERFORMANCE Rewards should be contingent on performance. Importantly, employees must perceive a clear linkage. Regardless of how closely rewards are actually correlated to performance criteria, if individuals perceive this relationship to be low, the results will be low performance, a decrease in job satisfaction, and an increase in turnover and absenteeism statistics.

CHECK THE SYSTEM FOR EQUITY Rewards should also be perceived by employees as equating with the inputs they bring to the job. At a simplistic level, this should mean that experience, skills, abilities, effort, and other obvious inputs should explain differences in performance and, hence, pay, job assignments, and other obvious rewards.

For Review

1. Relate goal-setting theory to the MBO process. How are they similar? Different?
2. What is an ESOP? How might it positively influence employee motivation?
3. Explain the roles of employees and management in quality circles.
4. What are the pluses of variable-pay programs from an employee's viewpoint? From management's viewpoint?

5. Contrast job-based and skill-based pay.
6. What is gainsharing? What explains its recent popularity?
7. What motivates professional employees?
8. What motivates contingent employees?
9. Is it possible to motivate low-skilled service workers? Discuss.
10. What can you do, as a manager, to increase the likelihood that your employees will exert a high level of effort?

For Discussion

1. Identify five different criteria by which organizations can compensate employees. Based on your knowledge and experience, do you think performance is the criterion most used in practice? Discuss.
2. "Recognition may be motivational for the moment but it doesn't have any staying power. It's an empty reinforcer. Why? Because they don't take recognition at the Safeway or Sears!" Do you agree or disagree? Discuss.
3. "Performance can't be measured, so any effort to link pay with performance is a fantasy. Differences in performance are often caused by the system, which means the organization ends up rewarding the circumstances. It's the same thing as rewarding

the weather forecaster for a pleasant day." Do you agree or disagree with this statement? Support your position.

4. What drawbacks, if any, do you see in implementing flexible benefits? (Consider this question from the perspective of both the organization and the employee.)
5. Your text argues for recognizing individual differences. It also suggests paying attention to members of diversity groups. Is this contradictory? Discuss.

Learning About Yourself Exercise

How Equity Sensitive Are You?

The following questions ask what you'd like your relationship to be with any organization for which you might work. For each question, divide ten points between the two answers (a and b) by giving the most points to the answer that is most like you and the fewest points to the answer that is least like you. You can, if you'd like, give the same number of points to both answers. And you can use zeros if you'd like. Just be sure to use all ten points on each question. Place your points in the blank next to each letter.

In any organization where I might work:

1. It would be more important for me to:
_____ **a.** Get from the organization
_____ **b.** Give to the organization

2. It would be more important for me to:
_____ **a.** Help others
_____ **b.** Watch out for my own good

3. I would be more concerned about:
_____ **a.** What I receive from the organization
_____ **b.** What I contribute to the organization

4. The hard work I would do should:
_____ **a.** Benefit the organization
_____ **b.** Benefit me

5. My personal philosophy in dealing with the organization would be:
_____ **a.** If you don't look out for yourself, nobody else will
_____ **b.** It's better to give than to receive

Turn to page 1481 for scoring direction and key.

Source: Courtesy of Prof. Edward W. Miles, Georgia State University, and Dan Richard C. Huseman, University of Central Florida. With permission.

Point

The Case for Pay Secrecy

"Oh, and one last point," said the director of human resources to the new employee. "We treat salary information as a private matter around here. What you make is your business and no one else's. We consider it grounds for termination if you tell anyone what you make."

This policy of pay secrecy is the norm in most organizations, though in the majority of cases, it's communicated informally. The message trickles down and new employees quickly learn from their boss and peers not to inquire about what other people make or to openly volunteer their own salary. However, in some companies, pay secrecy is a formal policy. For instance, at Electronic Data Systems Corporation new employees sign a form acknowledging several policies, one of which states that employees are allowed to disclose their salaries, but if such disclosure leads to disruption, they can be fired. It doesn't take a genius to predict that this policy effectively stifles discussion of pay at EDS.

For those raised in democratic societies, it may be tempting to surmise that there is something inherently wrong with pay secrecy. On the other hand, if it's wrong, why do the vast majority of successful corporations in democracies follow the practice? There are a number of logical reasons why organizations practice pay secrecy and why they are likely to continue to do so.

First, pay is privileged information to both the organization and the individual employee. Organizations hold many things privileged—manufacturing processes, product formulas, new-product research, marketing strategies—and U.S. courts have generally supported the argument that pay rightly belongs in this category. Salary information has been held to be confidential and the property of management. Employees who release such data can be discharged for willful misconduct. Moreover, most employees want their pay kept secret. Many people's egos are tied to their paycheck. They are as comfortable discussing their specific pay as they are providing details of their sex life to strangers. Employees have a right to privacy,

and this includes ensuring that their pay is kept secret.

Second, pay secrecy lessens the opportunity for comparisons among employees and the exposure of perceived inequities. No pay system will ever be perceived as fair by everyone. One person's "merit" is another person's "favoritism." Knowledge of what other employees are making only highlights perceived inequities and causes disruptions.

Third, pay differences are often perfectly justified, yet only for subtle, complicated, or difficult to explain reasons. For instance, people doing similar jobs were hired under different market conditions. Or two managers have similar titles, although one supervises ten people while the other supervises twenty. Or one person earns more today than a co-worker because of responsibilities held or contributions made to the organization in a different job several years earlier.

Fourth, pay secrecy saves embarrassing underpaid and underperforming employees. By definition, half of an organization's work force is going to be below average. What kind of organization would be so cold and insensitive as to publicly expose those in the lower half of the performance distribution?

Finally, pay secrecy gives managers more freedom in administering pay because every pay differential doesn't have to be explained. A policy of openness encourages managers to minimize differences and allocate pay more evenly. Since employee performance in an organization tends to follow a normal distribution, only through pay secrecy can managers feel comfortable in giving large rewards to high performers and little or no rewards to low performers.

Based on J. Solomon, "Hush Money," *The Wall Street Journal*, April 18, 1990, pp. R22–R24; and K. Tracy, M. Renard, and G. Young, "Pay Secrecy: The Effects of Open and Secret Pay Policies on Satisfaction and Performance," in A. Head and W.P. Ferris (eds.), *Proceedings of the 28th Annual Meeting of the Eastern Academy of Management*, Hartford, CT, May 1991, pp. 248–51.

Let's Make Pay Information Open to All!

Open pay policies make good sense. They already exist for employees of most public institutions and for top executives in all publicly held corporations. A few private-sector companies have also seen the benefits that can accrue from making the pay of all employees public knowledge. For instance, the software maker NeXT Inc. (recently purchased by Apple Computer) has lists of all its employees' salaries hanging in company offices for anyone to consult.

Why do open pay policies make good sense? We can articulate at least five reasons.

First, such pay policies open communication and build trust. As an executive at NeXT stated, "Anything less than openness doesn't establish the same level of trust." If the organization can be open about such a sensitive issue as pay, it makes employees believe that management can be trusted about other concerns that are not so sensitive. In addition, if an organization's pay system is fair and equitable, employees report greater satisfaction with pay and with pay differentials where pay is open.

Second, an employee's right to privacy needs to be balanced against his or her right to know. Laws to protect an employee's right to know have become more popular in recent years, especially in the area of hazardous working conditions. The case can be made that the right to a free flow of information includes the right to know what others in one's organization earn.

Third, pay secrecy is often supported by organizations not to prevent embarrassment of employees but to prevent embarrassment of management. Pay openness threatens exposing system inequities caused by a poorly developed and administered pay system. An open pay system not only says to employees that management believes its pay policies are fair; but is itself a mechanism for increasing fairness. When true inequities creep into an open pay system, they are much more likely to be quickly identified and corrected than when they occur in pay-secrecy systems. Employees will provide the checks and balances on management.

counterPoint

Fourth, what management calls "freedom" in administering pay is really a euphemism for "control." Pay secrecy allows management to substitute favoritism for performance criteria in pay allocations. To the degree that we believe that organizations should reward good performance rather than good political skills, open pay policies take power and control away from managers. When pay levels and changes are public knowledge, organizational politics is less likely to surface.

Finally, and maybe most importantly, pay secrecy obscures the connection between pay and performance. Both equity and expectancy theories emphasize the desirability of linking rewards to performance. To maximize motivation, employees should know how the organization defines and measures performance, and the rewards attached to differing levels of performance. Unfortunately, when pay information is kept secret, employees make inaccurate perceptions. Even more unfortunately, those inaccuracies tend to work against increasing motivation. Specifically, research has found that people overestimate the pay of their peers and their subordinates and underestimate the pay of their superiors. So where pay is kept secret, actual differences tend to be discounted, which reduces the motivational benefits of linking pay to performance.

Based on E.E. Lawler III, "Secrecy About Management Compensation: Are There Hidden Costs?" *Organizational Behavior and Human Performance*, May 1967, pp. 182–89; J. Solomon, "Hush Money," *Wall Street Journal*, April 18, 1990, pp. R22–R24; and K. Tracy, M. Renard, and G. Young, "Pay Secrecy: The Effects of Open and Secret Pay Policies on Satisfaction and Performance," in A. Head and W.P. Ferris (eds.), *Proceedings of the 28th Annual Meeting of the Eastern Academy of Management*, Hartford, CT, May 1991, pp. 248–51.

Goal-Setting Task

Purpose This exercise will help you learn how to write tangible, verifiable, measurable, and relevant goals as might evolve from an MBO program.

Time Approximately 20 to 30 minutes.

Instructions

1. Break into groups of three to five.
2. Spend a few minutes discussing your class instructor's job. What does he or she do? What defines good performance? What behaviors will lead to good performance?
3. Each group is to develop a list of five goals that, although not established participatively with your instructor, you believe might be developed in an MBO program at your college. Try to select goals that seem most critical to the effective performance of your instructor's job.
4. Each group will select a leader who will share his or her group's goals with the entire class. For each group's goals, class discussion should focus on their: (a) specificity, (b) ease of measurement, (c) importance, and (d) motivational properties.

Ethical Dilemma Exercise

Are American CEOs Paid Too Much?

Critics have described the astronomical pay packages given to American CEOs as "rampant greed." They note, for instance, that during the 1980s, CEO compensation jumped by 212 percent, while factory workers saw their pay increase by just 53 percent. During the same decade, the average earnings per share of the Standard & Poor's 500 companies grew by only 78 percent. In recent years, the average salary and bonus for a chief executive of a major U.S. corporation has been running at about 150 times the average factory worker's pay!

High levels of executive compensation seem to be widespread in the United States. In 1994, for instance, Stephen C. Hilbert of Conseco took home $39.6 million; Colgate-Palmolive's Reuben Mark was paid $13.4 million; and Coca-Cola's Roberto Goizueta earned $12.2 million. A recent survey examined the compensation of the two highest-paid executives at 361 large U.S. corporations. A record number—501 of these 722 executives—earned more than $1 million in pay.

How do you explain these astronomical pay packages? Some say this represents a classic economic response to a situation in which the demand is great for high-quality top-executive talent and the supply is low. Other arguments in favor of paying executives $1 million a year or more are: the need to compensate people for the tremendous

responsibilities and stress that go with such jobs, the motivating potential that seven- and eight-figure annual incomes provide to senior executives and those who might aspire to be, and the influence of senior executives on the company's bottom line.

Executive pay is considerably higher in the United States than in most other countries. American CEOs typically make two or three times as much as their counterparts in Canada, Europe, and Asia. In 1994, for instance, European CEOs made about 47 percent of what their U.S. counterparts earned. And million-dollar incomes for executives still make headline news in Canada.

Critics of executive pay practices in the United States argue that CEOs choose board members whom they can count on to support ever-increasing pay for top management. If board members fail to "play along," they risk losing their positions, their fees, and the prestige and power inherent in board membership.

Is high compensation of U.S. executives a problem? If so, does the blame for the problem lie with CEOs or with the shareholders and boards that knowingly allow the practice? Are American CEOs greedy? Are these CEOs acting unethically? What do you think?

Source: J.M. Pennings, "Executive Reward Systems: A Cross-National Comparison," *Journal of Management Studies*, March 1993, pp. 261–80; E.S. Hardy, "America's Highest-Paid Bosses," *Forbes*, May 22, 1995, pp. 180–82; I. McGugan, "A Crapshoot Called Compensation," *Canadian Business*, July 1995, pp. 67–70; and J. Flynn, "Continental Divide Over Executive Pay," *Business Week*, July 3, 1995, pp. 40–41.

"What Am I Going to Do about Stella McCarthy?"

CASE INCIDENT 1

Jim Murray had worked as a cost accountant at Todd Brothers Chevrolet for nearly three years. When his boss retired in the spring of 1997, Ross Todd, the company's president, asked Jim to take over the accounting department. As the company controller, Jim supervises four people: Stella McCarthy, Judy Lawless, Tina Rothschild, and Mike Sohal.

Six months have passed since Jim took over his new job. As he expected, Judy, Tina, and Mike have been easy to work with. All have been in their jobs for at least four years. They know their jobs backward and forward. And they require very little of Jim's time.

Stella McCarthy, unfortunately, is a completely different story. Stella was hired about three months before Jim got his promotion. Her age and education aren't significantly different from his other three employees—she's in her early 30s with an undergraduate degree in accounting. But in recent weeks she has become his number-one headache.

Stella's job is to handle general accounting records. She also acts as the accounting's link to the service department. Stella provides advice and support to service on anything having to do with credit, cost control, the computer system, and the like.

The first sign of a problem began three weeks ago. Stella called in sick on both Monday and Tuesday. When she showed up for

work on Wednesday morning, she looked like she hadn't slept in days. Jim called her into his office and, in an informal manner, began trying to find out what was going on. Stella was open. She admitted she hadn't been ill. She called in sick because she didn't have the emotional strength to come to work. She volunteered that her marriage was in trouble. Her husband had a serious drinking problem but wouldn't seek help. He had lost his third job in as many months on that last Friday. She was concerned about her children and her finances. Stella has a seven-year-old son from a previous marriage and twin daughters who are three years old. Jim tried to console Stella. He encouraged her to keep her spirits up and reminded her that the company's health plan provided six free counseling sessions. He suggested she consider using them.

Since that initial encounter, little seems to have changed with Stella. She's used up three more days of sick leave. When she comes to the office, it's clear her mind is somewhere else. She is spending an inordinate amount of time on the telephone, and Jim suspects it's almost all related to per-sonal matters. Twice in the past week, Jim has noticed Stella crying at her desk.

Yesterday was the third working day of the new month, and Stella should have completed the closing of last month's books. That is an important part of Stella's job. This morning, soon after Stella arrived, Jim asked her for the closing numbers. Stella got up and, with tears welling in her eyes, went to the ladies' room. Jim

saw last month's books on Stella's desk. He opened them up. They were incomplete. Stella had missed her deadline and Jim wasn't sure when he would have the final figures to give to Ross Todd.

Questions

1. Do any motivation techniques appear relevant to helping Jim deal with Stella? If so, what are they?
2. From an ethical perspective, how far do you think Jim should go in dealing with Stella's personal problems?
3. If you were Jim, what would you do?

CASE INCIDENT 2

ABCNEWS

What Motivates Elizabeth Dole?

Her husband failed in November 1996 to win the presidency. Ironically, she may end up in the White House yet—but in the Oval Office rather than as First Lady. The person we're talking about is Elizabeth Hanford Dole. She holds one of the most impressive résumés in Washington.

Elizabeth Hanford grew up in a prosperous and prominent family that schooled her in southern charm. She attended college at Duke, where she was president of her class. Then she took two degrees at Harvard, including law. In law school, she was one of only 23 women in a class of 539. After Harvard, she went to Washington. A registered Democrat, she went to work for Lyndon

Johnson as a consumer advocate. When she married Bob Dole, she changed parties and became a Republican. Then she rose through the ranks of several Republican administrations. She became head of the Federal Trade Commission; assistant to the president for public liaison; secretary of transportation in the Reagan administration; then secretary of labor under George Bush. Most recently, when not promoting her husband, she has been the president of the American Red Cross.

People constantly compare Elizabeth Dole to Hillary Rodham Clinton. The comparisons are striking. Both are highly intelligent and articulate. Both were class presidents in college. Both went to Ivy League law schools. And both have a history of independence in their political, professional, and personal life. But for some reasons, the same critics who have come down hard on Hillary Rodham Clinton have generally gone easy on Mrs. Dole. Why? The answer isn't clear. Elizabeth Dole is as ambitious or more so than Mrs. Clinton. But she's been more successful at camouflaging her career ambitions. While Mrs. Clinton is often seen as too strong, too intelligent, too driven, Mrs. Dole seems less threatening. She comes across as the more traditional kind of wife. Yet she has never believed that she should sacrifice her career for that of her husband. Quite the contrary. While Hillary gave up her lucrative law practice when her husband became president, Mrs. Dole made it clear from the onset that, were her husband to be elected president, she

planned to carry on full-time as head of the Red Cross. And it was Elizabeth Dole, not Hillary Rodham Clinton, who chose to pass on being a mother.

Questions

1. What drives Elizabeth Dole?
2. Contrast her motivations to Hillary Rodham Clinton. How are they similar? Different?
3. How have societal expectations shaped Elizabeth Dole's behavior?
4. Why is it permissible for Bob Dole or Bill Clinton to show overt ambition, but such actions are frowned upon when exhibited by an equally qualified female?

Source: Based on "The Other Half," *ABC News Nightline*; aired on April 17, 1996.

ROB PANCO: MANAGING INDIVIDUALS

Before you can understand others, you need to understand yourself. With that in mind, Rob Panco was asked to describe his strengths and weaknesses. "On the positive side, I'm very opportunistic. I'm good at exploiting opportunities. I'm a positive person. I'm realistic. Broad-minded. I can deal with different opinions and change my mind when I need to. I'm also driven to succeed." When asked to identify what he thought his faults might be, Rob said, "I take too much responsibility for other people's performance and happiness. When I was a full-time manager, I wanted to provide my people with safety nets. Sometimes people perform best when they work without a net. Nurturing is good, but too much isn't. This tendency created problems when I delegated assignments. On one side, sometimes I didn't provide enough instructions with my delegation. This was particularly a problem with younger project leaders. On the other side, I was frequently paranoid when I delegated something. I'd be afraid that it would get screwed up. I worry a lot. I think this reflects the fact that I'm not always 100 percent sure of myself. I go through phases of insecurity. I feel overly responsible for people. Friends describe me as having confidence without arrogance. But when I was general manager at Aslett, I had a lot of responsibility, and I probably worried too much about people making mistakes and screwing things up."

The discussion with Rob then turned to his experiences at Aslett and the topics of selecting new employees, his decision-making style, his views on motivation, the importance he places on measuring employee attitudes, and ethical dilemmas he may have faced.

"In 1993 and 1994, business was very good. Sales were increasing and we needed to expand our staff. To find an ideal job candidate, I always started by looking at the specific job to be done. Essentially, I'd break jobs into one of two categories. For entry-level jobs, I looked for people who showed promise and were trainable. I could then mold them into the type of employee I wanted. For experienced workers and managers, I was more concerned with the fit

between them and us. Their attitudes and ways of doing things were established, so I needed to be sure that they'd fit well with our organization. For example, I had been interviewing candidates to fill the position of production manager. I was looking for four things in this position. First, they had to have the ability to do the functional task. Second, they needed raw talent. By that I mean they had to show me evidence that they could successfully apply their ability. Third, I wanted some evidence of professional ambition. And fourth, I looked at their personal dynamics. Would they fit into our culture? Personality wise, the kind of people I wanted were those with enthusiasm, team players—I didn't want any heroes—and individuals committed to growth."

"Of course, like everyone, I've made some mistakes in hiring," Rob admitted. "For instance, I had to let one person go. He was late a lot. He lacked motivation. I had hired Dan right out of high school and I thought I could shape him into a real good employee. He was OK for about six months. Then the problems started. He wanted to leave at exactly 5 P.M. to be with his friends. He was resistant to new technologies. I encouraged him to take advantage of our training opportunities, but he wasn't interested. I talked with him about these problems on a monthly basis. I even talked with Hank, who Dan sort of modeled himself after. Hank told me that Dan lacked motivation and was hurting company morale. This confirmed to me that Dan didn't fit in. So I let him go. In another instance, I hired a woman as my financial assistant who did marvelously in the interview, had good references, and exactly the experience I was looking for. But Anne was just lethargic. She was slow, inaccurate, and her productivity was unsatisfactory. I had to fire her. Interestingly, I went back to Anne's original file and reviewed her application, references, and my interview notes. Nothing suggested that she wouldn't be a top performer. Sometimes you just can't predict how an employee is going to turn out!"

"This discussion of hiring makes a good segue to the topic of decision making. I consider myself very rational. I'm a fact-based decision maker. Two things I think characterize my decision making. First, I'm flexible. I listen to others. I may not agree with you, but I'm open to letting you sell me on your position. I believe in others giving me input. But I don't believe in decisions by committee. Second, I follow what I call my '12-hour rule.' I never rush big decisions that have a lasting impact. When people would ask me right after a proposal what I was going

to do, I'd say 'I don't know yet.' I like to sleep on decisions and then make a commitment."

Motivating employees is a key issue for most managers and Rob was no exception. "I may be wrong, but I think money is less of a factor in the '90s than it was in the 1980s. Now quality of work life is a prime motivator. At Aslett, no one earned less than $25,000 a year. So everyone had their basic financial needs met. Let me qualify my earlier comment. For people in the $25,000 to $32,000 range, money matters. It's less important for people who make over $35,000. And today, with so many dual-career couples, people just aren't going to jump through hoops in order to get an extra $1,000 or $2,000 salary increase. Also keep in mind that times have changed. The 10 percent annual cost-of-living raise is becoming extinct. At Aslett, we relied more on annual bonuses based on company and personal performance. In 1994, for instance, bonuses ranged from 1 to 10 percent of a person's salary. Additionally, I looked for creative ways to motivate people. As an example, I gave one person two days off with pay as a reward for an outstanding job. Most people appreciate recognition, so I used that. One employee got a write-up in a local paper for her success in fund-raising for charity. I put that article up on the wall in the lunch room. I also tried to modify work schedules to reflect individual differences. I worked with my single parents to give them leaves and schedules that helped them meet their personal needs. Oh yeah, and we gave all employees ten holidays a year. Only six of them were universally taken by everybody. The other four were floating days. Individuals could choose which holidays they wanted to take. Some took Martin Luther King Day as their holiday. One former military guy took Veteran's Day. Several of our Jewish employees took Rosh Hashanah and/or Yom Kippur.[11]

Rob was asked whether the slowdown in business that Aslett faced in 1995 influenced motivation. Sales flattened and profits turned to losses. In December 1994, Aslett employed 16 full-time people. Two years later that number was down to nine. "It was surprising to me how people adapted to the decline in business," Rob said. "Most of the reductions in staff came through voluntary attrition. Those who couldn't handle the increased workloads, insecurity, and ambiguity resigned. One guy, for instance, left for a more traditional corporate job. In late 1995, when business picked up, a number of employees complained because we didn't

hire any new people. I explained that the new equipment we'd installed allowed increases in productivity. But people didn't seem to understand that, while they were producing more, it was due to technology rather than them working harder."

"One of my more memorable problems was with Nick," Rob continued. "The product line that Nick worked on was going to be obsolete in a year or so. I made that clear to Nick and told him he needed to retrain. He resisted and resisted. But I didn't threaten him. I treated him like an adult. I just said, 'Nick. You may not have a job around here if your product line goes away. Whether or not you retrain to handle the new equipment is up to you.' That approach worked. He informally retrained himself by taking several of the new machines home with him on weekends and learning how to use them."

M.E. Aslett didn't use attitude surveys. Rob talked about three means by which he kept track of employee attitudes. "I tapped employee attitudes informally. There were two people who regularly came in to my office, talked with me, and gave me feedback on what people were thinking and saying. These people were very open with me. They spoke their mind. And they were pretty accurate at tapping into the mood." Rob got formal feedback on attitudes through project debriefings and performance reviews. Most projects at Aslett were done in teams. At the completion of a project, he debriefed the group. "I have to admit I didn't get that much out of those debriefings," says Rob, "but it was a good motivating tool. It gave people a feeling of contributing." Finally, Rob used the feedback from performance reviews and evaluations to monitor how employees felt about factors such as supervision, their job, and the organization itself.

When Rob was asked to identify ethical dilemmas he'd faced, he mentioned two. A publisher wanted him to publish a book that he felt was obviously outdated. Since he would be the editor of record, he didn't want to be associated with such a project. A second had to do with laying off a full-time employee and then rehiring someone to fill that slot but on a temporary basis. He wasn't sure whether such a decision, which made good business sense, was ethically appropriate.

Questions

1. To what degree do you think Rob should have felt responsible for his employee's performance and happiness?
2. What do you think of the four criteria Rob used in the selection of a production manager? What personality characteristics, if any, do you think might be related to success in that job?
3. How well did Rob handle his problems with Dan?
4. What pluses could Rob's "12-hour rule" provide? How about negatives?
5. What theories could help to explain Rob's motivation practices?
6. What do you think of the means by which Rob kept tabs on employee attitudes?
7. Is it unethical to fire a full-time employee and replace him or her with a temporary? What obligations, if any, does an employer have to a permanent employee?