

# Applied Performance Practices

## learning objectives

After reading this chapter, you should be able to:

- 6-1 Discuss the meaning of money and identify several individual-, team-, and organizational-level performance-based rewards.
- 6-2 Describe five ways to improve reward effectiveness.
- 6-3 List the advantages and disadvantages of job specialization.
- 6-4 Diagram the job characteristics model and describe three ways to improve employee motivation through job design.
- 6-5 Define empowerment and identify strategies that support empowerment.
- 6-6 Describe the five elements of self-leadership and identify specific personal and work environment influences on self-leadership.



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**F**ive years ago, Hilcorp Energy Company launched a challenge to its employees, called Double Drive. Everyone at the Houston-based oil and gas company would receive a new car or an equivalent cash bonus of \$50,000 if they met three targets in five years: doubling the company's value, its oil field production rate, and its net oil and gas reserves. Hilcorp's 700 staff at the time (it now employs 1,000) met those targets and enjoyed their generous reward. The Double Drive reward was so successful that Hilcorp introduced a new challenge, called Dream 2015. If the same three metrics doubles again in five years, employees will each receive \$100,000. (The amount is pro-rated for those hired during this five-year period.)

In addition to these long-term incentives, Hilcorp rewards employees with annual organization-wide bonuses based on the company's performance. These bonuses have averaged 35 percent on top of the employee's base pay but can be as high as 60 percent. There are also short-term rewards, such as the \$100 bill (or more) employees receive whenever the company reaches a predetermined output of barrels of oil produced.

"We always want to set it up so when Hilcorp wins, everyone wins," explains Hilcorp president Greg Lalicker. "The fact that we're willing to share that with the employees just incents them to work that much harder and achieve these goals. Without their efforts, we're not going to get there."

Hilcorp's financial rewards have become legendary, but employees say their motivation also comes from the autonomy, responsibility, and importance of their jobs to the company and society. "Being part of a team that's trying to maximize our country's energy reserves—well, I'm proud to be a part of that," says a senior geologist. A Hilcorp engineer adds: "Constant communication, input from the field and the power to make quick decisions—these are Hilcorp, all the way." Head office support staff also see the significance of their work and its contribution. "I know how important my job is," says one receptionist. "Everyone has a role to make Hilcorp grow in one direction."<sup>1</sup>

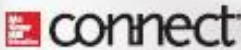
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<sup>1</sup> Hilcorp Energy Co. has a highly motivated workforce, driven by generous company-wide performance-based financial bonuses and intrinsically motivating jobs.



Hilcorp stands out from most organizations in its employment practices, but it also stands out for its success. The company was founded in 1989 and has become one of the largest privately held oil and gas companies in the United States. It is also one of the best employers in America. Hilcorp's reliance on performance-based rewards, job enrichment, and an empowering work environment illustrates the importance of three topics discussed in this chapter. The fourth topic, self-leadership, is also apparent among Hilcorp's employees.

The chapter begins by examining the meaning of money. This is followed by an overview of financial reward practices, including the different types of rewards and how to implement rewards effectively. Next, we look at the dynamics of job design, including specific job design strategies for motivating employees. We then consider the elements of empowerment, as well as conditions that support empowerment. The final part of the chapter explains how employees manage their own performance through self-leadership.



What is your attitude toward money? Visit [connect.mcgrawhill.com](http://connect.mcgrawhill.com) to assess how much you budget, respect, and worry about money.

## The Meaning of Money in the Workplace

### LO 6-1

Rewarding people with money is one of the oldest and certainly the most widespread applied performance practices. At the most basic level, money and other financial rewards represent a form of exchange; employees provide their labor, skill, and knowledge in return for money and benefits from the organization. From this perspective, money and related rewards align employee goals with organizational goals. This concept of economic exchange can be found across cultures. The word for *pay* in Malaysian and Slovak means “to replace a loss”; in Hebrew and Swedish, it means “making equal.”<sup>2</sup>

However, money is much more than an object of compensation for an employee's contribution to organizational objectives. Money relates to our needs, our emotions, and our self-concept. It is a symbol of achievement and status, a motivator, a source of enhanced or reduced anxiety, and an influence on our propensity to make ethical or risky decisions.<sup>3</sup> According to one source, “Money is probably the most emotionally meaningful object in contemporary life: only food and sex are its close competitors as common carriers of such strong and diverse feelings, significance, and strivings.”<sup>4</sup>

The meaning of money varies considerably from one person to the next.<sup>5</sup> Studies report that money is viewed as a symbol of status and prestige, as a source of security, as a source of evil, or as a source of anxiety or feelings of inadequacy. It is considered a taboo topic in many social settings. Recent studies depict money as both a “tool” (i.e., money is valued because it is an instrument for acquiring other things of value) and a “drug” (i.e., money is an object of addictive value in itself).

One large-scale study revealed that money generates a variety of emotions, most of which are negative, such as anxiety, depression, anger, and helplessness.<sup>6</sup> A widely studied model of money attitudes suggests that people have a strong “money ethic” when they believe that money is not evil; that it is a symbol of achievement, respect, and power; and that it should be budgeted carefully. These attitudes toward money influence an individual's ethical conduct, organizational citizenship, and many other behaviors and attitudes.<sup>7</sup>

The meaning of money seems to differ between men and women.<sup>8</sup> One recent study reported that men tend to view money as a symbol of power and status, whereas women are more likely to view its value in terms of things for which it can be exchanged. An earlier study revealed that in almost all 43 countries studied, men attach more importance or value



to money than do women. The meaning of money also seems to vary across cultures.<sup>9</sup> People in countries with high power distance (such as China and Japan) tend to have a high respect and priority for money, whereas people in countries with a strong egalitarian culture (such as Denmark, Austria, and Israel) are discouraged from openly talking about money or displaying their personal wealth. One study suggests that Swiss culture values saving money, whereas Italian culture places more value on spending it.

The motivational effect of money is much greater than was previously believed, and this effect is due more to its symbolic value than to what it can buy.<sup>10</sup> Philosopher John Stuart Mill made this observation 150 years ago when he wrote: “The love of money is not only one of the strongest moving forces of human life, but money is, in many cases, desired in and for itself.”<sup>11</sup> People who earn higher pay tend to have higher job performance because the higher paycheck enhances their self-concept evaluation. Others have noted that the symbolic value of money depends on how it is distributed in the organization and how many people receive that financial reward.

Overall, current organizational behavior knowledge indicates that money is much more than a means of exchange between employer and employee. It fulfills a variety of needs, influences emotions, and shapes or represents a person's self-concept. These findings are important to remember when the employer is distributing financial rewards in the workplace. Over the next few pages, we look at various reward practices and how to improve the implementation of performance-based rewards.

## Financial Reward Practices

Financial rewards come in many forms, which can be organized into the four specific objectives identified in Exhibit 6.1: membership and seniority, job status, competencies, and performance.

**EXHIBIT 6.1** Reward Objectives, Advantages, and Disadvantages

REWARD OBJECTIVE	SAMPLE REWARDS	ADVANTAGES	DISADVANTAGES
<b>Membership/seniority</b>	<ul style="list-style-type: none"> <li>• Fixed pay</li> <li>• Most employee benefits</li> <li>• Paid time off</li> </ul>	<ul style="list-style-type: none"> <li>• May attract applicants</li> <li>• Minimizes stress of insecurity</li> <li>• Reduces turnover</li> </ul>	<ul style="list-style-type: none"> <li>• Doesn't directly motivate performance</li> <li>• May discourage poor performers from leaving</li> <li>• “Golden handcuffs” may undermine performance</li> </ul>
<b>Job status</b>	<ul style="list-style-type: none"> <li>• Promotion-based pay increase</li> <li>• Status-based benefits</li> </ul>	<ul style="list-style-type: none"> <li>• Tries to maintain internal equity</li> <li>• Minimizes pay discrimination</li> <li>• Motivates employees to compete for promotions</li> </ul>	<ul style="list-style-type: none"> <li>• Encourages hierarchy, which may increase costs and reduce responsiveness</li> <li>• Reinforces status differences</li> <li>• Motivates job competition and exaggerated job worth</li> </ul>
<b>Competencies</b>	<ul style="list-style-type: none"> <li>• Pay increase based on competency</li> <li>• Skill-based pay</li> </ul>	<ul style="list-style-type: none"> <li>• Improves workforce flexibility</li> <li>• Tends to improve quality</li> <li>• Is consistent with employability</li> </ul>	<ul style="list-style-type: none"> <li>• Relies on subjective measurement of competencies</li> <li>• Skill-based pay plans are expensive</li> </ul>
<b>Task performance</b>	<ul style="list-style-type: none"> <li>• Commissions</li> <li>• Merit pay</li> <li>• Gainsharing</li> <li>• Profit sharing</li> <li>• Stock options</li> </ul>	<ul style="list-style-type: none"> <li>• Motivates task performance</li> <li>• Attracts performance-oriented applicants</li> <li>• Organizational rewards create an ownership culture</li> <li>• Pay variability may avoid layoffs during downturns</li> </ul>	<ul style="list-style-type: none"> <li>• May weaken job content motivation</li> <li>• May distance reward giver from receiver</li> <li>• May discourage creativity</li> <li>• Tends to address symptoms, not underlying causes of behavior</li> </ul>





OhioHealth literally gives its long-service employees the red carpet treatment. After 20 years of employment, and every 5 years after that, employees at Ohio's largest health care provider get a day off. After enjoying a free breakfast, the long-service employees are chauffeured to a shopping mall to spend a special bonus calculated at \$15 for every year of employment. Next, they arrive at a conference center for the celebration luncheon, where executives and coworkers cheer these long-service staff as they walk along a red carpet. Not surprisingly, OhioHealth has much lower employee turnover than the industry average. "This reward and recognition (long-service shopping spree) stirs the emotions and passions of people," says OhioHealth CEO David Blom.<sup>12</sup>

## MEMBERSHIP- AND SENIORITY-BASED REWARDS

Membership-based and seniority-based rewards (sometimes called "pay for pulse") represent the largest part of most paychecks. Some employee benefits, such as free or discounted meals in the company cafeteria, remain the same for everyone, whereas others increase with seniority. Some companies, such as the Paul Scherrer Institut near Zurich, Switzerland, have a loyalty bonus for long-service employees. Those with 10 or more years of service at the natural and engineering sciences research center receive an annual loyalty bonus equal to a half month's salary; those with 20 or more years of service receive a bonus equivalent to a full month's salary. Toyota Motor Company and many other Japanese firms have wage scales and increases determined by the employee's age.<sup>13</sup>

These membership- and seniority-based rewards potentially attract job applicants (particularly those who desire predictable income) and reduce turnover. However, they do not directly motivate job performance; on the contrary, they discourage poor performers from seeking work better suited to their abilities. Instead, the good performers are lured to better paying jobs. Some of these rewards are also "golden handcuffs"—they discourage employees from quitting because of deferred bonuses or generous benefits that are not available elsewhere. However, golden handcuffs potentially weaken job performance, because they generate continuance rather than affective commitment (see Chapter 4).

## JOB STATUS-BASED REWARDS

Almost every organization rewards employees to some extent on the basis of the status or worth of the jobs they occupy. In some parts of the world, companies measure job worth through **job evaluation**. Most job evaluation methods give higher value to jobs that require more skill and effort, have more responsibility, and have more difficult working conditions.<sup>14</sup> The higher the worth assigned to a job, the higher the minimum and maximum pay for people in that job. Along with receiving higher pay, employees with more valued jobs sometimes receive larger offices, company-paid vehicles, and other perks.

Job status-based rewards try to improve feelings of fairness, such that people in higher-valued jobs should get higher pay. These rewards also motivate employees to compete for promotions. However, at a time when companies are trying to be more cost efficient and responsive to the external environment, job status-based rewards potentially do the opposite by encouraging a bureaucratic hierarchy. These rewards also reinforce a status mentality, whereas Generation-X and Generation-Y employees expect a more egalitarian workplace. Furthermore, status-based pay potentially motivates employees to compete for

### job evaluation

Systematically rating the worth of jobs within an organization by measuring the required skill, effort, responsibility, and working conditions.



higher status jobs and to raise the value of their own jobs by exaggerating job duties and hoarding resources.<sup>15</sup>

## COMPETENCY-BASED REWARDS

Over the past two decades, many companies have shifted reward priorities from job status to skills, knowledge, and other competencies that lead to superior performance. The most common practices identify a list of competencies relevant across all job groups, as well as competencies specific to each broad job group. Employees progress through the pay range within that job group based on how well they demonstrate each of those competencies.<sup>16</sup>

*Skill-based pay* plans are a more specific variation of competency-based rewards in which people receive higher pay based on their mastery of measurable skills.<sup>17</sup> For example, technicians at the City of Flagstaff, Arizona, are paid for the number of skill blocks they have mastered. New hires must complete the first skill block during probation and can eventually progress through several more skill blocks to earn almost twice the base (single skill block) salary. Technicians demonstrate proficiency in a skill block through in-house or formal certification assessments.

Competency-based rewards motivate employees to learn new skills.<sup>18</sup> This tends to support a more flexible workforce, increase employee creativity, and allow employees to be more adaptive to embracing new practices in a dynamic environment. Product or service quality also tends to improve because employees with multiple skills are more likely to understand the work process and know how to improve it. However, competency-based pay plans have not always worked out as well as promised by their advocates. They are often over-designed, making it difficult to communicate these plans to employees. Competency definitions tend to be abstract, which raises questions about fairness when employers are relying on these definitions to award pay increases. Skill-based pay systems measure specific skills, so they are usually more objective. However, they are expensive because employees spend more time learning new tasks.<sup>19</sup>

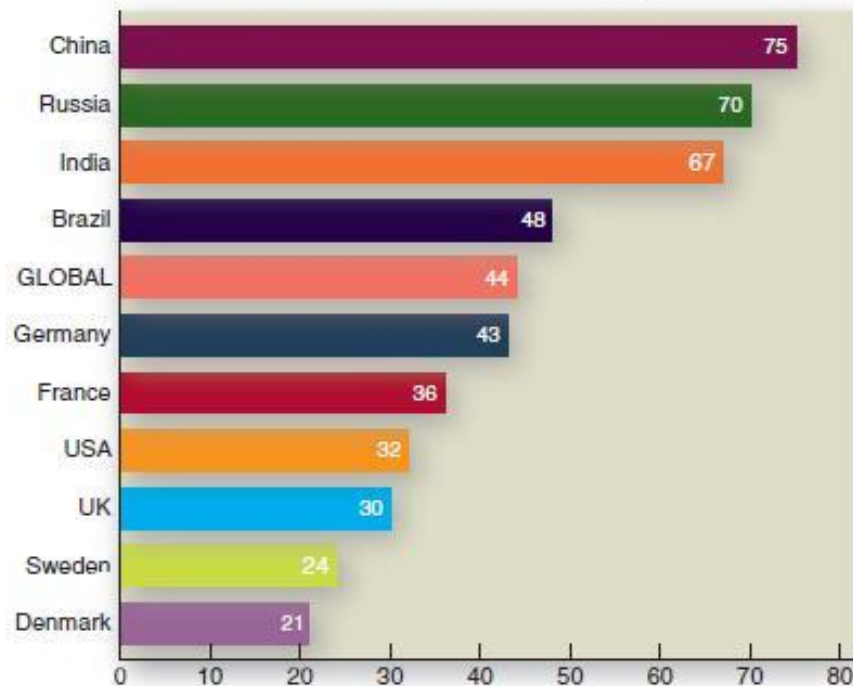
## PERFORMANCE-BASED REWARDS

Performance-based rewards have existed since Babylonian days 4,000 years ago, but their popularity has increased dramatically over the past few decades. Here is an overview of some of the most popular individual, team, and organizational performance-based rewards.

**Individual Rewards** Many employees receive individual bonuses or other rewards for accomplishing a specific task or exceeding annual performance goals. Housekeeping staff in many hotels are paid a piece rate—a specific amount earned for each room cleaned. Other hotels pay an hourly rate plus a per-room bonus. Real estate agents and other salespeople typically earn *commissions*, in which their pay depends on the sales volume they generate. PortionPac Chemical avoids sales commissions because they motivate more sales, whereas the Chicago-based cleaning fluids manufacturer wants customers to use less product more efficiently and safely. “High-commission salespeople are going to sell the customer as much as they can. We want customers to use the right amount,” explains PortionPac chairman and co-founder Marvin Klein. Instead, PortionPac sales staff earn bonuses for contracts that allow the company to distribute the right amount of product to customers.<sup>21</sup>

**Team Rewards** Organizations have shifted their focus from individuals to teams over the past two decades, and accompanying this transition has been the introduction of more team-based rewards. Nucor Inc. relies heavily on team-based rewards. The steelmaker’s employees earn bonuses that can exceed half their total pay, based on how much steel is produced by the team. This team-based bonus system also includes penalties. If employees catch a bad batch of steel before it leaves the mini-mill, they lose their bonus for that shipment. But if a bad batch makes its way to the customer, the team loses three times its usual bonus.<sup>22</sup>

## Global Variations in Performance-Based Pay<sup>20</sup>



Percentage of employees surveyed in selected countries who say their pay is "variable, such that a portion is dependent upon your individual performance/productivity targets." Data were collected in 2013 from more than 120,000 people in 31 countries for Kelly Services. The global average includes respondents from all 31 countries, not just those shown in this chart.

Another form of team-based performance reward, called a **gainsharing plan**, calculates bonuses from the work unit's cost savings and productivity improvement. Whole Foods Market uses gainsharing to motivate cost savings in its grocery stores. The food retailer assigns a monthly payroll budget to teams operating various departments within a store. If payroll money is unspent at the end of the month, the surplus is divided among members of that Whole Foods Market team.<sup>23</sup> Several hospitals have cautiously introduced a form of gainsharing, whereby physicians and medical staff in a medical unit (cardiology, orthopedics, etc.) are collectively rewarded for cost reductions in surgery and patient care. These cost reductions mainly occur through negotiating better prices of materials.<sup>24</sup> Gainsharing plans tend to improve team dynamics, knowledge sharing, and pay satisfaction. They also create a reasonably strong link between effort and performance, because much of the cost reduction and labor efficiency is within the team's control.<sup>25</sup>

**Organizational Rewards** Along with individual and team-based rewards, many firms rely on organizational-level rewards to motivate employees. Hilcorp, the Texas oil and gas company described at the beginning of this chapter, rewards all staff members for achieving challenging annual and 5-year goals and other indicators of organizational performance.

### gainsharing plan

A team-based reward that calculates bonuses from the work unit's cost savings and productivity improvement.

### employee stock ownership plans (ESOPs)

A reward system that encourages employees to buy company stock.

**Employee stock ownership plans (ESOPs)** are organizational rewards that encourage employees to buy company stock, usually at a discounted price. The financial incentive occurs in the form of dividends and market appreciation of the stock. Due to tax concessions in the United States and a few other countries, most ESOPs are



designed as retirement plans. Today, more than 20 percent of Americans working in the private sector hold stock in their companies.<sup>26</sup> Publix Super Markets has one of the largest and oldest ESOPs in America. The Lakeland, Florida, grocery chain distributes a portion of company profits to employees in the form of company stock. Employees can also purchase additional stock from the privately held company.<sup>27</sup>

While ESOPs involve purchasing company shares, **stock options** give employees the right to purchase company stock at a predetermined price up to a fixed expiration date. For example, an employer might offer employees the right to purchase 100 shares at \$50 at any time between two and six years from now. If the stock price is, say, \$60 two years later, employees could earn \$10 from these options, or they could wait up to six years for the share price to rise further. If the stock price never rises above \$50 during that time, they are “out of the money,” and employees just let the options expire. The intention of stock options is to motivate employees to make the company more profitable, thereby raising the company’s stock price and enabling them to reap the value above the exercise price of the stock options.

Another type of organizational-level reward is the **profit-sharing plan**, in which employees receive a percentage of the previous year’s company profits. An interesting application of this reward occurs at Svenska Handelsbanken AB. In years when the Swedish bank is more profitable than the average of competing banks, it transfers one-third of the difference in profits to an employee fund. Every employee receives one share in the fund for each year of service, which can be cashed out at 60 years of age (even if they continue working for the bank beyond that age).<sup>28</sup>

**Evaluating Organizational-Level Rewards** How effective are organizational-level rewards? Research indicates that ESOPs and stock options tend to create an ownership culture in which employees feel aligned with the organization’s success.<sup>29</sup> Profit sharing tends to create less ownership culture, but it has the advantage of automatically adjusting employee compensation with the firm’s prosperity, thereby reducing the need for layoffs or negotiated pay reductions during recessions.

The main problem with ESOPs, stock options, and profit sharing is that employees often perceive a weak connection between individual effort and corporate profits or the value of company shares. Even in small firms, the company’s stock price or profitability is influenced by economic conditions, competition, and other factors beyond the employee’s immediate control. This low individual performance-to-outcome expectancy suppresses the incentive’s motivational effect. Another concern is that some companies (notably those in the United States) use ESOPs as a replacement for employee pension plans. This is a risky strategy because these pension plans lack diversification. If the company goes bankrupt, employees lose both their jobs and a large portion of their retirement nest egg.<sup>30</sup>

## Improving Reward Effectiveness

### LO 6-2

Performance-based rewards have come under attack over the years for discouraging creativity, distancing management from employees, distracting employees from the meaningfulness of the work itself, and being quick fixes that ignore the true causes of poor performance. Recent studies have even found that very large rewards (relative to the usual income) can

result in lower, rather than higher, performance.<sup>31</sup> While these issues have kernels of truth under specific circumstances, they do not necessarily mean that we should abandon performance-based pay. On the contrary, top-performing companies are more likely to have performance-based (or competency-based) rewards, which is consistent with evidence that these rewards are one of the high-performance work practices (see Chapter 1).<sup>32</sup>

#### stock options

A reward system that gives employees the right to purchase company stock at a future date at a predetermined price.

#### profit-sharing plan

A reward system that pays bonuses to employees on the basis of the previous year’s level of corporate profits.





## debating point

### IS IT TIME TO DITCH THE PERFORMANCE REVIEW?

More than 90 percent of *Fortune* 500 companies use performance reviews to link rewards to the performance of some or most employees. Advocates argue that these evaluations provide critical documentation, communication, and decisions necessary to reward contributors and remove those who fail to reach the minimum standard. Indeed, it can be difficult to fire poor performers in some jurisdictions unless the company has systematically documented the employee's shortfalls. Evaluations provide clear feedback about job performance, so employees know where they stand and are motivated to improve. Performance reviews have their faults, but supporters say these problems can be overcome by using objective information (such as goal setting and 360-degree feedback) rather than subjective ratings, being supportive and constructive throughout the review, and providing informal performance feedback throughout the year.

Several experts—and most employees—disagree.<sup>35</sup> In spite of mountains of advice over the years on how to improve performance reviews, this activity seems to inflict more damage than deliver benefits. Apple Inc. trashed its formal performance evaluation process a decade ago. Zappos and dozens of other companies have since followed Apple's lead. Most companies that ditched their performance reviews never brought them back again.

According to various polls and studies, performance reviews are stressful, morale sapping, and dysfunctional events that typically descend into political arenas and paperwork bureaucracies. Even when managers actively coach employees throughout the year, the annual appraisal meeting places them in the awkward and incompatible role as an all-powerful and all-knowing evaluator. Another issue is that rating employees, even on several fac-

tors, grossly distorts the complexity of performance in most jobs. A single score on customer service, for instance, would hide variations in knowledge, empathy, efficiency, and other elements of service. "Who am I to tell somebody they're a three out of five?" asks Don Quist, CEO of the Hood Group. Quist is so opposed to performance reviews that employees at the engineering firm were issued badges with a big "X" through the phrase "Employee Evaluation."<sup>36</sup>

Many perceptual biases—halo, recency, primacy, stereotyping, fundamental attribution error—are common in performance reviews and difficult to remove through training. Seemingly objective practices such as goal setting and 360-degree feedback are fraught with bias and subjectivity. Various studies have also found that managers across the organization use different criteria to rate employee performance. One study discovered that management's evaluations of 5,000 customer service employees were unrelated to ratings that customers gave those employees. "The managers might as well have been rating the employees' shoe sizes, for all the customers cared," quipped one investigator.<sup>37</sup>

Is there an alternative to the performance evaluation? One repeated suggestion is to conduct "performance previews" or "feedforward" events that focus on future goals and advice. Instead of a postmortem dissection of the employee's failings, managers use past performance as a foundation for development.<sup>38</sup> Also, substantial rewards should never be based on performance reviews or similar forms of evaluation. Instead, they should be linked to measurable team- and organizational-level outcomes and, judiciously, to individual indicators (sales, project completion, etc.), where appropriate.

Reward systems do motivate most employees, but only under the right conditions. Here are some of the more important strategies for improving reward effectiveness.

### LINK REWARDS TO PERFORMANCE

Organizational behavior modification theory and expectancy theory (Chapter 5) both recommend that employees with better performance should be rewarded more than those with poorer performance. Unfortunately, this simple principle seems to be unusually difficult to apply. Few employees see a relationship between job performance and the amount of pay they and coworkers receive. One recent global survey reported that only 42 percent of employees globally say they think there is a clear link between their job performance and pay. Only 25 percent of Swedish employees and 36 percent of American employees see a pay-performance link.<sup>33</sup>

How can companies improve the pay-performance linkage? Inconsistencies and bias can be minimized through gainsharing, ESOPs, and other plans that use objective performance



measures. Where subjective measures of performance are necessary, companies should rely on multiple sources of information. Companies also need to apply rewards soon after the performance occurs, and in a large-enough dose (such as a bonus rather than a pay increase), so that employees experience positive emotions when they receive the reward.<sup>34</sup>

### ENSURE THAT REWARDS ARE RELEVANT

Companies need to align rewards with performance within the employee's control. The more employees see a "line of sight" between their daily actions and the reward, the more they are motivated to improve performance. BHP Billiton applies this principle by rewarding bonuses to top executives based on the company's overall performance, whereas frontline mining staff earn bonuses based on the production output, safety performance, and other local indicators. Reward systems also need to correct for situational factors. Salespeople in one region may have higher sales because the economy is stronger there than elsewhere, so sales bonuses need to be adjusted for such economic factors.

### USE TEAM REWARDS FOR INTERDEPENDENT JOBS

Team rewards are better than individual rewards when employees work in highly interdependent jobs, because it is difficult to measure individual performance in these situations. Nucor Corp. relies on team-based bonuses for this reason; producing steel is a team effort, so employees earn bonuses based on team performance. Team rewards also encourage cooperation, which is more important when work is highly interdependent. A third benefit of team rewards is that they tend to support employee preferences for team-based work. One concern, however, is that employees (particularly the most productive employees) in the United States and many other low-collectivism cultures prefer rewards based on their individual performance rather than team performance.<sup>39</sup>

### ENSURE THAT REWARDS ARE VALUED

It seems obvious that rewards work best when they are valued. Yet companies sometimes make false assumptions about what employees want, with unfortunate consequences. For instance, one manager honored an employee's 25th year of service by buying her a box of doughnuts to be shared with other staff. The employee was insulted. She privately complained later to coworkers that she would rather receive nothing than "a piddling box of doughnuts."<sup>40</sup> The solution, of course, is to ask employees what they value. Campbell Soup did this several years ago at one of its distribution centers. Executives thought the employees would ask for more money in a special team reward program. Instead, distribution staff said the most valued reward was a leather jacket with the Campbell Soup logo on the back. The leather jackets cost much less yet were worth much more than the financial bonus the company had intended to distribute.<sup>41</sup>

### WATCH OUT FOR UNINTENDED CONSEQUENCES

Performance-based reward systems sometimes have an unexpected—and undesirable—effect on employee behaviors.<sup>42</sup> Consider the pizza company that decided to reward its drivers for on-time delivery. The plan got more hot pizzas to customers on time, but it also increased the accident rates of the company's drivers because the incentive motivated them to drive recklessly.<sup>43</sup> Global Connections 6.1 describes a few other examples in which reward systems had unintended consequences. The solution here is to carefully think through the consequences of rewards and, where possible, test incentives in a pilot project before applying them across the organization.

Financial rewards come in many forms and, as was mentioned at the outset of this section, influence employees in complex ways. But money isn't the only thing that



## global connections 6.1

### When Rewards Go Wrong

There is an old saying that “what gets rewarded gets done.” But what companies reward isn’t always what they had intended their employees to do. Here are a few dramatic examples of how performance-based rewards produce unintended consequences:

- Until a few years ago, most public transit bus drivers in Santiago, Chile, were paid by the number of fare-paying passengers. This incentive system motivated drivers to begin their route on time, take shorter breaks, and drive efficiently, but it also had horrendous unintended consequences. To take on more passengers, bus drivers aggressively raced with competing busses to the next passenger waiting area, sometimes cutting off each other and risking the safety of people in nearby vehicles. Drivers reduced time at each stop by speeding off before passengers were safely on board. They also left the bus doors open, resulting in many passenger injuries and fatalities during the journey. Some drivers drove past waiting areas if there was only one person waiting. Studies reported that Santiago’s transit busses caused one fatal accident every three days, and that drivers paid per-passenger caused twice as many traffic accidents as drivers paid per hour. Santiago now pays drivers partly by the distance traveled. Unfortunately, drivers are no longer motivated to ensure that passengers pay the fare (about one-third are freeloaders), and they sometimes skip passenger stops altogether when they are behind schedule.<sup>44</sup>
- A commercial laundry plant recently introduced an attendance reward in which employees with perfect attendance (no unexcused absences and no lateness more than 5 minutes) each month had their name entered in a drawing for a \$75 gift card. Employees with perfect attendance records over six months had a chance to receive a further \$100 gift card. The attendance reward had the opposite effect than expected. Employees who were previously tardy reduced their lateness by only a couple of minutes, just so they were within the allowable 5 minutes. Those with previously excellent records had higher tardiness and absenteeism and 6 percent lower productivity when the program was active. These workers were apparently demotivated by the attendance award, possibly upset that the company didn’t recognize their earlier good performance and was now unfairly rewarding those who are still tardy (but within the



When transit bus drivers in Santiago, Chile, were paid per passenger, they engaged in dangerous driving to transport as many passengers as possible.

- 5-minute limit). Another effect was that after employees became ineligible for the monthly reward (they were late or absent once), their tardiness record shot up and productivity dropped. A third effect of the reward was that employees were more likely to call in sick, so they still had absenteeism, but it was now justified, to be eligible for the monthly award.<sup>45</sup>
- Several years ago, a food processing plant discovered that insect parts were somehow getting into the frozen peas during processing. To solve this serious problem, management decided to reward employees for any insect parts they found in the peas. The incentive worked! Employees found hundreds of insect parts that they dutifully turned in for the bonus. The problem was that many of these insect pieces came from the employees’ backyards, not from the production line.<sup>46</sup>
- Integrated steel companies often rewarded managers for increased labor efficiency. The lower the labor-hours required to produce a ton of steel, the larger the manager’s bonus. Unfortunately, steel firms usually didn’t count the work of outside contractors in the formula, so the reward system motivated managers to hire expensive contractors in the production process. By employing more contractors, the managers received a healthy bonus, even though the true cost of production increased, not decreased.<sup>47</sup>

motivates people to join an organization and perform effectively. In one recent very large survey, 51 percent of North American employees polled said they are prepared to accept a lesser role or lower wage to perform work that is more meaningful to them or their organization. “High performers don’t go for the money,” warns an executive at Imation Corp. “Good people want to be in challenging jobs and see a future where they can get even more responsibilities and challenges.”<sup>48</sup> In other words, companies motivate employees mainly by designing interesting and challenging jobs, which is the topic we discuss next.



## Job Design Practices

### LO 6-3

How do you build a better job? That question has challenged organizational behavior experts, psychologists, engineers, and economists for a few centuries. Some jobs have very few tasks and usually require very little skill. Other jobs are immensely complex and require years of experience and learning to master them. From one extreme to the other, jobs have different effects on work efficiency and employee motivation. The challenge, at least from the organization's perspective, is to find the right combination so that work is performed efficiently but employees are engaged and satisfied.<sup>49</sup> This objective requires careful **job design**—the process of assigning tasks to a job, including the interdependency of those tasks with other jobs. A *job* is a set of tasks performed by one person. To understand this issue more fully, let's begin by describing early job design efforts aimed at increasing work efficiency through job specialization.

### JOB DESIGN AND WORK EFFICIENCY

Li Mei's first job at a toy factory in China's Pearl River Delta involved using four pens to paint the eyes on dolls. The 18-year-old was given exactly 7.2 seconds to paint each doll—about 4,000 every day. Eventually, the paint fumes made Li Mei too faint to work, so she was moved to another department that stamped out plastic doll parts. Again, the work was repetitive: open the machine, insert the plastic, press the machine, remove the plastic. Li Mei repeated this cycle 3,000 times each day. After several months of this work, Li Mei was exhausted and disillusioned. "I'm tired to death and I don't earn much," she says despondently. "It makes everything meaningless."<sup>50</sup>

Li Mei performs jobs with a high degree of **job specialization**. Job specialization occurs when the work required to make a toy—or any other product or service—is subdivided into separate jobs assigned to different people. Each resulting job includes a narrow subset of tasks, usually completed in a short cycle time. *Cycle time* is the time required to complete the task before starting over with another item or client. Li Mei had an average cycle time of 7.2 seconds, which means she repeats the same set of tasks hundreds of times each hour.

Why would companies divide work into such tiny bits? The simple answer is that job specialization potentially improves work efficiency. One reason for this higher efficiency is that employees have less variety of tasks to juggle (such as painting dolls versus operating a doll parts machine), so there is less time lost changing over to a different type of activity. Even when people can change tasks quickly, their mental attention lingers on the previous type of work, which slows down performance on the new task.<sup>51</sup> A second reason for increased work efficiency is that employees can become proficient more quickly in specialized jobs. There are fewer physical and mental skills to learn and therefore less time to train and develop people for high performance. A third reason is that shorter work cycles give employees more frequent practice with the task, so jobs are mastered more quickly. A fourth reason why specialization tends to increase work efficiency is that employees with specific aptitudes or skills can be matched more precisely to the jobs for which they are best suited.<sup>52</sup>

The benefits of job specialization were noted more than 2,300 years ago by the Chinese philosopher Mencius and the Greek philosopher Plato. Scottish economist Adam Smith wrote 250 years ago about the advantages of job specialization. Smith described a small factory where 10 pin makers collectively produced as many as 48,000 pins per day because they performed specialized tasks. One person straightened the metal, another cut it, another sharpened one end of the cut piece, yet another added a white tip to the other end, and so forth. In contrast, Smith explained that if these 10 people worked alone producing complete pins, they would collectively manufacture no more than 200 pins per day.<sup>53</sup>

#### job design

The process of assigning tasks to a job, including the interdependency of those tasks with other jobs.

#### job specialization

The result of a division of labor, in which work is subdivided into separate jobs assigned to different people.





The Arsenal of Venice introduced job specialization 200 years before economist Adam Smith famously praised this form of job design. Founded in 1104 AD, the state-owned shipbuilder eventually employed up to 4,000 people in specialized jobs (carpenters, iron workers, warehouse supervisors, etc.) to build ships and accessories (e.g., ropes). In 1570, the Arsenal had become so efficient through specialization that it built 100 ships in two months. The organization even had an assembly line along the waterway where workers apportioned food, ammunition, and other supplies from specially designed warehouses to the completed vessels.<sup>54</sup>

## SCIENTIFIC MANAGEMENT

One of the strongest advocates of job specialization was Frederick Winslow Taylor, an American industrial engineer who introduced the principles of **scientific management** in the early 1900s.<sup>55</sup> Scientific management consists of a toolkit of activities. Some of these interventions—employee selection, training, goal setting, and work incentives—are common today but were rare until Taylor popularized them. However, scientific management is mainly associated with high levels of job specialization and standardization of tasks to achieve maximum efficiency.

According to Taylor, the most effective companies have detailed procedures and work practices developed by engineers, enforced by supervisors, and executed by employees. Even the supervisor's tasks should be divided: One person manages operational efficiency, another manages inspection, and another is the disciplinarian. Taylor and other industrial engineers demonstrated that scientific management significantly improves work efficiency. No doubt, some of the increased productivity can be credited to training, goal setting, and work incentives, but job specialization quickly became popular in its own right.

### scientific management

The practice of systematically partitioning work into its smallest elements and standardizing tasks to achieve maximum efficiency.

## PROBLEMS WITH JOB SPECIALIZATION

Frederick Winslow Taylor and his contemporaries focused on how job specialization reduces labor “waste” by improving the mechanical efficiency of work (i.e., matching skills, faster



learning, less switchover time). Yet they didn't seem to notice how this extreme job specialization adversely affects employee attitudes and motivation. Some jobs—such as painting eyes on dolls—are so specialized that they soon become tedious, trivial, and socially isolating. Employee turnover and absenteeism tend to be higher in specialized jobs with very short cycle times. Companies sometimes have to pay higher wages to attract job applicants to this dissatisfying, narrowly defined work.<sup>56</sup>

Job specialization affects output quality, but in two opposing ways. Job incumbents of specialized jobs potentially produce higher-quality results because, as we mentioned earlier, they master their work faster than do employees in jobs with many and varied tasks. This higher proficiency explains why specialist lawyers tend to provide better quality service than do generalist lawyers.<sup>57</sup> But many jobs (such as Li Mei's position in the toy factory) are specialized to the point that they are highly repetitive and tedious. In these repetitive jobs, the positive effect of higher proficiency is easily offset by the negative effect of lower attentiveness and motivation caused by the tedious work patterns.

Job specialization also undermines work quality by disassociating job incumbents from the overall product or service. By performing a small part of the overall work, employees have difficulty striving for better quality or even noticing flaws with that overall output. As one observer of an automobile assembly line reports: "Often [employees] did not know how their jobs related to the total picture. Not knowing, there was no incentive to strive for quality—what did quality even mean as it related to a bracket whose function you did not understand?"<sup>58</sup>



Visit [connect.mcgrawhill.com](http://connect.mcgrawhill.com) for activities and test questions to help you learn about the job characteristics model and other job design topics.

## Job Design and Work Motivation

### LO 6-4

Frederick Winslow Taylor may have overlooked the motivational effect of job characteristics, but it is now the central focus of many job design initiatives. Organizational behavior scholar Frederick Herzberg is credited with shifting the spotlight in the 1950s when he introduced **motivator-hygiene theory**.<sup>59</sup> Motivator-hygiene theory proposes that employees experience job satisfaction when they fulfill growth and esteem needs (called *motivators*), and they experience dissatisfaction when they have poor working conditions, job security, and other factors categorized as lower-order needs (called *hygienes*). Herzberg argued that only characteristics of the job itself motivate employees, whereas the hygiene factors merely prevent dissatisfaction. It might seem obvious to us today that the job itself is a source of motivation, but the concept was radical when Herzberg proposed the idea.

Motivator-hygiene theory has been soundly rejected by research studies, but Herzberg's ideas generated new thinking about the motivational potential of the job itself.<sup>60</sup> Out of

subsequent research emerged the **job characteristics model**, shown in Exhibit 6.2. The job characteristics model identifies five core job dimensions that produce three psychological states. Employees who experience these psychological states tend to have higher levels of internal work motivation (motivation from the work itself), job satisfaction (particularly satisfaction with the work itself), and work effectiveness.<sup>61</sup>

#### motivator-hygiene theory

Herzberg's theory stating that employees are primarily motivated by growth and esteem needs, not by lower-level needs.

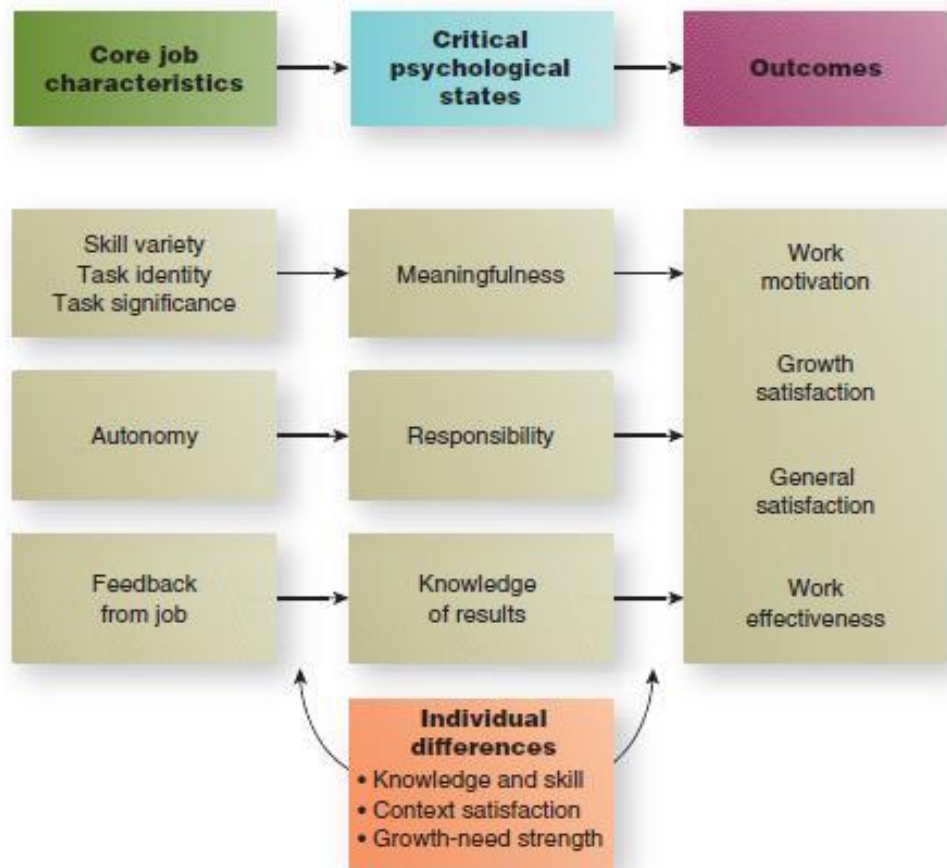
#### job characteristics model

A job design model that relates the motivational properties of jobs to specific personal and organizational consequences of those properties.



**EXHIBIT 6.2****The Job Characteristics Model**

Source: J. R. Hackman and G. Oldham, *Work Redesign* (Reading, MA: Addison-Wesley, 1980), p. 90. Used with permission.

**CORE JOB CHARACTERISTICS**

The job characteristics model identifies five core job characteristics. Under the right conditions, employees are more motivated and satisfied when jobs have higher levels of these characteristics:

- *Skill variety.* **Skill variety** refers to the use of different skills and talents to complete a variety of work activities. For example, sales clerks who normally only serve customers might be assigned the additional duties of stocking inventory and changing storefront displays.
- *Task identity.* **Task identity** is the degree to which a job requires completion of a whole or identifiable piece of work, such as assembling an entire broadband modem rather than just soldering in the circuitry.
- *Task significance.* **Task significance** is the degree to which the job affects the organization and/or larger society. It is an observable characteristic of the job (you can see how it benefits others) as well as a perceptual awareness, as Global Connections 6.2 illustrates.
- *Autonomy.* Jobs with high levels of **autonomy** provide freedom, independence, and discretion in scheduling the work and determining the procedures to be

**skill variety**

The extent to which employees must use different skills and talents to perform tasks within their jobs.

**task identity**

The degree to which a job requires completion of a whole or an identifiable piece of work.

**task significance**

The degree to which a job has a substantial impact on the organization and/or larger society.

**autonomy**

The degree to which a job gives employees the freedom, independence, and discretion to schedule their work and determine the procedures used in completing it.



## global connections 6.2

### Customer Talks Raise Task Significance and Identity

Repairing aircraft engines is a complex business, involving the specialized work of dozens of people. However, people working in specialized jobs tend to have lower task identity and task significance. “We work on airplane engines, but individual employees work on different parts and don’t necessarily know what the customer uses it for,” says Maurice Carter, a bearing technician lead hand at the Rolls Royce Engine Services facility in Oakland, California.

For this reason, Rolls Royce introduced “Voice of the Customer,” an initiative in which customer representatives visit the facility and talk to production staff about how the quality of these engines are important to them. “[A customer’s visit] allows you to know that your quality is key to the rescue of someone who may be stranded in a remote area, who relies on your ability to make sure that engine starts and continues to run in any adverse circumstance,” says Carter.

“Voice of the customer isn’t just a nicety,” explains a Rolls Royce Engine Services executive. “It gives employees with relatively repetitive jobs the sense that they’re not just working on a part but rather are key in keeping people safe.”<sup>63</sup>



Rolls Royce Engine Services in California improved employees' task significance and task identity through its Voice of the Customer program.

used to complete the work. In autonomous jobs, employees make their own decisions rather than rely on detailed instructions from supervisors or procedure manuals. Autonomy is considered the core motivational element of job design.<sup>62</sup> As we learned in Chapter 4, autonomy is also an important mechanism to reduce stress in some situations.

- **Job feedback.** Job feedback is the degree to which employees can tell how well they are doing from direct sensory information from the job itself. Airline pilots can tell how well they land their aircraft, and road crews can see how well they have prepared the roadbed and laid the asphalt.

### CRITICAL PSYCHOLOGICAL STATES

The five core job characteristics affect employee motivation and satisfaction through three critical psychological states, shown in Exhibit 6.2. Skill variety, task identity, and task significance directly contribute to the job's *experienced meaningfulness*—the belief that one's work is worthwhile or important. Autonomy directly contributes to feelings of *experienced responsibility*—a sense of being personally accountable for the work outcomes. The third critical psychological state is *knowledge of results*—an awareness of the work outcomes based on information from the job itself.

### INDIVIDUAL DIFFERENCES

Job design doesn't increase work motivation for everyone in every situation. Employees must have the required skills and knowledge to master the more challenging work. Otherwise, job design tends to increase stress and reduce job performance. The original model also states that employees will be motivated by the five core job characteristics only when they are



satisfied with their work context (e.g., working conditions, job security) and have a high *growth need strength*. Growth need strength refers to an individual's need for personal growth and development, such as work that offers challenges, cognitive stimulation, learning, and independent thought and action.<sup>64</sup> However, research findings have been mixed, suggesting that employees might be motivated by job design no matter how they feel about their job context or how high or low they score on growth needs.<sup>65</sup>

## SOCIAL AND PREDICTABILITY JOB CHARACTERISTICS

The job characteristics model overlooks a few aspects of jobs that are also important for employee motivation and performance.<sup>66</sup> In particular, the earlier model overlooks *social characteristics* of the job. One of these social characteristics is the extent to which the job requires employees to interact with other people (coworkers, clients, government representatives, etc.). The topic of emotional labor, discussed in Chapter 4, relates to this social job characteristic. Required social interaction with other employees (called *task interdependence*) will be discussed in more detail in Chapter 8, because it is an important factor in team dynamics. Another social characteristic of the job is feedback from others. Earlier, we said that feedback from the job itself is motivational, so feedback from clients, coworkers, and others may be equally important.

Another cluster of job characteristics missing from the earlier model considers the predictability or information processing demands of the job.<sup>67</sup> One of these characteristics is how predictable the job duties are from one day to the next (called *task variability*). Employees in jobs with high task variability have nonroutine work patterns; they would perform different types of tasks on one day than another day, and not necessarily know what tasks will be required next. Another one of these characteristics, called *task analyzability*, refers to how much the job can be performed using known procedures and rules. Jobs with high task analyzability have a ready-made “cookbook” to guide job incumbents through most decisions and actions, whereas jobs with low task analyzability require employee creativity and judgment to determine the best course of action. Task variability and task analyzability are important job characteristics to consider when designing organizational structures, so we discuss them further in Chapter 13.

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## Job Design Practices that Motivate

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Three main strategies can increase the motivational potential of jobs: job rotation, job enlargement, and job enrichment.

### JOB ROTATION

Bang & Olufsen has always had fairly complex jobs at its manufacturing plants. When the Danish government established guidelines for employers to reduce monotonous and repetitive work, however, the Danish audio and multimedia company took further steps by training employees on all assembly stations and rotating them through different jobs every three or four hours.<sup>68</sup> Bang & Olufsen executives have introduced the practice of moving employees from one job to another for the purpose of improving the motivational and physiological conditions of the work.

There are three potential benefits of job rotation. First, it minimizes health risks from repetitive strain and heavy lifting, because employees use different muscles and physical positions in the various jobs. Second, it supports multi-skilling (employees learn several jobs), which increases workforce flexibility in staffing the production process and in finding replacements for employees on vacation. A third benefit of job rotation is that it potentially





EYE Lighting International staff are actively involved in kaizen events and other forms of quality improvement. But to make their daily routines more engaging, the Ohio-based subsidiary of Iwasaki Electric of Japan practices job rotation. "Every employee on the factory floor changes positions at least once a day," says EYE Lighting president Tom Salpietra. "The employees love it because they don't get bored in their daily job. Ergonomically it's good for them because they're not doing the same repetitive task day-in and day-out when they come here." Salpietra adds that job rotation "allows us a tremendous amount of flexibility" in work assignments. It also gives employees a better picture of the production process, which helps when conducting kaizen events.<sup>69</sup>

reduces the boredom of highly repetitive jobs. Organizational behavior experts continue to debate whether job rotation really is a form of job redesign, because the jobs remain the same; they are still highly specialized. However, job rotation does increase variety throughout the workday, which explains why anecdotal evidence suggests it has some positive effects on employee attitudes.

## JOB ENLARGEMENT

**Job enlargement** adds tasks to an existing job. This might involve combining two or more complete jobs into one or just adding one or two more tasks to an existing job. Either way, skill variety increases because there are more tasks to perform. A video journalist is an example of an enlarged job. As Exhibit 6.3 illustrates, a traditional news team consists of a camera operator, a sound and lighting specialist, and the journalist who writes and presents or narrates the story. One video journalist performs all of these tasks.

Job enlargement significantly improves work efficiency and flexibility. However, research suggests that simply giving employees more tasks won't affect motivation, performance, or job satisfaction. These benefits result only when skill variety is combined with more autonomy and job knowledge.<sup>70</sup> In other words, employees are motivated when they perform a variety of tasks *and* have the freedom and knowledge to structure their work to achieve the highest satisfaction and performance. These job characteristics are at the heart of job enrichment.

## JOB ENRICHMENT

**Job enrichment** occurs when employees are given more responsibility for scheduling, coordinating, and planning their own work.<sup>71</sup> For example, customer service employees at American Express go "off-script," meaning that they use their own discretion regarding how long they should spend with a client and what to say to them.<sup>72</sup> Previously, employees had to follow strict statements and take a fixed time for specific types of customer issues. Generally, people in enriched jobs experience higher job satisfaction and work motivation, along with lower absenteeism and turnover. Productivity is also higher when task identity and job feedback are improved. Product and service quality tend to improve because job enrichment increases the jobholder's felt responsibility and sense of ownership over the product or service.<sup>73</sup>

One way to increase job enrichment is by combining highly interdependent tasks into one job. This *natural grouping* approach is reflected in the video journalist job. Along with being an enlarged job, video journalism is an

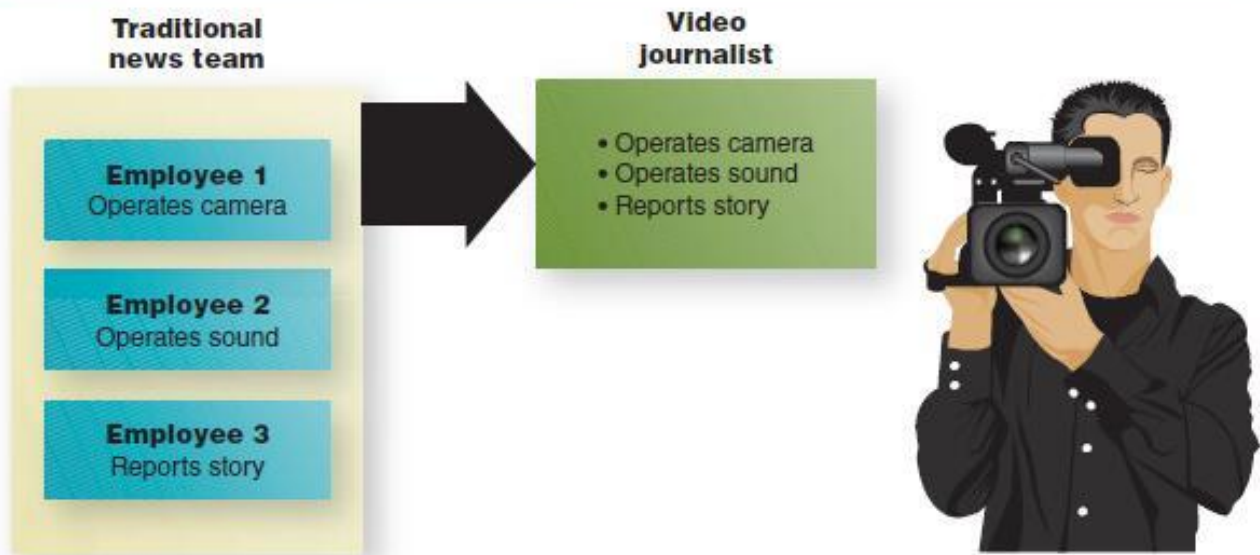
### job enlargement

The practice of adding more tasks to an existing job.

### job enrichment

The practice of giving employees more responsibility for scheduling, coordinating, and planning their own work.



**EXHIBIT 6.3** Job Enlargement of Video Journalists

example of job enrichment, because it naturally groups tasks together to complete an entire product (i.e., a news story). By forming natural work units, jobholders have stronger feelings of responsibility for an identifiable body of work. They feel a sense of ownership and, therefore, tend to increase job quality. Forming natural work units increases task identity and task significance because employees perform a complete product or service and can more readily see how their work affects others.

A second job enrichment strategy, called *establishing client relationships*, involves putting employees in direct contact with their clients rather than using the supervisor as a go-between. By being directly responsible for specific clients, employees have more information and can make decisions affecting those clients.<sup>74</sup> Establishing client relationships also increases task significance because employees see a line-of-sight connection between their work and consequences for customers. City Telecom in Hong Kong redesigned customer service jobs around customers for this reason. "We introduced a one-stop service for our customers," explains Ellis Ng, City Telecom's head of learning and development. "Each of our staff in the special duty unit (SDU) can handle all inquiries including sales, customer service and simple troubleshooting. They are divided into small working units and serve a set number of customers so they have the chance to build a rapport and create a personalized service."<sup>75</sup>

Forming natural task groups and establishing client relationships are common ways to enrich jobs, but the heart of the job enrichment philosophy is to give employees more autonomy over their work. This basic idea is at the core of one of the most widely mentioned—and often misunderstood—practices, known as empowerment.



## Empowerment Practices

### LO 6-5

**Empowerment** is a term that has been loosely tossed around in corporate circles and been the subject of considerable debate among academics. However, the most widely accepted definition is that empowerment is a psychological experience represented by four dimensions: self-determination, meaning, competence, and the impact of the individual's role in the organization.<sup>76</sup>

- *Self-determination.* Empowered employees feel that they have freedom, independence, and discretion over their work activities.
- *Meaning.* Employees who feel empowered care about their work and believe that what they do is important.
- *Competence.* Empowered people are confident about their ability to perform the work well and have a capacity to grow with new challenges.
- *Impact.* Empowered employees view themselves as active participants in the organization; that is, their decisions and actions have an influence on the company's success.

### SUPPORTING EMPOWERMENT

Chances are that you have heard leaders say they are “empowering” the workforce. Yet empowerment is a state of mind, so what these executives really mean is that they are changing the work environment to support the feeling of empowerment.<sup>77</sup> Numerous individual, job design, and organizational or work-context factors support empowerment.<sup>78</sup> At the individual level, employees must possess the necessary competencies to be able to perform the work, as well as handle the additional decision-making requirements.

Job characteristics clearly influence the degree to which people feel empowered.<sup>79</sup> Employees are much more likely to experience self-determination when working in jobs with a high degree of autonomy and minimal bureaucratic control. They experience more meaningfulness when working in jobs with high levels of task identity and task significance. They experience more self-confidence when working in jobs that allow them to receive feedback about their performance and accomplishments. These job characteristics are evident at Svenska Handelsbanken. As Global Connections 6.3 describes, the Swedish bank delegates almost all power to the local branches, which results in better service and more motivated staff.

Several organizational and work-context factors also influence empowerment. Employees experience more empowerment in organizations in which information and other resources are easily accessible. Empowerment also requires a learning orientation culture. In other words, empowerment flourishes in organizations that appreciate the value of employee learning and that accept reasonable mistakes as a natural part of the learning process. Furthermore, as we see at Svenska Handelsbanken, empowerment requires corporate leaders to trust employees and be willing to take the risks that empowerment creates.

With the right individuals, job characteristics, and organizational environment, empowerment can substantially improve motivation and performance. For instance, a study of bank employees concluded that empowerment improved customer service and tended to reduce conflict between employees and their supervisors. A study of nurses reported that empowerment is associated with higher trust in management, which ultimately influences job satisfaction, belief and acceptance of organizational goals and values, and effective organizational commitment. Empowerment also tends to increase personal initiative, because employees identify with and assume more psychological ownership of their work.<sup>81</sup>

#### empowerment

A psychological concept in which people experience more self-determination, meaning, competence, and impact regarding their role in the organization.



## global connections 6.3

### Svenska Handelsbanken Branch-Level Empowerment<sup>80</sup>

One of Europe's most successful banks doesn't believe in budgets or centralized financial targets. Instead, Stockholm-based Svenska Handelsbanken AB gives its branch managers and staff considerable autonomy to run the local branches as their own businesses. Branches decide on which customer types to focus their services, how much to lend, and how much to charge. Branches even have discretion about how to advertise products, how much to pay for property leases, and how many staff to hire.

Handelsbanken's head office serves the branches, not the other way around. "The head office is there to support the branches. We don't tell them what to do," emphasizes Anders Bouvin, Handelsbanken's chief executive in the United Kingdom. "We don't offer any targets or budgeting.... We have no volume goals, no profit goals, no timetable."

Handelsbanken takes this unique approach to banking based on its experience that branch managers can make better decisions than the folks at the head office. "We want to work as closely to customers as possible," explains a Handelsbanken executive in Sweden. "It's the local branch manager who decides which customers to work with and what product they should have." By delegating power to the branches, Handelsbanken provides more personalized banking to clients. It also customizes products to the local community and, by knowing clients better, reduces the bank's risk of loan defaults. Handelsbanken was one of the few European banks to weather the great financial crisis unscathed.

Branch-level autonomy also motivates staff through feelings of empowerment. "The culture of our company is



Svenska Handelsbanken supports better customer service and higher empowerment by giving its branch managers and staff considerable autonomy to run the local branches.

based on entrusting employees and allowing those who are closest to the customer and who know the customer best to make decisions," says Anders Bouvin. "Being empowered and having this trust leads to better decisions and higher satisfaction."

Bouvin points out that Handelsbanken's approach is ultimately about how human beings should be treated. "We are different, even in Sweden," Bouvin says. "This boils down to a fundamental humanist view. We believe that if you put trust in people, people will respond in a positive way and take responsibility and deliver results that they would not have achieved in a command and control environment."

## Self-Leadership Practices

### LO 6-6

#### self-leadership

The process of influencing oneself to establish the self-direction and self-motivation needed to perform a task.

What is the most important characteristic that companies look for in their employees? Leadership potential, ability to work in a team, and good communication skills are important, but they don't top the list in a survey of 800 British employers. Instead, the most important employee characteristic is self-motivation. Frode Gronvold can identify with these survey results. The chairman of Linstow Management Center, which develops and manages major shopping centers in Latvia and Estonia, seeks out people who demonstrate self-leadership. "I really appreciate when I have colleagues who take initiative," says Gronvold. "I like people with a creative state of mind, who at the same time are autonomous, self-driven, self-motivated, with the ability to cooperate and get the best out of each other. These are the main skills that I am looking for in my employees."<sup>82</sup>

Frode Gronvold looks for people who engage in **self-leadership**. They establish the self-direction and self-motivation needed to perform a task without their managers generating that motivation or initiative.<sup>83</sup> Self-leadership includes a toolkit of behavioral activities borrowed from social cognitive theory and goal setting (see Chapter 5). It also includes



constructive thought processes that have been extensively studied in sports psychology. Overall, self-leadership suggests that individuals mostly regulate their own actions through these behavioral and cognitive (thought) activities.



How well do you practice self-leadership? Visit [connect.mcgrawhill.com](http://connect.mcgrawhill.com) to estimate how much you engage in several self-leadership activities.

## SELF-LEADERSHIP STRATEGIES

Although self-leadership consists of several processes, the five main activities are identified in Exhibit 6.4. These elements, which generally follow each other in a sequence, are personal goal setting, constructive thought patterns, designing natural rewards, self-monitoring, and self-reinforcement.<sup>84</sup>

**Personal Goal Setting** The first step in self-leadership is to set goals for your own work effort. In self-leadership, these goals are self-determined, rather than being assigned by or jointly decided with a supervisor. Research suggests that employees are more focused and perform better when they set their own goals, particularly in combination with other self-leadership practices.<sup>85</sup> Personal goal setting also requires a high degree of self-awareness, because people need to understand their current behavior and performance before establishing meaningful goals for personal development.

**Constructive Thought Patterns** Before beginning a task and while performing it, employees should engage in positive (constructive) thoughts about that work and its accomplishment. In particular, employees are more motivated and better prepared to accomplish a task after they have engaged in positive thinking.

**Positive Self-Talk** Do you ever talk to yourself? Most of us do, according to a major study of college students.<sup>87</sup> **Self-talk** refers to any situation in which we talk to ourselves about our own thoughts or actions. The problem is that most self-talk is negative; we criticize much more than encourage or congratulate ourselves. Negative self-talk undermines our confidence and potential to perform a particular task. In contrast, positive self-talk creates a “can-do” belief and thereby increases motivation by raising our self-efficacy and reducing anxiety about challenging tasks.<sup>88</sup> We often hear that professional athletes “psyche” themselves up before an important event. They tell themselves that they can achieve their goal and that they have practiced enough to reach that goal. They are motivating themselves through self-talk.

### self-talk

The process of talking to ourselves about our own thoughts or actions.

**EXHIBIT 6.4** Elements of Self-Leadership







Bayer CropScience's business in North Carolina is expanding, but it only wants job applicants with special characteristics. "It's difficult to fill [these jobs]," says site leader Nick Crosby. "We're not in the game these days of just getting people who can read, write, and shovel stuff around." Instead, Bayer CropScience wants employees who practice self-leadership. "We need self-motivated people who work well with empowered teams—people who can think for themselves, do basic diagnosis, and keep the plants operating at an optimum," he says.<sup>88</sup>

**Mental Imagery** You've probably heard the phrase "I'll cross that bridge when I come to it!" Self-leadership takes the opposite view. It suggests that we need to mentally practice a task and imagine successfully performing it beforehand. This process, known as **mental imagery**, has two parts. One part involves mentally practicing the task, anticipating obstacles to goal accomplishment, and working out solutions to those obstacles before they occur. By mentally walking through the activities required to accomplish the task, we begin to see problems that may occur. We can then imagine what responses would be best for each contingency.<sup>89</sup>

While one part of mental imagery helps us to anticipate things that could go wrong, the other part involves visualizing successful completion of the task. You might imagine the experience of completing the task and the positive results that follow, such as being promoted, receiving a prestigious award, or taking time off work. This visualization increases goal commitment and motivates people to complete the task effectively. This is the strategy that Tony Wang applies to motivate himself. "Since I am in sales, I think about the reward I get for closing new business—the commission check—and the things it will allow me to do that I really enjoy," explains the sales employee in Washington, DC. "Or I think about the feeling I get when I am successful at something and how it makes me feel good, and use that to get me going."<sup>90</sup>

**Designing Natural Rewards** Self-leadership recognizes that employees actively craft their jobs. To varying degrees, they can alter tasks and work relationships to make the work more motivating.<sup>91</sup> One way to build natural rewards into the job is to alter the way a task is accomplished. People often have enough discretion in their jobs to make slight changes to suit their needs and preferences.

#### mental imagery

The process of mentally practicing a task and visualizing its successful completion.

**Self-Monitoring** Self-monitoring is the process of keeping track at regular intervals of one's progress toward a goal by using naturally occurring feedback. Some people can receive feedback from the job itself, such as members of a lawn maintenance crew who can see how they are improving the appearance of their client's property. But many of us are unable to



observe our work output so readily. Instead, many people need to design feedback systems. Salespeople might arrange to receive monthly reports on sales levels in their territory. Production staff might have gauges or computer feedback systems installed so that they can see how many errors are made on the production line. Research suggests that people who have control over the timing of performance feedback perform their tasks better than do those with feedback assigned by others.<sup>92</sup>

**Self-Reinforcement** Self-leadership includes engaging in *self-reinforcement*, which is part of social cognitive theory described in Chapter 5. Self-reinforcement occurs whenever an employee has control over a reinforcer but doesn't "take" the reinforcer until completing a self-set goal.<sup>93</sup> A common example is taking a break after reaching a predetermined stage of your work. The work break is a self-induced form of positive reinforcement. Self-reinforcement also occurs when you decide to do a more enjoyable task after completing a task that you dislike. For example, after slogging through a difficult report, you might decide to spend time doing a more pleasant task, such as catching up on industry news by scanning websites.

## EFFECTIVENESS OF SELF-LEADERSHIP

Self-leadership is shaping up to be a valuable applied performance practice in organizational settings. A respectable body of research shows consistent support for most elements of self-leadership. Self-set goals and self-monitoring increased the frequency of wearing safety equipment among employees in a mining operation. Airline employees who received constructive thought training experienced better mental performance, enthusiasm, and job satisfaction than coworkers who did not receive this training. Mental imagery helped supervisors and process engineers in a pulp-and-paper mill transfer what they learned in an interpersonal communication skills class back to the job.<sup>94</sup> Studies also indicate that constructive thought processes improve individual performance in cycling, hockey goaltending, ice skating, soccer, and other sports. Indeed, studies show that almost all Olympic athletes rely on mental rehearsal and positive self-talk to achieve their performance goals.<sup>95</sup>



Do you have a proactive personality? Visit [connect.mcgrawhill.com](http://connect.mcgrawhill.com) to assess the extent to which taking personal initiative is part of your disposition.

## PERSONAL AND SITUATIONAL PREDICTORS OF SELF-LEADERSHIP

Some research suggests that self-leadership behaviors are more frequently found in people with higher levels of conscientiousness and extroversion. Some writers also suggest that people with a positive self-concept evaluation (i.e., self-esteem, self-efficacy, and internal locus of control) are more likely to apply self-leadership strategies.<sup>96</sup>

The work environment also seems to influence the extent to which employees engage in self-leadership. Specifically, employees require some degree of autonomy to engage in some or most aspects of self-leadership. They probably also feel more confident with



self-leadership when their boss is empowering rather than controlling and if there is a high degree of trust between them. Employees are also more likely to engage in self-monitoring in companies that emphasize continuous measurement of performance.<sup>97</sup> Overall, self-leadership promises to be an important concept and practice for improving employee motivation and performance.

## chapter summary

### 6-1 Discuss the meaning of money and identify several individual-, team-, and organizational-level performance-based rewards.

Money (and other financial rewards) is a fundamental part of the employment relationship, but it also relates to our needs, our emotions, and our self-concept. It is viewed as a symbol of status and prestige, as a source of security, as a source of evil, or as a source of anxiety or feelings of inadequacy.

Organizations reward employees for their membership and seniority, job status, competencies, and performance. Membership-based rewards may attract job applicants and seniority-based rewards reduce turnover, but these reward objectives tend to discourage turnover among those with the lowest performance. Rewards based on job status try to maintain internal equity and motivate employees to compete for promotions. However, they tend to encourage a bureaucratic hierarchy, support status differences, and motivate employees to compete and hoard resources. Competency-based rewards are becoming increasingly popular because they encourage skill development. However, they tend to be subjectively measured and can result in higher costs as employees spend more time learning new skills.

Awards and bonuses, commissions, and other individual performance-based rewards have existed for centuries and are widely used. Many companies are shifting to team-based rewards such as gainsharing plans and to organizational rewards such as employee stock ownership plans (ESOPs), stock options, and profit sharing. Although ESOPs and stock options create an ownership culture, employees often perceive a weak connection between individual performance and the organizational reward.

### 6-2 Describe five ways to improve reward effectiveness.

Financial rewards have a number of limitations, but reward effectiveness can be improved in several ways. Organizational leaders should ensure that rewards are linked to work performance, rewards are aligned with performance within the employee's control, team rewards are used where jobs are interdependent, rewards are valued by employees, and rewards have no unintended consequences.

### 6-3 List the advantages and disadvantages of job specialization.

Job design is the process of assigning tasks to a job, including the interdependency of those tasks with other jobs. Job specialization subdivides work into separate jobs for different people. This

increases work efficiency, because employees master the tasks quickly, spend less time changing tasks, require less training, and can be matched more closely with the jobs best suited to their skills. However, job specialization may reduce work motivation, create mental health problems, lower product or service quality, and increase costs through discontentment, absenteeism, and turnover.

### 6-4 Diagram the job characteristics model and describe three ways to improve employee motivation through job design.

The job characteristics model is a template for job redesign that specifies core job dimensions, psychological states, and individual differences. The five core job dimensions are skill variety, task identity, task significance, autonomy, and job feedback. Jobs also vary in their required social interaction (task interdependence), predictability of work activities (task variability), and procedural clarity (task analyzability). Contemporary job design strategies try to motivate employees through job rotation, job enlargement, and job enrichment. Organizations introduce job rotation to reduce job boredom, develop a more flexible workforce, and reduce the incidence of repetitive strain injuries. Job enlargement involves increasing the number of tasks within the job. Two ways to enrich jobs are clustering tasks into natural groups and establishing client relationships.

### 6-5 Define empowerment and identify strategies that support empowerment.

Empowerment is a psychological concept represented by four dimensions: self-determination, meaning, competence, and impact, related to the individual's role in the organization. Individual characteristics seem to have a minor influence on empowerment. Job design is a major influence, particularly autonomy, task identity, task significance, and job feedback. Empowerment is also supported at the organizational level through a learning orientation culture, sufficient information and resources, and corporate leaders who trust employees.

### 6-6 Describe the five elements of self-leadership and identify specific personal and work environment influences on self-leadership.

Self-leadership is the process of influencing oneself to establish the self-direction and self-motivation needed to perform a task. This includes personal goal setting, constructive thought patterns, designing natural rewards, self-monitoring, and self-reinforcement. Constructive thought patterns include self-talk



and mental imagery. Self-talk occurs in any situation in which a person talks to himself or herself about his or her own thoughts or actions. Mental imagery involves mentally practicing a task and imagining successfully performing it beforehand. People with higher levels of conscientiousness,

extroversion, and a positive self-concept are more likely to apply self-leadership strategies. It also increases in workplaces that support empowerment and have high trust between employees and management.

## key terms

autonomy, p. 170

employee stock ownership plans (ESOPs), p. 162

empowerment, p. 175

gainsharing plans, p. 162

job characteristics model, p. 169

job design, p. 167

job enlargement, p. 173

job enrichment, p. 173

job evaluation, p. 160

job specialization, p. 167

mental imagery, p. 178

motivator-hygiene theory, p. 169

profit-sharing plans, p. 163

scientific management, p. 168

self-leadership, p. 176

self-talk, p. 177

skill variety, p. 170

stock options, p. 163

task identity, p. 170

task significance, p. 170

## critical thinking questions

1. As a consultant, you have been asked to recommend either a gainsharing plan or a profit-sharing plan for employees who work in the four regional distribution and warehousing facilities of a large retail organization. Which reward system would you recommend? Explain your answer.
2. Which of the performance reward practices—individual, team, or organizational—would work better in improving organizational goals? Please comment with reference to an organization of your choice.
3. Waco Tire Corporation redesigned its production facilities around a team-based system. However, the company president believes that employees will not be motivated unless they receive incentives based on their individual performance. Give three reasons why Waco Tire should introduce team-based rather than individual rewards in this setting.
4. What can organizations do to increase the effectiveness of financial rewards?
5. Most of us have watched pizzas being made while waiting in a pizzeria. What level of job specialization do you usually notice in these operations? Why does this high or low level of specialization exist? If some pizzerias have different levels of specialization than others, identify the contingencies that might explain these differences.
6. Can a manager or supervisor "empower" an employee? Discuss fully.
7. Describe a time when you practiced self-leadership to perform a task successfully. With reference to each step in the self-leadership process, describe what you did to achieve this success.
8. Can self-leadership replace formal leadership in an organizational setting?



## CASE STUDY: YAKKATECH, INC.

Steven L. McShane, The University of Western Australia

YakkaTech Corp. is an information technology services firm employing 1,500 people throughout Washington and Oregon. YakkaTech has a consulting division, which mainly installs and upgrades enterprise software systems and related hardware on the client's site. YakkaTech also has a customer service division that consists of four customer contact centers serving clients within each region.

Each customer service center consists of a half-dozen departments representing functional specializations (computer systems, intranet infrastructure, storage systems, enterprise

software systems, customer billing, etc.). These centers typically have more than two dozen employees in each department. When a client submits a problem to the center using the online form, the message or call is directed to the department where the issue best applies. The query is given a "ticket" number and assigned to the next available employee in that department. Individual employees are solely responsible for the tickets assigned to them. The employee investigates and corrects the issue, and the ticket is "closed" when the client agrees that the problem has been resolved.