Motivating Others Through Goals and Rewards

In a Nutshell

Motivating others is complicated. The closest we can come to a hard-and-fast rule in the realm of motivation is that specific, difficult goals lead to higher levels of productivity than no goals, vague goals, or easy goals. Of course, rewards can also promote productivity, but the rewards have to be (a) appealing and (b) contingent on performance achievements. When you put together goals and rewards ... then you've got something!

In This Issue

Bonuses Cause a Morgan Stanley Division Head to Earn More than the CEO

Earlier this year, it was reported that Morgan Stanley's head of world-wide fixed income, foreign exchange and securities, Zoe Cruz, earned $16.1 million dollars during 2003 due in large part to a $7.9 million bonus. Consequently, her total compensation exceeded that of CEO Philip Purcell by about $1 million. Cruz was paid the massive bonus because her division was a major reason for Morgan Stanley's annual profit of $3.8 billion. Although the Morgan Stanley example is somewhat unusual, there is a trend toward a larger percentage of compensation being tied to achievement of performance goals.[1]

A Framework for Motivating Your Staff

Debunking the myth. Don't believe the myth that "a happy worker is a productive worker." Based on dozens of studies of the relationship between job satisfaction and job performance that involved thousands of research subjects, management researchers have concluded that there's virtually no relationship between a person's job satisfaction and productivity. In other words, some "happy workers" are productive, but about an equal number are not!

That's not to say that job satisfaction and morale don't matter. On the contrary, people with high levels of job satisfaction are less likely to be absent or quit, and they are more likely to do things that aren't even in their job descriptions in order to help the firm.

The point is this: Since satisfaction and productivity are essentially unrelated, managers cannot boost the productivity of their staff by simply making them happy. To motivate your staff, I recommend that you use

SMART goals and contingent rewards that your staff values.

SMART goals. In general, goals that are specific, measurable, aligned, reachable, and time-bound lead to the highest levels of performance. **S**pecific goals actually lead to higher performance than "do your best" as a goal. Vague goals can cause inertia or misdirection. **M**easurable goals are an alternative to abstract or intangible goals, and they are normally expressed in numerical terms (i.e., units to produce). Goals should also be **A**ligned with the overall strategy and priorities of the organization in order to avoid conflict or efforts that are counterproductive to the organization. Goals should be challenging but **R**eachable because they will fail to motivate effort if there's no chance of successfully achieving them. Finally, a **T**ime limit for accomplishing goals should also be specified.

By setting SMART goals for your staff, you clarify standards and focus attention and energy in the direction that you desire. In many instances, you will want to have your staff members participate in defining the goals in order to benefit from their insights and to promote their commitment to the goals. However, unilaterally assigning goals to them can also be effective.

Contingent rewards. Rewards should be given to staff members when they earn them--that's the principle of contingent rewards. ***Fat, happy rats don't run mazes.*** B. F. Skinner had no success teaching lab rats to run mazes by stuffing them with cheese beforehand. A fundamental principle of motivation is to use rewards to reinforce desired behaviors if they occur. When they don't occur (i.e., performance is poor), withhold the rewards.

The trend in the U.S. is toward a larger portion of employees' compensation to be provided in the form of "variable pay" such as bonuses and equity-based compensation (e.g., stock options and grants of stock). That trend is consistent with the principle of contingent rewards. You have to deliver results to get variable pay (at least in theory).

I predict that there will be a limit to the growth of variable pay as a proportion of total compensation. Very few of us are comfortable having most of our compensation directly contingent on our short-term performance. A few salespeople and entrepreneurs thrive on having their income directly tied to their performance. However, the rest of us are uncomfortable with having a large amount of our income at risk. After all, our compensation may be variable, but our house and car payments are fixed. Excessive worrying about money can cause stress that interferes with performance. So, a straight commission-type compensation package may not be the best reward system for motivating most people.

Valued rewards. I used pay to illustrate the principle of contingent rewards, but we seek much more than pay in exchange for our successes at work. In my research on employee suggestion systems, I had a conversation with a consultant who helps firms operate suggestion systems effectively. He has found that in some organizations "face time" (e.g., a lunch meeting) with the CEO is a stronger motivator of good suggestions than pay. Some organizations offer 10% of the value of a suggestion as a reward, but in organizations where employees tend to be ambitious, face time with an executive may be perceived as more valuable. In other organizations, public recognition is valued more than pay. I regularly see notes in the *Wall Street Journal* that report surveys indicating that busy professionals prefer personal services or more time with their families to bonuses.

As one manager aptly put it, "You have to know what makes your people tick." Theorists such as Maslow, McClelland, and Shutz (of FIRO-B fame) have identified lists of psychological needs that people try to satisfy through their work experiences. Which rewards do your staff members value? They value the ones that satisfy their particular needs. Fortunately, you don't have to psychoanalyze them to discover which rewards they value. As long as your relationship with them is characterized by trust and open communication, they'll tell you what their needs are. Bottom line: Don't assume that everyone is motivated to obtain the same kinds of rewards.

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Practicing This Management Skill

SMART goals. One of the most effective ways to use SMART goals is within the context of a personal management interview program. Personal management interviews are regularly scheduled, one-on-one meetings between a supervisor and a subordinate. In those meetings, broad goals can be defined as well as specific steps toward goal attainment. At the close of each meeting, the subordinate should have an "action plan" of things to achieve prior to the next meeting. Although it is the manager's responsibility to set standards and align the subordinate's efforts with the needs of the work unit and organization, it's important that the manager practice constructive communication and effective listening during performance management interviews.

Contingent rewards. The organization itself (i.e., policies and culture) can be your biggest obstacle to offering contingent rewards. Many organizations have a tradition of basing rewards on rank and tenure rather than performance. If the compensation system of your organization doesn't support contingent pay, you'll have to come up with creative ways to provide rewards. *1001 Ways to Reward Employees,* by Bob Nelson presents a great set of innovative ways to provide rewards (it's not really a list of 1001 unique ideas though).

Valued rewards. To know which rewards your staff members value, you have to have open communications with them. To promote open communication, you need to be a constructive communicator, an effective listener, and to build trust. In the absence of trust, your staff members may not be comfortable discussing personal things such as their ambitions or their desire to spend less time at work and more time with their families.

"Building and Repairing Trust" *LeaderLetter*
"Constructive Communication" *LeaderLetter*
"Effective Listening" *LeaderLetter*

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Note

1. Costello, M. (2004). Morgan Stanley's fixed-income head paid more than Purcell. *eFinancialNews*, March 5, 2004, access through LexisNexis on December 21, 2004.

About the Photo

AFP Photo/Aamir Qureshi; e-mailed to me December 21 from *Yahoo! News* (http://news.yahoo.com).

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About the Newsletter and Subscriptions

LeaderLetter is written by Dr. Scott Williams, Department of Management, Raj Soin College of Business, Wright State University, Dayton, Ohio. It is a supplement to my MBA 751 - Managing People in Organizations class. It is intended to reinforce the course concepts and maintain communication among my former MBA 751 students, but anyone is welcome to subscribe. In addition, subscribers are welcome to forward this newsletter to anyone who they believe would have an interest in it. To subscribe, simply send an e-mail message to me requesting subscription. Of course, subscriptions to the newsletter are free. To unsubscribe, e-mail a reply indicating that you would like to unsubscribe.

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Whether you are one of my former students or not, I invite you to share any insights or concerns you have regarding the topic of this newsletter or any other topic relating to management skills. Please e-mail them to me. Our interactions have been invaluable. **I learn a lot from *LeaderLetter* subscribers!** Let's keep the conversation going.

A Good, Clean Joke

IRAQI ELECTIONS DELAYED TO ALLOW TIME FOR NEGATIVE ADS

Swift Boat Veterans Parachute into Baghdad

The Iraqi elections, originally set for January 2005, have been delayed six months to give the Iraqi people enough time to produce and air negative political ads, the White House announced today.

"The purpose of these elections is to foster democracy in Iraq, but without negative ads, there is no democracy," said White House spokesman Scott McClellan.

The decision to delay the Iraqi vote was the brainchild of White House political strategist Karl Rove, who said he was "dismayed" by the state of Iraqi's negative advertising infrastructure.

"Their understanding of how to use distortions, unflattering photographs and scary-sounding announcers is rudimentary at best," Mr. Rove said. "If the elections were to go forward without professionally-produced attack ads, the whole process would be seen as a sham."

In order to teach the Iraqi people how to make corrosive, below-the-belt television spots, Mr. Rove has ordered the Swift Boat Veterans for Truth, a group whose ads proved particularly effective during the 2004 presidential campaign, to parachute into Baghdad at once.

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