Does pay motivate?

To What Extent If At All Does Pay Motivate?

For any aspiring corporation anywhere in the world, having a motivated workforce is pivotal for any potential success to materialise. Consequently, for decades, managers and academic theorists have endeavoured to find the perfect mix of motivational forces in order to maximise employee performance. One topic which has relentlessly been debated has been that of the effect of financial rewards upon motivation. Historically this debate has produced numerous theories ranging from pay being the sole motivator of workers, to it not being a motivator at all. This essay will attempt to clarify the exact role of pay in motivation by focusing mainly on two select process theories; The Expectancy/Valance theory (Vroom 1964) and the Equity theory (Adams, 1963, 1965; Weik, 1964), and how by these theories pay affects motivation and performance levels. The assumption will be made that motivation is not simply the carrying out of an action but the intrinsic (See Vroom 1964; Deci 1972) drive to perform a task to the best ability of a person.

Equity Theory

Before moving on directly to equity theory we need to consider and understand the affect of extrinsic rewards, both contingent and non-contingent, upon intrinsic motivation, and to fully appreciate this we must therefore also consider intrinsic rewards (Deci 1972; Deci and Ryan 1985). Extrinsic rewards are those " such as money and verbal reinforcement which are mediated outside the person" (Deci 1972, page 217) and intrinsic rewards are " mediated within the person" (Deci 1972, page 217). Pay clearly constitutes and extrinsic reward and thus if it were to affect

motivation it would ‘ extrinsically motivate’ a person. Intrinsic rewards need to be taken into account as they give us an insight into why people are motivated if extrinsic rewards do not affect their performance. The concepts mentioned above will be interwoven into the forthcoming analysis of the affects of pay on motivation.

As a theory which focuses upon understanding the processes which by behaviour is influenced, the equity theory is a process theory, and so lends itself to both a more in depth and ‘ real -life specific’ analysis where a case by case system can be taken into account. The Equity theory itself in its simplest form denotes that job performance and therefore motivation is determined largely by the degree of equity or inequity an individual perceives in a work situation (Steers 1975, page 135). In this case equity is defined as the ratio between an individual’s inputs, for example effort, and the outcomes, for example pay when compared with a similar ratio for a similar other (Steers 1975). Another key observation when considering this theory is that the equity theory focuses on the perceived situation from the point of view of a worker and not on the actual set of circumstances (Steers 1975). This will help with the analysis of the effects of money on individual motivational levels.

It seems initially that there are a number of possible controversial areas when considering pay and this theory. Firstly because the theory is based on perception there is huge scope for there to be disagreement between employers and employees on the subject of pay which would ultimately result in inequity existing for either of the individuals in question. Take for example the possibility of an employer judging the value of effort which their

employees put in on the amount of effort he or she puts in to running their business. It is likely that the employer will judge the employees to be exerting less effort as they do themselves which immediately devalues the employees to the employer. The employer may also have their ‘ favourite’ employees, and this may be based on for example personality or experience, such employees will then be perceived to be worth more to the company than others and should be duly rewarded. This results in a state inequity for other employees as they do not perceive themselves to be any less valuable than the favoured employees; because their ‘ equity ratios’ (Steers 1975) are now lower than others they experience inequity and are therefore demotivated. It seems as if due to the need to compare the equity ratio of one person to that of a ‘ significant other’ (Steers 1975) the affects of pay on motivation according to the equity theory work as follows.

From a position of inequity (when considering pay), there will be a strong positive correlation between increases in pay and increases in worker motivation. This will be true up until equity is reached where the equity ratio becomes equivalent to a significant others, and at this point, further increases will have no effect upon employee job satisfaction and therefore motivation. Factors other than pay are the driving forces behind motivation from this point onwards. It is also important to note that this level of ‘ comparable equity’ could change from person to person depending upon who they feel is a “ relevant other” (Steers 1975, page 136) to them. If their “ relevant other” (Steers 1975, page 136) is someone in a different job being paid much more than them then there is the possibility that money will be a big motivator for that person as they aspire to reach a level of pay which is

comparable to their significant other. This is perhaps not what is meant by " relevant other" but as this is not expanded upon, there is no reason why a person cannot deem anybody not to be relevant to them. The equity theory therefore gives us an insight into the extent of the affects of pay and where and how it will affect motivation positively.

Expectancy Theory

The second process theory to be considered will be the expectancy theory which is widely accredited to Victor H. Vroom. This theory in its simplest form focuses upon " a persons beliefs about effort performance – outcome relationships" (Roberts & Corbett, 2009, pg 256), and so provides an alternative motivation theory to classic content based theories. By drawing on the works of Lewin, Tolman and Peak the assumption is made that there is an interaction between an individual's personality and their perceived environment; it is this assumption which separates this theory from other work motivation theories (Steers 1975). By recognising that employees may have different personal goals to the goals of the organisation for whom they work, Vroom's expectancy theory states that motivational force to perform is a multiplicative function of the expectancies employees have times the value they personally place on the outcomes (Steers 1975, Vroom 1994). The expectancies are made up of two separate parts; firstly the expectancy that any effort put in will result in the intended outcome (this can be labelled E P expectancy) and secondly the expectancies that the performance of a task will result in the desired outcome (this can be labelled P O expectancies) (Edward E. Lawler, III, 1975). The result of the two parts is the formula.

F= (E P X P O X Valance)

There are a number of different theories which have been built within this framework, however it is most appropriate to focus on Victor H. Vroom's model as it is " stated specifically for the purpose of dealing with motivation in the work environment" (Edward E. Lawler, III, 1975, page 191). Vroom's theory is written as follows; " Force = ∑ (F X V)" (Vroom 1964). The use of ∑ here means that the force for all outcomes are added together to determine the final motivational value; valance can range from -1 to 1 and so because of this even if for example pay is valued highly by a person, if the negative consequences for attaining the pay are equal or greater than the motivational force generated by getting the desired outcome, there will be no motivational force to perform (Edward E. Lawler, III, 1975).

In terms of pay and motivation, this theory tells us that the extent to which an employee can be motivated by pay is dependent upon a number of factors including personal abilities, the standard of infrastructure within the firm, and also on any negative consequences associated with carrying out required work. For example, if an employee were to be offered a pay rise if he matched his sales targets for the month and we disregard the value the employee places upon the financial reward, then according to this theory, the motivational force of this pay rise is still affected by other factors. Assuming that even if it were certain the employee would get the pay rise if he met his targets, he is still going to be affected by his E P expectancies, and is therefore affected motivationally by his abilities;, whether he can realistically reach his targets; by past experiences and so on, highlighting that whatever financial reward is offered and however highly valued it is, its motivational affect is dependent upon and often limited by other factors.

However if thought about critically there are areas of this theory which reduce its practical credibility and provide uncertainty over the role of money in motivation. It is widely acknowledged that as one attains more of something, its value decreases. So it could be said that if a rich man were offered a financial package for carrying out a task, and a poor man were offered the same package for the same task, the rich man would put a smaller value on the financial reward than the poor man would. Consider then that both men had the same skills and chance of carrying out the task successfully. Then what the expectancy theory would tell us is that the poorer man would be more motivated to carry out the task. In some situations this may be the case, however life experiences tell us that there is no reason why in real life the rich man would not be just as motivated as the poor man if not more motivated. This underlines the motion that there are other factors which motivate humans on top of financial rewards. Perhaps the work of Edward L. Deci (1972) could shed some light on this missing motivator, with his work on " intrinsic motivation … mediated within the person" (Deci, 1972, page 217). Deci also looks to a cognitive evaluation theory to explain his studies, and this could also be used to explain the situation described above. The cognitive evaluation theory concentrates on a person's perception of why he or she is carrying out a task, as a result often when someone perceives themselves to be carrying out an activity for the money rather than for personal satisfaction, they re-evaluate the situation and justly their intrinsic motivation is reduced, impacting upon their overall motivation (Deci 1972, Hedier 1958). This could explain why a rich man would be just as motivated as a poor man in our situation thus showing not only that money only motivates to a certain extent and can act as

demotivator, but that the effect of money on motivation, is dependent upon the personality and financial position of the person in question.

After looking at both the equity theory and the expectancy theory, we have an idea of how money functions in terms of affecting motivation. But by looking at examples in the commercial world we can be given further insights into how money affects motivation. Take for example the recent collapse of the worlds banking system. This was caused by irresponsible lending, which was influenced heavily by the bonus culture of large financial corporations and the huge emphasis put upon profit (David Knights, 2009). Obviously it is not possible to know what drove each banker to lend as they did, however it seems as if individuals were driven by the bonuses they would gain from profitable if risky lending. This goes against what for example classical theory's such as Maslow's hierarchy of needs (Maslow 1943, 1954, 1970) states and shows that pay can influence people's behaviour regardless of their financial status. Perhaps it could be taken from this and the previous example that personality affects the way pay will motivate somebody, as Rhymer Rigby has said " People respond to different Stimuli – and for many that might not be money" (Rhymer Rigby, 2006, pg. 54). It could be said that an ambitious person with high goals and a drive to be financially successful would be more motivated by increases in pay than those who are content with life at a more modest financial level. This could then link on to job type, possibly indicating that a job with prospects in terms of possible increases in pay and promotions may significantly help to motivate a person when pay is in question. This therefore would mean that a person in a job with few promotional prospects are less likely to be

motivated by increases in pay, as they know that promotion is very unlikely and therefore there is no benefit to them for working harder and performing better. In these cases it is likely that only a short term increase in motivation would materialise whereas in a job with prospects, an increase in pay may have a more long term effect as it acts as an encouragement mechanism and indicator that with further good work a promotion is possible. So here pay is acting as a motivator however the real long term motivator to people in such jobs is not necessarily money but social and societal value of promotion which leads to inner happiness. This again links to Maslow (Maslow 1943, 1954, 1970) and Herzberg's theories (Hygiene Theory) (Herzberg 1959, 1966) but this time in support of the upper tiers of the hierarchies. (See figures 1. 1 and 1. 2)

From what has been analysed it seems to be the case that pay does have an influence upon motivation levels, but its affects are limited by various factors as highlighted by both of the theories focused upon in this essay. Which factors limit the effect of pay upon motivation most is unclear and there is much to be learnt from modern commerce on this matter. Additionally whether in most cases increased motivation leads to better individual performance is another unanswered question. What can be certain though is that pay does have a part to play in motivation; a part which is possibly larger than first thought. After all, money does make the world go round, surely therefore it does have a big role to play in day to day motivation.

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