

*February 1999*

## Pay and motivation

How important is pay in motivating people to work? According to a new report from the Economist Intelligence Unit, *Motivating and Rewarding Managers*, a philosophy of motivation is the "big missing link" in the pay strategies of human resources specialists.

Few companies questioned had thought about what motivated their employees. Many are daunted by academic theory on motivation, says the report, and rely on simple pay formulas in the hope they will coincide with whatever motivates their staff.

Some companies featured in the report, however, are looking more deeply at motivation. Microsoft, using employee surveys and focus groups among existing and former employees, found that enthusiasm for their work was the most important motivational factor.

A common complaint among people who had left was that the quality of colleagues at their new company was poorer. Belief in the business strategy and strength of the Microsoft stock programme were other strong forms of motivation.

On the downside, the company has highlighted a number of pressures influencing the decisions of people to leave. One is burn-out due to the pace and level of intellectual competition, another is a desire to improve the balance of work and domestic life. An increasing concern of employees is the rising level of bureaucracy associated with the company becoming more structured and process-oriented.

Hewlett-Packard appears to be banking on the belief that money is not a prime motivator. After poor earnings in 1998 it asked its 2,600 most senior employees to take a 5 per cent pay cut.

The decision may help to increase motivation across the workforce in that the company's top earners can be seen to be bearing the brunt of the pain.

At Guinness, too, there was an admission from a human resources executive that the performance bonuses for senior managers was not an incentive in terms of making anyone work harder. He looked upon such bonuses as a way of "communicating priorities" for the business.

The report concludes that different professional groups respond to different pay strategies. The government is about to learn this when it attempts to introduce performance-related pay in teaching.

Sometimes the age of employees can make a difference. Young managers, says the report, tend to be more interested in cash, whereas their older colleagues are interested in pensions and retirement options.

One way of discovering what people value is to ask them. When Marks & Spencer did this in Hong Kong it found that employees wanted share options. They were also interested in training and broadening their education. The company responded by introducing an education sponsorship scheme, paying 70 per cent of fees for courses such as MBAs.

The report includes a broad range of case studies and analysis in the "who's doing what" mould. My only irritation was a reference to a wider form of 360 degree appraisal. It calls this broader appraisal, which includes input from customers and suppliers in addition to appraisal by superiors, peers and subordinates, "540 degree appraisal". This is meaningless. Why can't human resources people talk about "all-round appraisal" and leave it at that?

© 1999 The Financial Times Ltd. All rights reserved