Evaluating Employee Compensation

Rabindra N. Kanungo **Manuel Mendonca**

When you pay your employees, do you get a fair return for your investment? How do you know? If you pose these questions to today's managers, the chances are that they will either consider them irrelevant or regard them as mysteries too obscure to resolve. And yet, these managers will routinely subject their organization's capital and operating costs to an array of rigorous analyses to determine if the target rates of return are being obtained. They will also ensure that the variances are studied and investigated and that an appropriate plan of action is initiated to achieve the desired goals.

It would be logical to expect that the compensation package would be subjected to the same searching cost-benefit analysis. It is not as if the compensation package comes cheap. It involves a considerable cash outflow—often more than 50% of the total costs of the organization and, in many service industries and public sector organizations, it can go as high as 80%.

Why then do managers treat the compensation costs differently? The answer can be traced to the manager's understanding of how pay and benefits affect work motivation. If they believe that pay and benefits do not motivate performance, then it is only logical that the management of these rewards, despite the huge outlays involved, would not become their major concern. If, on the other hand, they believe that monetary rewards affect work motivation, then they should actively manage such rewards to influence and improve work behavior.

In fact, there was a time when managers were not indifferent to compensation costs, when business and industry tied compensation programs to

The authors acknowledge the financial support from FCAR (grant no. #88EQ3669) Department of Education of Quebec for this project.

productivity. Such programs—pioneered by Frederick Taylor, the father of scientific management—were widespread from around the turn of the century until World War II. They were based on the belief that money was a prime motivator of people's work efforts. In such a context, managers could properly be expected to assess whether their compensation programs did, in fact, motivate employees to the extent and in the direction established by the organization.

However, after World War II, the belief that money was a prime motivator of performance was seriously challenged. By the sixties, behavioral scientists with humanistic orientations—notably Herzberg and McGregor—developed a two-factor need theory of motivation that divided rewards into two categories—intrinsic and extrinsic.[1] The theory claimed that intrinsic rewards (responsibility, autonomy, feelings of accomplishment, etc.) were the only real motivators of work behavior. Extrinsic rewards (pay, benefits, working conditions, etc.) were consigned to a secondary role: these rewards were needed to prevent dissatisfaction with one's job but they had no positive influence whatsoever in motivating performance. This distinction between intrinsic and extrinsic rewards became the foundation for a different approach to the management of reward systems. Its influence was so persuasive that it also became an integral part of the manager's thought, vocabulary, and practice. However, does this approach provide clear, practical guidelines for the effective design of the reward system? Does the approach enable an organization to determine whether it is getting its money's worth from the enormous expenditures on pay and benefits?

The Impact of the Intrinsic-Extrinsic Approach on Rewards Management

"What rewards do I give to get my employees to be productive?" To this very practical question, which managers faced each workday, the intrinsic-extrinsic approach gave a relatively direct, unambiguous answer: Provide intrinsic rewards through job redesign to include more responsibility, more autonomy, and more control.

Not only was the answer new, it was specific and its implementation seemed possible with relatively little expense and effort. It also seemed to provide a method to prevent or redress worker alienation, which Karl Marx had predicted would result when workers were denied control of and participation in matters relating to their jobs. This panacea for the employees' motivational ills spawned a plethora of programs: job rotation, job enrichment, flexible scheduling, semi-autonomous work groups, and quality circles.

However, in the context of such preoccupation with intrinsic rewards, it was inevitable that academic researchers and practitioners alike would relegate to the background the role of monetary rewards.[2] The question "Is the organization getting its money's worth from the enormous expenditure on pay and benefits?" became passé. If pay and benefits did not motivate performance, then it was only logical that managers simply shrug off these rewards as an expense—an expense that was necessary but not specifically designed to influence and improve work behavior.

When a theory causes an otherwise perceptive, results-oriented manager to become apathetic to an enormous item of expenditure—which pay and benefits are—then the logical inference must be that, in the formulation of that theory, a vital element has been overlooked. It is not the purpose of this article to critique the theoretical formulation that underlies the intrinsic-extrinsic classification of rewards. Several studies have dealt with its limitations relative to: its assumptions,[3] the validity of its constructs,[4] the empirical support,[5] the effectiveness and universal applicability of its programs.[6] However, germane to our discussion is the criticism that the intrinsic-extrinsic approach does not contribute to the proper understanding of how rewards affect job behavior. Underlying the approach, although not expressly stated, is the belief that a reward has, in itself, a specific potency to generate specific effects. Following its prescriptions, the manager dispenses different potions for different motivational ills: administer a concentrated dose of "autonomy" to activate the motivational adrenalin; administer "pay" to satisfy the appetite for things material.

The intrinsic-extrinsic approach looks at only one aspect of the behavior-reward relationship—namely, the assumed inherent potency of the intrinsic and extrinsic rewards to produce the desired behavior. It ignores the individual's perceptions of and expectations about these rewards which are critical to work motivation. It also ignores the obvious fact that a reward, be it intrinsic or extrinsic, will influence behavior only when it is perceived to be of some value to the recipient and expected to be received as a consequence of that behavior. Hence, any effective approach to rewards management must take into account the perceptions and expectations of the recipient.

An Alternative Approach

Individuals will perform if they believe that they have the necessary ability, that they will receive a valued reward that is contingent on performance, and that the reward will be equitable relative to their actual performance. This intuitive understanding of the behavior-reward relationship was postulated by expectancy theory and confirmed by the findings of the numerous research studies it generated.

According to expectancy theory, employees will be motivated to perform at a given level if they believe that a series of conditions exist:

- First, the employees must believe that they have the necessary *skill or ability* to perform at the required level. If the employees believe otherwise, then no reward will help. Instead, appropriate orientation and training may be the answer.
- Second, the employees must believe that the rewards are *contingent upon performance*. In other words, the rewards are directly linked to performance in such a way that a given level of performance is an absolute precondition for receiving the reward.
- Third, the employees must *value* the rewards. A valued reward or a reward with a high "valence" means the reward is highly desired by the employees, which is usually the case if they see it as instrumental in satisfying one or more of their needs. The value of a reward is also affected by the employees' perceptions of its equity or fairness considering their overall efforts relative to the efforts and compensation of their peers.
- Finally, the reward must be *salient* in the sense that the reward is uppermost in the minds of the employees. If the employees are vaguely aware of the existence of a reward and barely know the conditions for earning it, then that reward is unlikely to influence their work behavior. To make the reward salient to the employee, its existence and operative conditions must be properly and frequently communicated to them.

Thus, expectancy theory suggests that the critical attributes of organizational rewards are: *Contingency, Valence,* and *Saliency.* If the rewards are seen by the employees in terms of these attributes, then expectancy theory postulates that the rewards will, to the extent of such perceptions, have a significant influence on work motivation. The crucial question, then, is: Do employees, in fact, perceive the rewards offered by their organization in terms of these attributes?

To answer this question, Kanungo and Hartwick investigated several attributes of 48 work rewards—a mix of intrinsic and extrinsic items.[7] These attributes, individually or in some combination, have been used by researchers and practitioners to study and manage rewards. The attributes included reward characteristics such as: intrinsic-extrinsic saliency, valence, contingency, concreteness, timing, and frequency. The study found that rewards are perceived by employees in terms of three distinct dimensions, each characterized by a separate cluster of attributes (see Figure 1):

- high performance contingent, valued, and salient (performance contingent reward dimension)
- intrinsic viewed as self-administered, abstract, and immediate rewards (intrinsic-extrinsic mediation dimension)
- frequent and performance non-contingent (reward generality dimension)

Figure 1. Three Perceived Dimensions of Work Rewards

First Dimension: Performance Contingency

Attribute Cluster	Contingent on High Performance Most Valued Most Salient	Non-Contingent on High Performance Least Valued Least Salient
Examples of Rewards	Pay Promotion Interesting Work Feelings of Accomplishments	Paid Parking Space Cafeteria Subsidies Discounts on Company Products

Second Dimension: Intrinsic-Extrinsic Mediation

Attribute Cluster	Intrinsic—Self-Administered Abstract Received During or Soon After Performance	Extrinsic—Administered by Others Concrete Received Long After Performance
Examples of Rewards	Personal Challenge Feelings of Accomplishment Pride in Work Personal Growth & Development	Profit-Sharing Promotions Awards for Long Service Retirement Benefits

Third Dimension: Reward Generality

Attribute Cluster	Performance Non-Contingent and Given to All Employees (& not connected to job tasks) Most Frequently Given	Performance Non-Contingent but Given to a Few Employees (connected to job tasks) Least Frequently Given
Examples of Rewards	Vacations Coffee Breaks Accident/Sickness Insurance Retirement Benefits	Expense Accounts Company Car Uniform Allowance

Of these three clusters, the first (high performance contingent, valued, and salient) emerged as the most important dimension of work rewards. This cluster of attributes represents the expectancy theory constructs which define the motivational effectiveness of a reward. Although rewards can be classified in terms of the other two clusters, these clusters "seem to be unrelated to motivational effectiveness, and therefore have minimal practical utility."[8]

An Action Program

We have forged these concepts of expectancy theory into an "Action Program" to design and administer the reward system and to evaluate its effectiveness. The rationale for this program is as follows:

- In designing its compensation program, the organization intends that each component of the program elicits a specific set of behaviors from its employees to further the overall goals of the organization.
- The intended set of behaviors will be realized only to the extent that each component of the program is perceived by the employee as *valuable,* as *contingent* on producing the intended set of behaviors, and as *salient.*
- The critical test for the effectiveness of the compensation program is to compare the intended set of behaviors for each component of the program with the employee perceptions of that component in terms of *valence, contingency,* and *saliency.*

The procedural steps of the Action Program, presented schematically in Figure 2, are described below.

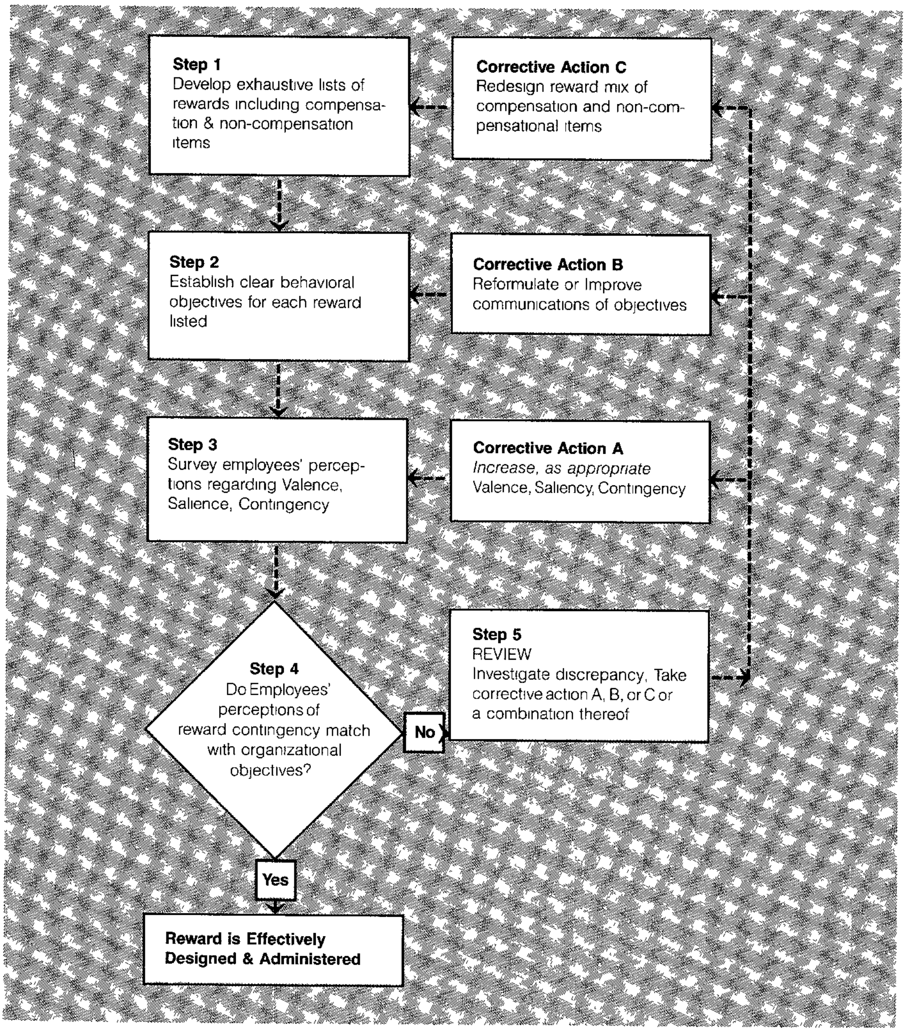
Step 1—*Develop a list of all the rewards the organization offers its employees*. The list should include rewards which involve monetary and in-kind payments (the compensation items) and those which do not involve any payments (the non-compensation items, such as responsibility, autonomy, and challenging assignments).

Step 2—*Decide on the purpose of* each *reward that is listed.* The purpose should be expressed in behavioral terms in order that realization of the purpose can be objectively assessed. Organizations frequently choose from among the following five major behavioral objectives:

- to attract individuals with the knowledge, ability, and talents demanded by specific organizational tasks;
- to retain valued, productive employees;
- to motivate regular attendance and a desired level of performance;
- to promote attitudes conducive to loyalty and commitment to the organization, high job involvement, and job satisfaction; and
- to stimulate employee growth which would enable him/her to accept more challenging positions.

Objectives such as these become the targeted behavior, which, the organization expects, will be elicited by the rewards it offers. It is quite possible that a reward is intended to elicit more than one behavior. If this is so, then the targeted behaviors for a reward must be prioritized to clearly reflect the intentions of the organization. For example, if the reward "Merit Pay" is intended to motivate the retention, performance, and growth of the employees, then management ought to set priorities for these behaviors. It may

Figure 2. Managerial Action Program To Assess & Design Reward System



accord priorities in terms of: high for performance, medium for growth, and low for retention. The priorities spell out the *type* and *extent* of the behavior, which management expects the reward to generate.

Management will also state, at this stage, its beliefs of the extent to which the rewards are perceived by the employees to be salient and valent. The decisions made in this step of the program will unequivocally state the purpose management has in mind for each reward. Stated differently, management makes a conscious, deliberate choice of what it wishes to achieve by each reward. Thus, the targets for returns on investment in the reward program are definitively established. It is against these targets that the reward system will be evaluated.

Step 3:—*Conduct a survey of the employees to find out how they perceive each reward.* The perceptions of the employees, as revealed by the survey, provide vital feedback to management on the effectiveness of each reward.

For example, suppose management had decided that the primary goal of the reward of "Promotion" was to motivate employees to superior job performance and was, therefore, made contingent on superior performance. Now, let us also suppose that the survey results indicate that employees perceive promotion to be highly valuable (because it would satisfy their strong esteem needs, and is perceived as equitable because it is based on a performance appraisal system acceptable to the employees); highly salient (because its existence and the conditions for awarding it were frequently communicated); and based on outstanding performance. The findings would then suggest that there was complete congruence between the objectives of the organization and the perceptions and expectations of the employees. Consequently, management could conclude that its design and administration of the reward of promotion will be effective in eliciting the behavior established for it.

On the other hand, suppose the survey results for this same reward indicated just the opposite—that is, promotion was not seen by the workers as valuable, salient, and contingent. In this situation, promotion would be a meaningless reward for the employees and would not produce the job behavior intended for it by management.

Step 4:—*Examine the findings of the survey and investigate those rewards where the perceptions of the employee relative to behavior-reward contingency, saliency, and valence are different from those established by the organization.* Such discrepancies or lack of congruence imply that the reward is not attaining the objective intended for it by management. In investigating this discrepancy, the survey results relative to whether the employees perceive this reward as valued and salient will provide clues as to the causes of the discrepancies. To illustrate this investigative procedure we again use the reward of "Promotion."

As in the following situations, the discrepancies revealed by the survey results could show that employees do not perceive promotion to be valuable, or salient, or contingent on performance.

- *Employees do not perceive promotion to be a valuable reward.* If the results show that the reward saliency is high, then there could be three reasons why employees do not value the reward of promotion. The first reason is that the employees lack the ability needed in the higher level job; if further investigation finds this to be the case, then training would be recommended. The second reason is that the employees do not have a desire for enhanced self-esteem and are perfectly happy with their present jobs; if this is the case, then counselling may help, followed by training. Finally, the employees may perceive that the reward is administered inequitably, and hence not valued. In this case, the obvious remedy would be to remove the inequities involved through corrective measures in the form of performance appraisals and peer-evaluations. If, however, the inequities in awarding promotions are not real but only perceived as such, then improved communication and development of a climate of trust should help.

- *Employees perceive promotion to be a valuable reward, but the reward saliency is low.* This situation can only be resolved by better and more frequent communication of the performance-based promotion policy.
- *Employees do not see promotion as contingent on superior performance.* It is absolutely vital to an effective reward system that the contingency link is clearly and unambiguously communicated both in words and, more importantly, in deeds. Failure by the employees to be aware of the appropriate contingent behavior for a specific reward can result in that reward influencing a different set of behaviors that could be counter-productive to the ones intended by management. For example, suppose the promotion policy makes promotion contingent on superior performance. But it is common knowledge that, in practice, only employees who socialize or get along well with their supervisors are promoted. The inevitable result will be the severance of the contingency link between superior performance and promotion. This is bad enough, but what is even more insidious is that the practice seems to say that the way to the top is through indulging in ingratiating or similar dysfunctional behavior.

It may well happen in the above situations that for reasons beyond management's control, it is not feasible to alter the employees' perceptions of a reward. It may also happen that due to legislation or contractual obligations, a particular reward cannot be made contingent on a behavior intended for it by management. In these circumstances, the only alternative for management would be to change the behavioral objective to one which reflects the reality of the situation.

Step 5—*The final, and most vital, step in the Action Program is review.* This consists of reformulating the reward package objectives or redesigning the reward system or both, based upon the diagnosis of the present reward system. At this stage, a great deal of learning takes place, as management reflects on the perceptions and expectations of its employees and their impact on organizational goals. It is also a time for important decisions—not merely to respond in a reactive mode, but more in a proactive stance which considers how best the reward system can be creatively employed to cope with the new challenges which constantly confront a dynamic organization. Therefore, although review is the final step, it is an on-going process which enables management to keep on top of the situation at all times.

As shown in Figure 2, implementation of these steps requires regular monitoring of reward attributes and responding to the feedback appropriately.

Illustration of the Action Program

Using the procedures of the action program, we tested the effectiveness of the compensation program of a group of senior mangers of a Canadian corporation.

Methodology—For each of the organization's 25 rewards (which included both compensation items such as pay and vacation and non-compensation items such as participation in decision making, sense of belonging, and challenge), the Compensation Specialist was asked to indicate:

- the targeted behavior under the categories of *Retention, Performance,* and *Growth*; and
- the priority accorded to the targeted behavior in terms of *High, Medium,* and *Low.* The priorities designate the type and extent of the behavior which management expects will be generated by the reward. If a particular behavior was not targeted for a reward, then the Compensation Spe-

Table 1. Summary of Reward Costs, Organizational Priority for Targeted Behaviors, and Employee Perceptions of Rewards (Part 1)

Reward Item	Cost of Reward as % of Total Compensation Costs	Organizational Priority for the Targeted Behaviors of Retention	Performance	Growth	Belief of Reward's Saliency	Valence
Company Pension	12 %	High	Medium	Low	High	High
Post-Retirement Ins.	0 11%	High	Medium	Low	High	High
Medicare	0 28%	High	Medium	Low	High	High
Term Life Insurance	0 72%	High	Medium	Low	High	High
Dental Plan	0 50%	High	Medium	Low	High	High
Long-Term Disability	1 %	High	Medium	Low	High	High
Blue Cross Plan	0 44%	High	Medium	Low	High	High
Health Insurance	3 %	High	Medium	Low	High	High
Pay	77 95%	Medium	High	Low	High	High
Salary Increases	4 %	Medium	High	Low	High	High
Job Security	—	High	Medium	Low	High	High
Personal Challenge	—	Low	High	Medium	High	High
Job Variety	—	Low	High	Medium	High	High
Recognition	—	Low	High	Medium	High	High
Achieving Organizational Goals	—	Medium	High	Low	High	High
Personal Growth & Development	—	Medium	High	Low	High	High
Pride in Work	—	High	Medium	Low	High	High
Sense of Belonging	—	High	Medium	Low	High	High
Participation in Decision Making	—	Low	Medium	High	High	High
Sick Leave	NA	High	Medium	Low	High	High
Vacation Pay	NA	High	Medium	Low	High	High
Free Rail Transportation	NA	Medium	High	Low	High	High
Educational Financial Aid	NA	Low	Medium	High	High	High

cialist responded with a "Not Applicable" for that behavior. The Compensation Specialist had the option of assigning equal priorities to the targeted behaviors if such indeed were management's expectations for the reward. The status of the compensation specialist's position in the management hierarchy of this organization qualified him to adequately reflect the organization's priorities for the compensation program. These are summarized in Table 1.

Discussions with the Compensation Specialist revealed that management believed that the employees were fully aware of the rewards and the contingencies involved in earning them. Management also believed that the employees placed a high value on the rewards offered by the organization. The reward system was, therefore, operated on the assumption that each reward was perceived by the employees to be highly salient and valuable. Hence, the values assigned to Saliency and Valence by management were high in both cases.

Table 1. Summary of Reward Costs, Organizational Priority for Targeted Behaviors, and Employee Perceptions of Rewards (Part 2)

Employees' Perceptions					Reward Item
	Reward Contingent on		Reward's		
Retention	Performance	Growth	Saliency	Valence	
High	Low	Low	Low	Low	Company Pension
High	Low	Low	Low	Low	Post-Retirement Ins.
Medium	Low	Low	Low	Medium	Medicare
Medium	Low	Low	Low	Medium	Term Life Insurance
Medium	Low	Low	Low	Medium	Dental Plan
Low	Low	Low	Low	Medium	Long-Term Disability
Medium	Low	Low	Low	Medium	Blue Cross Plan
Medium	Low	Low	Low	Medium	Health Insurance
Medium	High	High	High	High	Pay
Low	High	High	Low	Medium	Salary Increases
Medium	Medium	Medium	Low	Medium	Job Security
Low	High	High	High	High	Personal Challenge
Low	High	High	Low	High	Job Variety
Low	High	High	Medium	High	Recognition
Medium	High	High	Medium	Medium	Achieving Organizational Goals
Medium	High	High	Medium	Medium	Personal Growth & Development
Medium	High	High	Low	Medium	Pride in Work
Medium	Medium	High	Medium	Medium	Sense of Belonging
Low	High	High	High	Medium	Participation in Decision Making
High	Low	Low	Low	Medium	Sick Leave
High	Low	Low	Low	Medium	Vacation Pay
Low	Low	Low	Low	Low	Free Rail Transportation
Low	Low	Low	Low	Low	Educational Financial Aid

The employees were surveyed to obtain, for each of the 25 rewards, their perceptions as to whether each reward was contingent on Retention, Performance, and Growth; was salient; and was valued. The median of employee perceptions was categorized as high, medium, or low, for each reward item. The cost of each monetary and in-kind reward item was obtained as a percentage of the total cost of all such rewards.

Analysis—To compare the perceptions of the Compensation Specialist with those of the employees for each reward item, it was necessary to reduce them to a common unit of measurement. We did this by calculating two sets of three scores representing the reward's Saliency, Valence, and Contingency. One set of scores was derived from the responses of the Compensation Specialist, which expresses the organization's expectations and beliefs about the reward, and the other set of scores was derived from employee perceptions. For Saliency and Valence scores, the responses of the Compensation Specialist and the employees, categorized as high, medium, and low, were assigned factor values of 1.00, 0.70, and 0.30 respectively.

For reward Contingency, we calculated the Targeted Reward Contingency Value (TRCV), and the Perceived Reward Contingency Value (PRCV). The TRCV combines the organizational priorities for the targeted behaviors of a reward. The PRCV combines the employees perceptions of the contingent behaviors for a reward. For a reward item which involves a direct money or in-kind payment, the Targeted and Perceived Reward-Contingency Values have been weighted to reflect the appropriate costs of the reward.

Table 2 shows the two sets (organization's and employees') of scores for each reward. The product of the organization's set of scores denote the *intended effectiveness* of each reward, whereas the product of the employees' set of scores denotes the *actual effectiveness* likely to result from the employee perceptions of each reward.

Implications—The theoretical foundation for this diagnostic tool postulated that the targeted set of behaviors will be realized only to the extent that each reward item is perceived by the employees as valuable, salient, and contingent on the targeted behaviors. Therefore, a comparison of the two sets of scores (Table 2) helps identify the relative motivational effectiveness of each reward, highlights the specific reasons why a given reward has reduced effectiveness, and, as a consequence, provides clues for appropriate intervention to increase the effectiveness of the reward.

Rewards Involving Money and In-Kind Payments—In this category of rewards, we focus our discussion on "Pension" and "Pay." For the reward of "Pension," we see a glaring disparity between the intended effectiveness (24) and actual effectiveness (1.80). This indicates that the organization is not achieving the targeted rate of returns on its investment in the reward of

Table 2: A Comparison of Intended and Actual Effectiveness of Rewards

Reward Item	Organizational Score				Employees' Score				Action (Refer Discussion Re: Implications of the Results)
	Targeted Reward Contingency Value (TRCV) ×	Saliency (S) ×	Valence (V) =	Intended Effectiveness	Perceived Reward Contingency Value (PRCV) ×	Saliency (S) ×	Valence (V) =	Actual Effectiveness	
Company Pension	24 00	1	1	24.00	20 00	0 3	0.3	1 80	Modify
Post-Retirement Ins.	0 22	1	1	0 22	0 18	0.3	0 3	0 02	Modify
Medicare	0 56	1	1	0.56	0.36	0 3	0 7	0 08	Modify
Term Life Insurance	1 44	1	1	1 44	0 94	0 3	0.7	0 20	Modify
Dental Plan	1 00	1	1	1 00	0 65	0.3	0 7	0.14	Modify
Long-Term Disability	2 00	1	1	2.00	0 90	0 3	0 7	0.19	Modify
Blue Cross Plan	0.88	1	1	0 88	0.57	0 3	0.7	0 12	Modify
Health Insurance	6.00	1	1	6 00	3 90	0 3	0 7	0 82	Modify
Pay	155 90	1	1	155 90	210 00	1	1	210 00	Retain
Salary Increases	8 00	1	1	8 00	9 20	0 3	0 7	1 93	Modify
Job Security	2.00	1	1	2 00	2 10	0 3	0 7	0 44	Modify
Personal Challenge	2 00	1	1	2.00	2.30	1	1	2 30	Retain
Job Variety	2 00	1	1	2 00	2.30	0 3	1	0 69	Modify
Recognition	2 00	1	1	2 00	2.30	0 7	1	1.61	Modify
Achieving Organizational Goals	2 00	1	1	2.00	2 70	0 7	0 7	1.32	Modify
Personal Growth & Development	2.00	1	1	2 00	2 70	0 7	1	1 89	Modify
Pride in Work	2 00	1	1	2 00	2 70	0 3	0 7	0.57	Modify
Sense of Belonging	2.00	1	1	2.00	2 40	0 7	0 7	1.18	Modify
Participation in Decision Making	2.00	1	1	2 00	2 30	1	1	2 30	Retain
Sick Leave	2.00	1	1	2.00	1 60	0.3	0 7	0 34	Modify
Vacation Pay	2 00	1	1	2 00	1 60	0.3	0 7	0.34	Modify
Free Rail Transporation	2 00	1	1	2 00	0 90	0 3	0 3	0 08	Modify
Educational Financial Aid	2 00	1	1	2 00	0 90	0.3	0 3	0 08	Modify

Pension. The TRCV is 24 whereas the PRCV is 20. This suggests that the employees perceive the reward as being contingent on behaviors to an extent less than that anticipated by the organization.

A closer examination of Table 1 enables us to trace this disparity in reward contingency to the targeted behavior of job Performance. The priority accorded to this behavior by the organization was medium, but the employee perceptions that this reward was contingent-on-performance were low. The employees saw a very weak link between the deferred pension benefits and present job performance. If the organization still intends that the reward of Pension should have a moderate effect on performance, then it should devise some form of *performance-based deferred compensation* which could be seen by the employees as eventually making a significant impact on the pension payout. However, if such a method is not possible or desirable, then the organization must lower the priority accorded to this targeted behavior.

From Table 2 we see that this reward is not very salient to the employees, nor is it highly valued by them. Therefore, the organization ought to take steps to raise the saliency and valence of Pension. As discussed earlier one way to increase a reward's salience is to communicate to the employees periodically the salient features of the reward program. In the case of Pension, information on how improved performance can lead to a *faster accumulation* in the fund resulting eventually in a much *higher payout* will increase the valence of Pension.

For the reward of "Pay," on the other hand, we see that the intended effectiveness (156) is considerably lower than the actual effectiveness (210). This indicates that the organization has exceeded the targeted rates of return on its investment in this reward. Since the employees perceive Pay to be both highly salient and valued, the primary reasons for the motivational effectiveness of Pay can be traced to the reward contingency. The TRCV is 156 whereas the PRCV is 210. This suggests that the employees perceive the reward as being contingent on the targeted behaviors to an extent much greater than that anticipated by the organization. From Table 1 we see that the employees perceive Pay to be not only highly contingent on Retention and on Performance (exactly as targeted by the organization), but also as highly contingent on Growth, which was not the priority accorded to it by the organization; the organization had accorded Growth a low priority. Since Pay functions as a powerful motivating influence to promote the behaviors of Retention, Performance, and Growth, this reward and the manner in which it is administered should be retained.

Rewards Not Involving Money and In-Kind Payments—For this category of rewards, we focus our discussion on the rewards of "Participation in Decision Making" and "Achieving Organizational Goals."

The motivating effect of Participation in Decision Making has exceeded the organization's expectations as can be seen from the actual effectiveness value of 2.3 as against the intended effectiveness value of 2.0. Since both the organization and the employees perceive this reward to be highly salient and valued, the primary reason for the added motivational effectiveness can be traced to the reward contingency. The TRCV is 2 as against the PRCV of 2.3, which suggests that the employees perceive this reward to be not only contingent on the targeted behaviors but also to an extent greater than that anticipated by the organization. From Table 1, we see that the employees perceive this reward's contingency to be high on Growth and low on Retention, exactly as targeted by the organization. However, the employees perceive the reward to be also highly contingent on job performance, whereas the organization had accorded Performance a medium priority. Participation in Decision Making is an effective reward in generating the behaviors of Retention, Performance, and Growth in the right direction. It should, therefore, be retained.

For the reward Achieving Organizational Goals, we see a disparity between the intended effectiveness (2.0) and the actual effectiveness (1.3), which indicates that the motivational impact of this reward is less than expected by the organization. The reasons for this disparity is not in the reward contingency scores—the PRCV of 2.3 as against the TRCV of 2.0 shows that employees perceive this reward to be contingent on the targeted behaviors to an extent greater than that anticipated by the organization. Rather, the disparity is in the employees' perceptions of saliency and valence, which are medium in contrast to the organizational expectations that the reward is highly salient and valuable to the employees. Therefore, the organization should initiate measures to increase both the saliency and valence through the effective communication of the potential benefits of this reward.

Rewards that do not involve money or in-kind payments are generally received by the employees as they perform the tasks of their job. In such task-related rewards, the reward contingency is automatically perceived as the tasks are performed. Hence, the Perceived Reward Contingency Value of these rewards will generally be high. But, the employee perceptions of Saliency and Valence of these rewards may not be high unless the organization takes specific steps to bring them about. Therefore, any interventions in task-related rewards call for actions to increase the employee perceptions of the saliency and valence of these rewards.[9]

Conclusion

An organization's investment in its employee compensation program is always at a level which demands innovative approaches to ensure a reasonably fair return. Traditional approaches to reward management, based upon the "content" theories of motivation, are unsatisfactory because their conceptual framework does not lend itself to analytical investigations of whether the organization is maximizing the returns on its investment in the reward program. However, an approach based upon the expectancy theory of motivation provides a better handle on reward management. The Action Program based on this approach transforms the manager's role from that of a passive, helpless observer of compensation expenditures to an active, confident manager who makes deliberate, conscious decisions on behavioral objectives for each reward item. And, by using the Action Program the manager can evaluate the effectiveness of the reward system by subjecting it to the same rigorous analysis that is routinely employed on other operating costs.

The program also serves as a diagnostic tool. As the manager probes a reward item whose targeted objective is not being realized, the data provided by the analysis will reveal specific reasons why the objective is not being realized. The reasons then become the basis for the appropriate remedial interventions. The weighting procedure of each reward by its relative cost is a useful mechanism to help managers focus their efforts on those rewards for which the cost-benefit consideration is the most significant.

The Action Program can be implemented with relatively little effort and expense. However, its successful implementation presupposes three essential conditions. First, management must accept its responsibility to obtain a fair return on its compensation expenditures. Second, management must be committed to designing and administering the reward system in a manner which ensures that the employees clearly perceive the rewards to be valuable, salient, and contingent on the targeted behaviors. Third, management must be willing to review the reward system continuously and to modify it, as necessary, in the light of the organizational goals and employee perceptions relative to valence, saliency, and contingency.

Most organizations today believe, and very rightly, that the employee compensation program is an investment in its most valuable resource. Implementing the Action Program will bring the organization a step closer to realizing the tremendous potential of that investment.

References

1. F. Herzberg, *Work and the Nature of Man* (Cleveland, OH: World Publishing Co., 1966); Douglas McGregor, *Leadership and Motivation* (Cambridge, MA: The M.I.T. Press, 1966).
2. B.M. Staw, "Organizational Behavior: A Review and Reformulation of the Field's Outcome Variables," *Annual Review of Psychology,* 35 (1984): 627-666.
3. M. Fein, *Approaches to Motivation* (NJ: Hillsdale, 1970).
4. L. Dyer and D.F. Parker, "Classifying Outcomes in Work Motivation Research: An Examination of the Intrinsic-Extrinsic Dichotomy," *Journal of Applied Psychology,* 60 (1976): 455-458; R.N. Kanungo and J. Hartwick, "An Alternative to the Intrinsic-Extrinsic Dichotomoy of Work Rewards," *Journal of Management,* 13 (1987): 751-756; F. Herzberg, G. Mausner, and B.B. Snyderman, *The Motivation to Work* (New York, NY: Wiley, 1959); B.M. Shaw, *Intrinsic and Extrinsic Motivation* (Morristown, NJ: General Learning Press, 1976); E.L. Deci, "The Effects of Contingent and Noncontingent Rewards and Controls on Intrinsic Motivation," *Organizational Behavior and Human Performance,* 8 (1972): 217-229; R.A. Guzzo, "Types of Rewards, Cognitions, and Work Motivation," *Academy of Management Review,* 4 (1979); 75-86.
5. N. King, "Clarification and Evaluation of the Two-Factor Theory of Job Satisfaction," *Psychological Bulletin,* 74 (1970): 18-31; J.P. Campbell, M.D. Dunnette, E.E. Lawler, and K.E. Weick, *Managerial Behavior, Performance, and Effectiveness* (New York, NY: McGraw-Hill, 1970).
6. M. Fein, "Job Enrichment: A Reevaluation," *Sloan Management Review,* 15/2 (1974): 69-88; F. Luthans and W.E. Reif, "Job Enrichment: Long on Theory, Short on Practice," *Organizational Dynamics,* 3 (1973): 30-43; W.E. Reif and L. Luthans, "Does Job En-

richment Really Pay Off?" *California Management Review,* 15/1 (1972): 30-36; W.W. Winpisinger, "Job Satisfaction: A Union Response," *AFL-CIO American Federalist,* 80 (1973): 8-10.

7. Kanungo and Harwick, op. cit.
8. Ibid., p. 765.
9. All the other rewards in this category can be similarly investigated and action plans initiated to modify the reward—its design and/or administration—suitably. A diagnostic instrument to evaluation compensation elements and a computer software to analyze the data on compensation evaluation programs have been developed by the authors and may be obtained from them.