HOW IMPORTANT IS MONEY AS AN INCENTIVE TO MOTIVATE EMPLOYEES IN HIGHER EDUCATION SECTOR? LITERATURE REVIEW

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Abstract. This paper studies the influence money has on motivating the work force which takes part on both dull and creative tasks. Through a review of the most important findings on the subject, economists’ and psychologists’ theories are presented and discussed. The paper shows how, notwithstanding their high attention received from the business environment in the past, the principal-agent and the price effect theories are being replaced lately with the self determination, psychological contract and reinforcement theories in the configuration process of work incentives. Specific advantages and disadvantages of the use of financial motivators for increasing work performance are further examined and a clear example of how money and more specifically their perception affects the employees’ motivation is given. The results of the study conclude that money has an important role as a hygienic factor in the work environment but they do not represent a panacea for inducing high work motivation and are not enough for assuring the overall success, whether that we are talking about repetitive or creative activities. The late ones are exemplified by the tasks specific to the higher education sector.

Keywords: work force motivation, principal agent theory, psychological contract, higher education sector
JEL Classification: M12, M52, M54

1. Introduction

For a long period of time after the industrial revolution work motivation has been seen as an interaction between “those who get paid to surrender their will” and “those who pay others to do their will” (Nelson, 2006). It was not until the last half of the twentieth century, when the cognitive psychologists started to counter the effectiveness of financial incentives over employees’ motivation. New concepts like internal motivation were introduced into the motivational study area and improved methods for increasing work performance were implemented inside the organizations. Despite these results of work motivation research, many employers are still using the traditional approaches. This is mainly because of their reluctance to change and also for the reason that, even if they are more costly, their employment is not so sophisticated.

This paper is constructed around the idea that money is an extrinsic motivator for employees, thus also for the employees from the higher education sector. Its structure is formed from an analysis of the literature on the subject, divided into five main sections, followed by conclusions. The first section defines the concept of work motivation and highlights the terms of intrinsic and extrinsic motivation. The second section presents the economists’ theories on the subject, while the third one examines the psychologists’ postulates regarding this problem. In the fourth section are stated advantages versus disadvantages of financial incentives usage, with a distinction between employees involved in dull tasks and the ones which take part to creative, different activities, as the ones from higher education sector. The final section includes a clear example of how money influences the work force of a company and is followed by several general conclusions.

2. Analysis of specific literature

2.1 Definition of work motivation

In the era of maximizing profits, employers pay an increasing attention to cost reducing and to improving efficiency. Even though the fast development of the technology has facilitated employees’ work duties, they are still responsible for obtaining that competitive advantage which can place their company on top. As a former CEO of Chrysler, in the person of Robert Eaton, posited “The only way we can beat the competition is with people. That's the only thing anybody has. Your culture and how you motivate and empower and educate your people is what makes the difference” (Sherman, 1993). Work motivation is responsible for determining the level, the length of time and the intensity of an employee’s involvement (Pinder, cited in Beardwell & Claydon, 2007). Given the positive correlation
between a worker’s motivation and an organization’s productivity, one of the prior tasks of the management is to find out what motivates the employees and how this motivation can be achieved.

The scientific research has shown that motivation can have two main types of determinants, whether intrinsic or extrinsic. Intrinsic motivation can be defined as one’s internal impulse to achieve something, only because the aim itself and the process of obtaining it is seen as interesting and as a satisfaction giver. Extrinsic motivation on the other hand is an external stimulus given to someone to attain something and in this case the satisfaction itself is not related with the process of obtaining the goal, but with the stimulus offered for this purpose (Deci & Gagne, 2005).

### 2.2. Economic perspectives about work motivation

At the end of the nineteenth century and the beginning of the twentieth century, F.W. Taylor wrote a series of papers, introducing the idea of scientific management and stressing the importance of a well defined job. Even though he made a considerable step toward work management development, his approach to work motivation was solely based on extrinsic motivators. Generally, the economists and the economic theory see the extrinsic motivation to be determining for behavior (Frey, 1997). An important example of this view is the principal-agent theory, which states that the firm is observed as a “nexus of (agency) contracts” (Jensen & Meckling, 1976 in Aoki, 1990) and says that the principal should monitor and control the agent through negative sanctions “as well as by rewards such as financial incentives” (Frey, 1997). Related to this theory is also the concept of opportunist, according to whom, beyond being open toward shirking, the workers are even minded to make an effort for reducing work (Williamson, 1975 as cited in Frey, 1997). Moreover, Adam Smith (Hirschman, 1997 cited in Frey, 1997) stated that “monetary rewards do not affect intrinsic motivation”. Another famous economist, Ronald Coase, suggested in a metaphoric way that there is no point in debating if an increased correction will diminish a crime, the question would just be “by how much” (Coase, 1978), underlying though the importance of the price effect for worker’s motivation.

On this basis it can be inferred that the economists have attached to extrinsic motivators in general and to the money in special, the main role for motivating the work force. This attitude relays on the idea that money is perfect interchangeable goods, without taking into notice the limits of this property. It is very true that one of the most appreciated qualities of money and one of the reasons for which it is used on such a high scale is that it can be changed for almost any goods and services the humans need to have a comfortable, secure life. The problem occurs when a clear distinction cannot be made between the saying that “There is a price for everything” (Frey, 1997) and the fact that there may only be a value, not necessarily a price for everything (Bercea, 2006). In other words there are things that money cannot buy and one of these can be sometimes work motivation.

### 2.3. Psychological perspectives about work motivation

Along with the psychological research development in the field of motivation, and especially in the work motivation, other ideas besides the economic theories started to emerge. One of the best known authors to address the motivational area studies was the American psychologist A. Maslow who has identified the five levels hierarchy of human needs (Hersey, Blanchard & Johnson, 1996). His work was then enriched by other researchers like F. Herzberg, who developed the motivator-hygiene theory, where he posited the main factors contributing to work satisfaction or dissatisfaction. According to his studies there are “two factors central to our understanding and motivation” (Beardwell & Claydon, 2007): motivators (e.g. recognition, skills development, responsibility, performance) whom achievement produces satisfaction and hygiene factors (e.g. working conditions, wages, management) which, if met with the employees needs, could only prevent them from becoming dissatisfied. This theory highlights that money is a hygienic factor, belonging to the job environment (Herzberg, 1987), and thus, the use of money as an incentive can just determine the employees not to be dissatisfied, but it is not enough for motivating them.

Relaying on Vroom’s expectancy theory, Lawler and Porter have proposed a model of intrinsic and extrinsic work motivation, assuming that this two types of incentives are additive and that used together can produce total job satisfaction (Deci & Gagne, 2005). A study by Deci regarding the additive hypothesis of intrinsic and extrinsic motivators, made in 1971, suggests that “tangible extrinsic rewards undermine intrinsic motivation whereas verbal rewards enhance it” (Deci & Gagne, 2005), underlying that rather than being additive, the two types of incentives can interfere both positively and negatively (Deci & Gagne, 2005). According to Deci’s cognitive evaluation theory “intrinsic motivation is substituted by an external intervention which is perceived as a restriction to act autonomously” (Neely, 2002). A supportive idea of this theory is the discounting principle, introduced by Kelley in 1971, who says that “when are multiple plausible causes for an event, the role of any one of the causes will be discounted” (Deci, 1975). For example researchers like McGraw and McCullers found that monetary incentives is reducing the cognitive flexibility in problem solving and others like Erez, Gopher and Arzi highlighted that monetary rewards lowers the performance on a complex task with difficult objectives (Deci & Gagne, 2005). Other studies in the same area shown that offering monetary rewards to subjects for answering IQ test questions is seriously decreasing their performance, unless the incentives are raised to a high enough level (Gneezy & Rustichini, 2000).
Even if the cognitive evaluation theory managed to explain the effect of extrinsic motivators on intrinsic motivation and was appreciated by the organizational literature, some of the critiques brought to it led to the development of self determination theory, which integrated the cognitive evaluation theory and was much more comprehensive. Differentiating itself from other work motivation theories, SDT is underlying the importance of the basic psychological needs for competence, relatedness and autonomy in facilitating the internalization and the integration of extrinsic motivation (Deci & Gagne, 2005) and is focusing on the relative influence of autonomous versus controlled motivation, rather on the total amount of motivation (Deci & Gagne, 2005). The theory states the existence of a self determination continuum, which goes from amotivation (the lack of self determination) through the four types of extrinsic motivation (external, introjected, identified and integrated) toward the intrinsic (autonomous) motivation (Deci & Gagne, 2005).

Studies taken by Ilardi et al. and Shirom and colleagues have shown that overall autonomous motivation is preferable in organizations because, beside the clear advantage on performance related with complex and creative tasks, even in the case of mundane jobs the satisfaction and the well-being are higher than the ones obtained by controlled motivation. These will lead to higher attendance and lower turnover of the employees. Autonomous motivation is posited as superior to intrinsic motivation because it also includes internalized extrinsic motivation with which uninteresting but important tasks can be more efficiently fulfilled (Deci & Gagne, 2005). Providing an autonomous rather than controlled work environment will lead to the internalization of extrinsic motivation and further to effective performance and job satisfaction (Deci & Gagne, 2005). Thus, to ensure a high work motivation by the use of financial incentives, managers have to pay attention on how they design them and more important under which circumstances they present them to the employees. The incentive packages should be first equitable (Adams, 1963 quoted in Deci & Gagne, 2005), not encouraging competition among the members of the teams, not pressuring them to achieve unattainable goals and must be offered by autonomy-supportive managers (Deci & Gagne, 2005).

One of the most appreciate definitions of job satisfaction was given by Locke in 1976, who qualified it as “a pleasurable or positive emotional state resulting from the appraisal of one’s job or job experience” (Locke, 2000). Thus job satisfaction leads to high work morale. Analyzing the interaction between intrinsic and extrinsic motivation, B. Frey has highlighted the term of crowding effect, which can be both positive and negative. Positive, it is called crowding in effect and is responsible for increasing the intrinsic motivation under external motivators’ action and negative it is called crowding out effect and is responsible for lowering the intrinsic motivation under external motivators’ action (Frey, 1997). For the process of crowding out work morale to take place a sine qua non condition is that there has to be high work morale. Though this high work morale can be influenced by many factors, three of them are of most importance because they can be controlled by particularly measures (Frey, 1997):

- The level of interest that a certain work task carries – the assessment of the jobs as interesting or boring fluctuates very much among people. Even so, is widely accepted that manual employees tend to have low work morale and that they are generally working because they need the monetary income to survive (Goldthorp et al., 1968 in Frey, 1997). This view is very much related with Herzberg’s motivator-hygiene theory, emphasizing that the financial reward received can only prevent them from being dissatisfied and cannot offer them high intrinsic motivation. In the same time, activities with internalized standards of excellence, such as liberal or academic professions, are known to incorporate a higher level of work morale (Frey, 1997). The situation can be easily explained with the help of Deci’s self determination continuum, according to which the level of motivation above mentioned is at least equal with the introjected form of extrinsic motivation.
- The type of relationship that exists between the principal and the agent – “The more personal the relationship between principal and agent, the more important is intrinsic motivation” (Frey, 1997).
- The degree to which an agent is allowed to participate in the decisions taken by the principal (Frey, 1997) – a supporting example in this case are the Japanese firms, which by tradition, are relaying on co-determination and collaboration among workers and where the work morale and the commitment are higher than in the American hierarchical decision making system (Aoki, 1990).

Another condition that has to be fulfilled for the crowding out process to take place is the existence of an external action that must be perceived as controlling by the employee. There are two main causes that determine how external interventions are regarded by the employees (Frey, 1997)

- The level at which a reward is contingent on the performance desired by the principal – the higher this level is, more actively the work morale is crowded out. The monetization of rewards inclines to accent performance contingency because the employees often draw a relation between the size of their income and their performance. A solution to this situation is to offer non-monetary gifts instead (Frey, 1997).
- The degree of differentiation made by the principal between agents – “The more uniform the external intervention, the more negatively are those employees affected who have above average work morale” (Frey, 1997). This problem often occurs in the case of large companies because of the considerable number of employees (Frey, 1997).
The influence of extrinsic rewards on intrinsic motivation, as described by the cognitive evaluation theory, has conditioned the spillover effect (Frey, 1997). According to this concept, external motivators reduce the agent’s motivation to undertake similar tasks in the future (Benabou & Tirole, 2003), unless they will be better rewarded. Hence, the use of financial incentives for employees with high work morale can determine, if perceived as controlling, both the crowding out effect and the spillover effect, resulting in an increasing cost of labor and decreasing efficiency. As an example, a study conducted by Ireland and Koch in 1973 (as cited in Frey, 1997) showed that an increase in the price offered for blood donation at a low price level lowered the quantity supplied and incremented it only when the price was further raised. Considering that intrinsic motivation is still present, the crowding out effect will prevail, but once it is completely displaced, the standard reaction (the price effect) will take over (Frey, 1997). This statement can be seen as a reconciliation attempt between the economists’ motivational theories and the cognitive psychologists’ point of view on motivation. Even though it has been demonstrated that the loss of intrinsic motivation can be compensated by monetary rewards, it can only be done at a high cost level and with a negative influence on the overall allocation of the resources (Frey, 1997).

When considering the use of rewards in general and especially of monetary incentives, employers have to pay attention to “the hidden cost of reward” (Lepper et al. in Benabou & Tirole, 2003). Money can be used in some given situations with high efficiency in solving short term problems, but overall they tend to undermine the long term interest of the organization (Benabou & Tirole, 2003). An appropriate and recent example for the short run positive effect of money used as incentive in the detriment of long run concern of the company is the case of the high bonuses paid to the chief executive officers of some famous banks, which were still confronted with some serious problems during the financial crisis. Because of the exorbitant levels of income received, these directors undervalued the risks involved in their daily business operations and were only interested on increasing the profits. By doing so, they believed it will assure them the same level of income in the future. Instead of this, the risk materialized in losses and the entire business had to face critical measures for surviving. The hidden cost of reward is strongly connected with three psychological processes: impaired self-determination, impaired self-esteem and impaired expression possibility, which can determine a shift in the locus of control from the inside to the outside of the involved character (Frey, 1997). Thus, if it is incorrect used, the reward can be harmful for the worker receiving it and indirectly for the work productivity.

One of the theoretical backgrounds of the crowding out effect is represented by the psychological contract theory (Schein, 1965; Rousseau and McLean Parks, 1993 as cited in Neely, 2002). The psychological contract is an informal, unwritten and often not discussed agreement between the employer and the employee, through which important aspects of the work relationship are established. The mutuality of this contract assures both sides of an honest and fair commitment (Beardwell & Claydon, 2007). The psychological contract has two main aspects:
- The transactional one – which regards the extrinsic motivational factors such as rewards and payment
- The relational one – which is described as a connection based on trust and respect, assuring loyalty, engagement from the employee and job security, development and training from the employer (Beardwell & Claydon, 2007)

As suggested by Sparrow, the psychological contract may not always determine work satisfaction, but its infringement will lead to dissatisfaction of the employee which will turn into lower performance (Beardwell & Claydon, 2007). An essential outcome of this theory is the inference that monetary incentives are not enough for creating, maintaining and developing an efficient work relationship. By paying the worker, the employer will secure the transactional aspect of the contract, but for ensuring the relational aspect something more is needed. This can be obtain in time, through the fulfillment of its obligations, via the creation of a supportive work environment and most important as a consequence of helping the employee when encountering problems. Conversely, using an external motivator which is perceived as controlling by the employee, the relational aspect of the contract can be impaired and as a result, the intrinsic motivation will be crowded out, altering in a negative manner the level of productivity.

Over the years, another important approach in studying the relevance of money used as motivator was the behavioral perspective, from which the reinforcement theory is a suitable example. The reinforcement theory has its roots back in Pavlov’s conditional experiments and was further developed later by the American psychologist B.F. Skinner and by the Canadian psychologist Albert Bandura. The main idea of the theory is that “human behavior is a function of conditional consequences” (Luthans & Stajkovic, 1999) and thus it can be seen both as a learning and motivational theory. To relate this postulate with the monetary incentives effectiveness issue a considerable premise has to be recognized. The monetary reward, as stated earlier in the paper, is not always seen as reinforcement by the worker, whilst reinforcement is invariably perceived as a reward (Luthans & Stajkovic, 1999). In the practical day to day business life, the payment is made to the employee usually two times on a month or even rarely, as is the case for bonuses and annual rewards. Because of this factual obstacle, the worker has to efficiently fulfill his tasks in the job every day while the recognition comes at the most once at two weeks. Under these conditions the prompt use of performance feedback, attention and social approval from the employer will outran by far the efficiency of financial incentives for motivating the employees.
A meta-analysis study regarding the organizational behavior modification, conducted in the American economy over a period of 20 years has shown that “pay is not the only, nor necessarily the best, reinforcement for performance improvement” (Luthans & Stajkovic, 1999) and that if used together with nonmonetary incentives may in fact lower the overall effect on work performance level. This result is the same with the crowding out effect stated by B. Frey, about which we have discussed earlier. Another clear example of the fact that although it is possible to have the desired results by using rewards, you will for sure obtain the desired outcomes by using reinforcements is the case of some banking tellers. In order to increase their efficiency and to positive affect the customers’ satisfaction, their supervisors tried first to employ financial rewards, but the employees have apprehended them as simple gifts not related with the aimed behaviors. On the other hand, when attention, appreciation and evaluation were used in the same scope, the results were highly encouraging (Luthans & Stajkovic, 1999).

2.4. Advantages and disadvantages of using money as work motivator

The research made on the importance of monetary incentives for work motivation has shown that in order to be a successful technique, the employer has to take into consideration the conditions under which money is offered for increasing the overall performance: “Thus, it is not money itself that “drives out” caring feelings, but rather the social meaning given to the particular movement of money… the beating heart of a healthy economy circulates money without “crowding out” people’s desire to be caring and responsible” (Nelson, 2006). Thus, the use of financial motivators can have important advantages:

- Employees are easier to be guided and are more obedient
- Crowding out intrinsic motivation is more likely to prevent undesired behaviors – in this situation is assumed that money is perceived as controlling by the worker
- Extrinsic rewards can be equally distributed and taxed
- The use of money as incentive can maximize social welfare in the sense of a Pareto optimality (Frey, 1997)
- External rewards can increase performance on low level workers with dull, repetitive tasks, but this is done with some limits – when the workers achieve a revenue higher than the subsistence level, money will not be enough anymore for motivating them (Frey, 1997),

But also decisive disadvantages:

- Life and work satisfaction of the agents can be lower than for those who work under internal motivation
- The employees learn slower when are working under extrinsic motivation
- The work performance is lower, especially in the case of creative jobs
- The employees are less disciplined than ones working under intrinsic motivation and for this reason the monitoring cost is higher in this case (Frey, 1997)
- Multiple task problem, as a subject of incomplete contracts, cannot be solved by the use of financial incentives – there are situations when for accomplishing a task the employee has to fulfill also unrewarded aspects of that job and in this situation the monetary reward influence him to disregard those and to only involve in the paid ones, threatening the overall results of the organization (Neely, 2002)
- External incentives cannot determine and assure “the transfer of tacit knowledge” (Neely, 2002) between employees and because of this the global performance of the firm is lowered

2.5. A clear example of how money influences the work motivation and the general work performance

Marshall Industries Incorporated, a large publicly held distributor of industrial electronic components and production supplies from El Monte, California, was facing some serious problems in 1992, the year when its new chief executive officer, Robert Rodin took the lead in the company. Doing businesses in a strong, competitive environment, the enterprise needed a combative sales force in order to achieve higher results. At the time, the company registered an annual income of 575 millions of dollars (Wisnia, 1997), and was motivating its sales employees through individual financial incentives. Because of this method, even if the results on sales were satisfactory, the overall success of the firm was affected, threatening the future of the business. The main issues determined by the firm’s motivation policy were the exaggeration of real results – the goods were being delivered earlier for fulfilling the quotas, the costs were transferred from one quarter to the next to not overrun the budget, there was a continuous competition among the company’s departments and also many misunderstandings regarding how to allocate the costs of different investments over different departments. The decision that was about to solve the internal conflicts of the organization and to restore trust and team spirit among its employees was considered radical in 1992 and it is still considered so by some even in our days. Robert Rodin cut all the individual financial incentives of his employees and established a universal fix base pay. Besides, depending on the enterprise’s annual results the agents were also given a fix percentage of their salary from the company’s profit. As a result, in 1997 the sales were 1.2 billions of dollars and the productivity per person
was almost three times higher, the departments inside the firm were collaborating again and the results of the business were no longer altered (Colvin, 1998).

The situation of Marshall Industries Inc. before the radical change in motivation policy from 1992 is a classical example of economists’ motivation theories approach and more specifically of the principal-agent theory. The main focus was on the price effect and the firm’s management was disregarding the hidden costs of its rewarding system. Because of the extrinsic motivator’s repercussions, the intrinsic motivation of the employees was crowded out and the work satisfaction and performance was affected. By changing the motivation strategy, the new CEO managed to rewrite the broken, existent, psychological contract between the company and its employees and offered a much more autonomous and supportive environment for work. In concordance with the self determination theory, Robert Rodin understood the extreme importance of the way in which the rewards are given and changed the focus from money to autonomous motivation, increasing its company’s performances and results.

3. Conclusions

“Labor ipse voluptas”, an old roman saying meaning that work in itself conveys pleasure seems to be rediscovered as time passes by. Throughout the paper it could be seen that the organizational approach on work motivation has radically changed in the last century, from focusing solely on monetary incentives to a whole new perspective where the person and not the job represents the main point of interest.

In the case of low level workers the monetary incentives can be sufficient to increase work performance under specific conditions, for example when they are needed or strong valued, they have palpable effects and a clear connection is made between them and performance (Furnham, 2005). On the other hand, for creative, intellectual jobs, as the ones which characterize higher education sector, money is not enough to motivate the employees. Deci’s self determination theory explained the successful combination of external and internal motivators for creating a satisfactory and autonomous work environment and thus supporting the crowding in effect. He has highlighted the same concept called by Amabile as “motivational synergy” (Locke, 2000). Understanding the importance of intrinsically motivated tasks, the employers can reduce their costs and ensure the optimization of the resources distribution process. Though money is important as a hygienic factor, work performance will only be enhanced when the employees will find it interesting, captivating, inspiring and stimulating. And in order for this to happen, managers will have to reassess their motivational strategies, to learn how to offer money to their employees and to shift the central focus from financial to non-financial incentives. Or as Alfie Kohn has stated, they will have to “pay well, pay fair and then do everything…to get money out off people’s minds” (Colvin, 1998).

Concluding the research theme of this paper, it can be stressed out that efficiency in some areas, as for example in higher education, depends on a complex group of factors. The employees involved in this sector will obtain performance if their work environment will offer them first off all autonomy, support and recognition. This can take place if the proper know-how is implemented in the system, whether achieved from inside or outside the classic higher education sector. Therefore money is not sufficient to assure success in higher education sector. Moreover, if the proper know-how is implemented and used in the higher education sector, important scale economies can be obtain.

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List of references