

An Added Bonus: Examining Employee Incentive Plans

A majority of organizations use some type of bonus compensation to reward employees for quality work. However, this raises the question of which bonus compensation form is best: Performance-related pay or organization-wide incentives (e.g., profit-related or share ownership)? Further, what types of employee outcomes are associated with the different types of incentive programs?

The Perks of Performance-Related Pay

A recent study suggested that performance-related pay was positively connected to job satisfaction, organizational commitment, and trust in management, while profit-related pay did not have the same beneficial associations (Ogbonnaya, Daniels, & Nielsen, 2017). Rather, these researchers found that in some instances, profit-related pay actually resulted in *less* commitment and *less* trust in management. This contradicts previous findings that profit-related pay may lead to positive employee outcomes.

Although performance-related pay may be associated with positive employee wellbeing outcomes, it may also lead to unanticipated consequences. For example, when bonus compensation is related to performance, individuals may feel burdened by their work and believe the work process is more intense, which may ultimately have harmful effects on employee wellbeing (e.g., burnout, stress).

Profit Sharing – Does it Work?

Another popular type of employee incentive program is profit sharing. The idea of profit sharing may bring about a host of concerns for employees – specifically, there may be concerns about “free-riders” within the organization (i.e., some individuals may not put in as much effort but still receive the same benefit of sharing in profits). However, research suggests that many of these fears are unfounded: coworkers tend to informally monitor one another so that effort is similar throughout the workplace.

Employees may also be concerned that their earnings may fluctuate due to events beyond their control (e.g., changes in the market for their product or service), although research suggests this does not prevent individuals from engaging in shared ownership programs. As a benefit, profit-sharing may lead to greater commitment from employees, as they view shares from the company as a gift and will reciprocate with their loyalty to the organization.

Not All Rewards are Created Equal

While incentive programs have clear financial benefits for employees, not all rewards are going to be received in the same way. Specifically, for those in roles with highly complex tasks, rewards may actually have a detrimental effect on motivation and creativity. As those in complex roles generally find the work itself intrinsically motivating, implementing a performance-related bonus system, for example, may inadvertently make their work less intrinsically motivating and subsequently result in less effort.

However, for those individuals in positions with routine, unambiguous tasks, extrinsic rewards may actually increase their creative performance. As the tasks in these roles provide little opportunity for control and creativity, being able to “control” rewards (e.g., performance-related bonuses) through more effective work is a way these workers can exercise their influence.

Always Aim to Increase Internal Motivation

As research provides support for both performance-related pay and profit sharing/shared ownership as employee reward programs, it is clear that either option may be effective in the right context. No matter which reward program is selected, the primary aim should always be to increase internal motivation, rather than solely focus on how external incentives may impact performance.

To increase internal motivation, employees need to know that their work matters and has an impact, and they need to understand *why* they are doing their work. When work has relevance, internal motivation is strengthened. Leaders should articulate what success within the organization looks like and make certain that employees' contributions are recognized.

References & Suggestions for Further Reading

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