chapter 8

Foundations of Motivation

Learning Objectives

When you finish studying the material in this chapter, you should be able to:

LO.1 Contrast Maslow's, Alderfer's, and McClelland's need theories.

LO.2 Explain the practical significance of Herzberg's distinction between mo hygiene factors.

LO.3 Discuss the role of perceived inequity in employee motivation.

LO.4 Explain the differences among distributive, procedural, and interactiona

LO.5 Describe the practical lessons derived from equity theory.

LO.6 Explain Vroom's expectancy theory.

LO.7 Explain how goal setting motivates an individual.

LO.8 Review the five practical lessons from goal-setting research.

LO.9 Discuss the three conceptually different approaches to job design.

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ctional justice.

Should Teacher Pay Be Tied to Student Achievement?

Michelle Rhee, former chancellor of Washington, D.C. schools, attempted to implement components of several motivation theories in order to increase teacher performance. She was driven to create change because past practice revealed that 95% of the school system's teachers were evaluated as excellent and nobody was fired for poor performance. At the same time, student test scores were among the lowest in the nation. In 2010 she fired 241 teachers, which amounted to roughly 6% of all teachers in the system. Seven hundred thirty-seven additional teachers were told that they were minimally effective.

Rhee made these changes after creating a new teacher evaluation system and negotiating a new compensation agreement with the Washington Teachers Union (WTU). The evaluation system is noted to be one of the most rigorous in the United States.

> It requires numerous classroom observations of teacher performance and measures teachers against student achievement. . . . Teachers are evaluated five times a year by school administrators and master teachers on such things as creating coherent lesson plans and engaging students. After an initial observation, teachers receive a plan detailing weaknesses and are offered coaching for improvement. . . . Teachers are ranked into four categories. This year, 16% reached the highest ranking, compared with 45% in past years. Some 20% landed in the bottom rating, compared with 4% in years past.

The new compensation system stipulated that "good teachers would get more money (including 21.6% pay increase through 2012 and opportunities for merit pay). In exchange, bad teachers could be shown the door."

George Parker, president of the WTU, was unhappy about the firings and indicated that the union would appeal the dismissals. He also threatened to file an unfair labor charge against the school district.

Richard Whitmire, author of *The Bee Eater: Michelle Rhee Takes on the Nation's Worst School District,* acknowledged that Rhee needed to take a tough approach toward motivating teachers because "only about a third of D.C. teachers were capable of carrying out" high-quality instruction.

As you will learn later in this chapter, expectancy theory is based on the principle that an individual's pay should be tied to his or her performance. The fundamental concept underlying this theory is that employee motivation is higher when people are rewarded with rewards they value, such as higher pay. Contrary to this theory, the chapter-opening vignette illustrates that the teachers union was fighting Michelle Rhee's attempt to use expectancy theory. Why? Because there are many factors that influence employee motivation that go beyond the receipt of rewards. This chapter aims to help you understand these factors.

You will learn that an employee's motivation is a function of several components, including an individual's needs, the extent to which a work environment is positive and supportive, perceptions of being treated fairly, creating a strong relationship between performance and the receipt of valued rewards, the use of accurate measures of performance, and the setting of specific goals.

The term *motivation* derives from the Latin word *movere,* meaning "to move." In the present context, **motivation** represents "those psychological processes that cause the arousal, direction, and persistence of voluntary actions that are goal directed."[2] Researchers have proposed two general categories of motivation theories to explain the psychological processes underlying employee motivation: content theories and process theories. **Content theories of motivation** focus on identifying internal factors such as instincts, needs, satisfaction, and job characteristics that energize employee motivation. These theories do not explain how motivation is influenced by the dynamic interaction between an individual and the environment in which he or she works. This limitation led to the creation of process theories of motivation. **Process theories of motivation** focus on explaining the process by which internal factors and cognitions influence employee motivation.[3] Process theories are more dynamic than content theories.

Table 8–1 provides an overview of the various content and process theories discussed in this chapter. As you study these seven theories, remember that they offer different recommendations about how to motivate employees because they are based on different sets of assumptions regarding the causes of motivation. We help you to integrate and apply these varying recommendations by summarizing the managerial implications for each theory before discussing an alternative perspective.

After discussing the major content and process theories of motivation, this chapter provides an overview of job design methods used to motivate employees and concludes by focusing on practical recommendations for putting motivational theories to work.

TO THE POINT

How would you contrast the content theories of motivation proposed by Maslow, Alderfer, McClelland, and Herzberg?

LO.1 Content Theories of Motivation

Most content theories of motivation revolve around the notion that an employee's needs influence motivation. **Needs** are physiological or psychological deficiencies that arouse behavior. They can be strong or weak and are influenced by environmental factors. Thus, human needs vary over time and place. The general idea behind need theories of motivation is that unmet needs motivate people to

table 8–1 Overview of Motivation Theories

CONTENT THEORIES	PROCESS THEORIES
Maslow's need hierarchy theory	Adam's equity theory
Alderfer's ERG theory	Vroom's expectancy theory
McClelland's need theory	Goal-setting theory
Herzberg's motivator–hygiene theory	

satisfy them. Conversely, people are not motivated to pursue a satisfied need. Let us now consider four popular content theories of motivation: Maslow's need hierarchy theory, Alderfer's ERG theory, McClelland's need theory, and Herzberg's motivator–hygiene model.

Maslow's Need Hierarchy Theory

In 1943, psychologist Abraham Maslow published his now-famous **need hierarchy theory** of motivation. Although the theory was based on his clinical observation of a few neurotic individuals, it has subsequently been used to explain the entire spectrum of human behavior. Maslow proposed that motivation is a function of five basic needs. These needs are

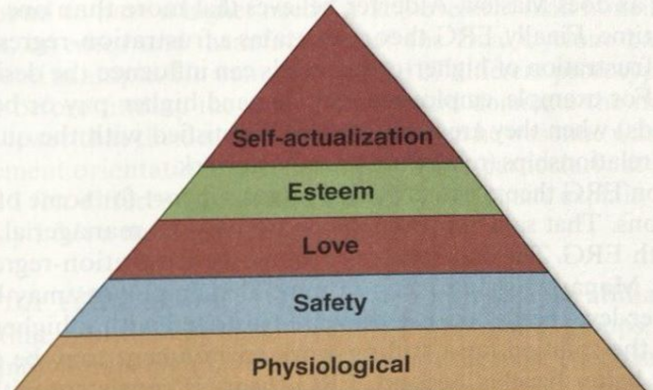
1. *Physiological.* Most basic need. Entails having enough food, air, and water to survive.
2. *Safety.* Consists of the need to be safe from physical and psychological harm.
3. *Love.* The desire to be loved and to love. Contains the needs for affection and belonging.
4. *Esteem.* Need for reputation, prestige, and recognition from others. Also contains need for self-confidence and strength.
5. *Self-actualization.* Desire for self-fulfillment—to become the best one is capable of becoming.

Maslow said these five needs are arranged in the prepotent hierarchy shown in Figure 8–1. In other words, he believed human needs generally emerge in a predictable stair-step fashion. Accordingly, when one's physiological needs are relatively satisfied, one's safety needs emerge, and so on up the need hierarchy, one step at a time. Once a need is satisfied, it activates the next higher need in the hierarchy. This process continues until the need for self-actualization is activated.[4]

Although research does not clearly support this theory of motivation, two key managerial implications of Maslow's theory are worth noting. First, it is

connect Go to www.mcgrawhillconnect.com for an interactive exercise to test your knowledge of Maslow's hierarchy of needs.

figure 8–1 Maslow's Need Hierarchy



motivation Psychological processes that arouse and direct goal-directed behavior.

content theories of motivation Identify internal factors influencing motivation.

process theories of motivation Identify the process by which internal factors and cognitions influence motivation.

needs Physiological or psychological deficiencies that arouse behavior.

need hierarchy theory Five basic needs—physiological, safety, love, esteem, and self-actualization—influence behavior.

Michelle Rhee, former chancellor of Washington, D.C. public schools, has a career focused on self-actualization. She began her career teaching in an inner-city school for three years. She then founded and directed the New Teacher Project: an organization dedicated to training teachers to teach in urban schools. After working as chancellor of public schools in Washington for three years, she again founded an organization—StudentsFirst—that was devoted to educational reform.

important for managers to focus on satisfying employee needs related to self concepts—self-esteem and self-actualization—because their satisfaction is significantly associated with a host of important outcomes such as academic achievement, physical illness, psychological well-being (e.g., anxiety disorders, depression), criminal convictions, drug abuse, marital satisfaction, money and work problems, and performance at work.[5]

Second, a satisfied need may lose its motivational potential. Therefore, managers are advised to motivate employees by devising programs or practices aimed at satisfying emerging or unmet needs. Many companies have responded to this recommendation by offering employees targeted benefits that meet their specific needs. Consider Joie de Vivre, a hotel chain in California's Bay Area. Management uses Maslow's principles to verify that the company is building employee satisfaction and loyalty in a variety of ways. For example, Joie de Vivre managers provide recognition with formal processes to identify and comment on occasions when employees have provided exceptional service. They try to help housekeepers derive meaning from their jobs by bringing them together to talk about what the guests' experience would be like if the housekeepers weren't making their stay more comfortable.[6] Managers also can use customized surveys in order to assess the specific needs of their employees. In conclusion, managers are more likely to fuel employee motivation by offering benefits and rewards that meet individual needs.

Alderfer's ERG Theory

Clayton Alderfer developed an alternative theory of human needs in the late 1960s. Alderfer's theory differs from Maslow's in three major respects. First, a smaller set of core needs is used to explain behavior. From lowest to highest level they are *existence needs* (E)—the desire for physiological and materialistic well-being; *relatedness needs* (R)—the desire to have meaningful relationships with significant others; and *growth needs* (G)—the desire to grow as a human being and to use one's abilities to their fullest potential; hence, the label **ERG theory**. Second, ERG theory does not assume needs are related to each other in a stair-step hierarchy as does Maslow. Alderfer believes that more than one need may be activated at a time. Finally, ERG theory contains a frustration-regression component. That is, frustration of higher-order needs can influence the desire for lower-order needs.[7] For example, employees may demand higher pay or better benefits (existence needs) when they are frustrated or dissatisfied with the quality of their interpersonal relationships (relatedness needs) at work.

Research on ERG theory has provided mixed support for some of the theory's key propositions. That said, however, there are two key managerial implications associated with ERG. The first revolves around the frustration-regression aspect of the theory. Managers should keep in mind that employees may be motivated to pursue lower-level needs because they are frustrated with a higher-order need. For instance, the solution for a stifling work environment may be a request for higher pay or better benefits. Second, ERG theory is consistent with the finding that individual and cultural differences influence our need states. People are motivated by different needs at different times in their lives. This implies that managers should customize their reward and recognition programs to meet employees' varying needs. Consider how Marc Albin, CEO of Albin Engineering Services, handles this recommendation.

Example. To identify which parts of individual employees' egos need scratching, Albin takes an unconventional approach. "My experience in managing people is, they're all different," says Albin. "Some people want to be recognized for their cheerful attitude and their ability to spread their cheerful attitude. Some want to be recognized for the quality of their work, some for the quantity of their work. Some like to be recognized individually; others want to be recognized in groups." Consequently, at the end of each employee-orientation session Albin e-mails his new hires and asks them how and in what form they prefer their strokes. "It helps me understand what they think of themselves and their abilities, and I make a mental note to pay special attention to them when they're working in that particular arena," he says. "No one has ever said, 'Just recognize me for anything I do well.'"[8]

McClelland's Need Theory

David McClelland, a well-known psychologist, has been studying the relationship between needs and behavior since the late 1940s. Although he is most recognized for his research on the need for achievement, he also investigated the needs for affiliation and power. Let us consider each of these needs.

The Need for Achievement

The **need for achievement** is defined by the following desires:

Example. To accomplish something difficult. To master, manipulate, or organize physical objects, human beings, or ideas. To do this as rapidly and as independently as possible. To overcome obstacles and attain a high standard. To excel one's self. To rival and surpass others. To increase self-regard by the successful exercise of talent.[9]

Achievement-motivated people share three common characteristics: (1) they prefer working on tasks of moderate difficulty; (2) they prefer situations in which performance is due to their efforts rather than to other factors, such as luck; and (3) they desire more feedback on their successes and failures than do low achievers. A review of research on the "entrepreneurial" personality showed that entrepreneurs were found to have a higher need for achievement than nonentrepreneurs.[10] James Dyson, inventor and manufacturer of the Dual Cyclone bagless vacuum cleaner is a good example. He went through 5,127 different prototypes of the vacuum's design before finding the model that would dominate the market. Dyson told an interviewer that the death of his father when he was nine was instrumental in his achievement orientation. "Not having a father, particularly at that time, was very unusual. I felt different. I was on my own. I can't quite explain it, but I think subconsciously I felt a need to prove myself."[11]

The Need for Affiliation

People with a high **need for affiliation** prefer to spend more time maintaining social relationships, joining groups, and wanting to be loved. Individuals high in this need are not the most effective managers or leaders because they tend to avoid conflict, have a hard time making difficult decisions without worrying about being disliked, and avoid giving others negative feedback.[12]

ERG theory Three basic needs—existence, relatedness, and growth—influence behavior.

need for achievement Desire to accomplish something difficult.

need for affiliation Desire to spend time in social relationships and activities.

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High Achievement Needs Can Lead to Negative Outcomes

"Ramalinga Raju founded Satyam Computers in 1987 and was its Chairman until January 7, 2009 when he resigned from the Satyam board after admitting to cheating six million shareholders. . . . In his letter of resignation, Raju described how an initial cover-up for a poor quarterly performance escalated: 'It was like riding a tiger, not knowing how to get off without being eaten.'". . . "Raju had also used dummy accounts to trade in Satyam's shares, violating the insider trading norm. It has not been alleged that these accounts may have been the means of siphoning off the missing funds. Raju has admitted to overstating the company's case reserves by USD $1.5 billion."

Raju was released on bail in August 2010, but was recently remanded back to prison.

Why would high achievement lead Ramalinga Raju to commit these crimes?

SOURCE: Excerpted from "Byrraju Ramalinga Raju," Wikipedia, last updated January 27, 2011, http:wikipedia.org.

The Need for Power The **need for power** reflects an individual's desire to influence, coach, teach, or encourage others to achieve. People with a high need for power like to work and are concerned with discipline and self-respect. There are positive and negative sides to this need. The negative face of power is characterized by an "if I win, you lose" mentality. In contrast, people with a positive orientation to power focus on accomplishing group goals and helping employees obtain the feeling of competence. More is said about the two faces of power in Chapter 13. Because effective managers must positively influence others, McClelland proposes that top managers should have a high need for power coupled with a low need for affiliation.

Managerial Implications Given that adults can be trained to increase their achievement motivation,[13] organizations should consider the benefits of providing achievement training for employees. Moreover, achievement, affiliation, and power needs can be considered during the selection process, for better placement. For example, a study revealed that individuals' need for achievement affected their preference to work in different companies. People with a high need for achievement were more attracted to companies that had a pay-for-performance environment than were those with a low achievement motivation.[14] Finally, it is important to balance the above recommendations with the downside of high achievement. McClelland noted that people with high achievement might be more prone to "cheat and cut corners and to leave people out of the loop." He also noted that some high achievers "are so fixated on finding a shortcut to the goal that they may not be too particular about the means they use to reach it."[15] Byrraju Ramalinga Raju, former founder and chairman of Satyam Computers, is a good example. Raju was known as a highly driven executive who had a grand vision for using technology to help develop rural India. He also was highly involved with several foundations in India. Unfortunately, Raju apparently took some illegal shortcuts to meet Satyam's short-term financial goals (see Real World/Real People above).[16]

Back to the Chapter-Opening Case

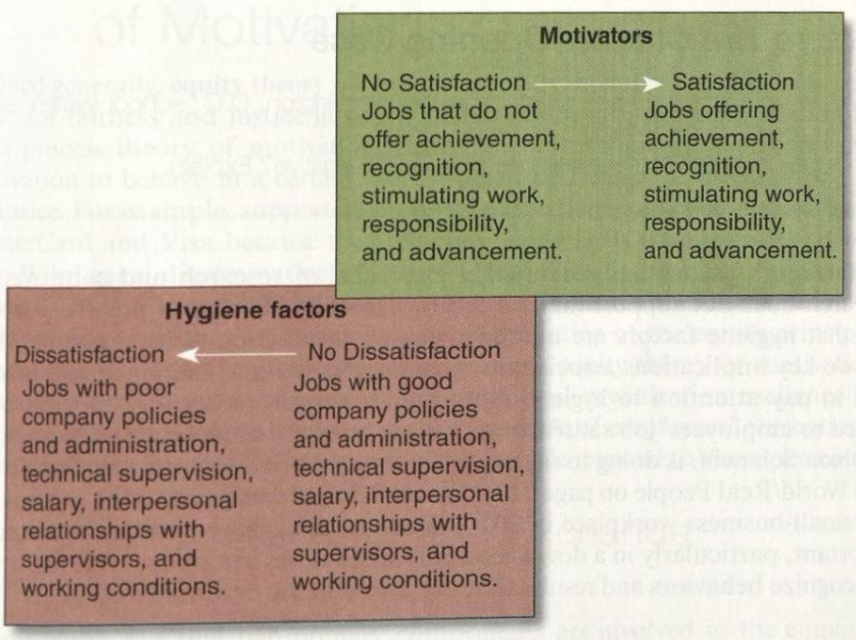
George Parker is trying to support the teachers in WTU by satisfying their needs. What needs is he focusing on by appealing the dismissals of teachers and threatening to file a lawsuit?

LO.2 Herzberg's Motivator–Hygiene Theory

Frederick Herzberg's theory is based on a landmark study in which he interviewed 203 accountants and engineers.[17] These interviews sought to determine the factors responsible for job satisfaction and dissatisfaction. Herzberg found separate and distinct clusters of factors associated with job satisfaction and dissatisfaction. Job satisfaction was more frequently associated with achievement, recognition, characteristics of the work, responsibility, and advancement. These factors were all related to outcomes associated with the *content* of the task being performed. Herzberg labeled these factors **motivators** because each was associated with strong effort and good performance. He hypothesized that motivators cause a person to move from a state of no satisfaction to satisfaction (see Figure 8–2). Therefore, Herzberg's theory predicts managers can motivate individuals by incorporating "motivators" into an individual's job.

Herzberg found job *dissatisfaction* to be associated primarily with factors in the work *context* or environment. Specifically, company policy and administration, technical supervision, salary, interpersonal relations with one's supervisor, and working conditions were most frequently mentioned by employees expressing job dissatisfaction. Herzberg labeled this second cluster of factors **hygiene factors**. He further proposed that they were not motivational. At best, Herzberg proposed that individuals will experience no job dissatisfaction when he or she has no grievances about hygiene factors (refer to Figure 8–2). Electronic Arts, an international developer, publisher, and distributor of video games, does not agree

figure 8–2 Herzberg's Motivator–Hygiene Model



SOURCE: Adapted in part from D A Whitsett and E K Winslow, "An Analysis of Studies Critical of the Motivator–Hygiene Theory," *Personnel Psychology,* Winter 1967, pp 391–415.

need for power Desire to influence, coach, teach, or encourage others to achieve.

motivators Job characteristics associated with job satisfaction.

hygiene factors Job characteristics associated with job dissatisfaction.


This exercise facility at Electronic Arts is a motivational factor for employees. The company, with over 8,000 employees worldwide, is the number one publisher of video games in Western markets.

with this aspect of Herzberg's theory. Management is attempting to increase employees' job satisfaction and reduce turnover by creating positive hygiene factors. These initiatives include the following: (1) allowing employees to bring pets to work; (2) creating workday intramural sporting events like basketball, soccer, and beach volleyball; (3) creating arcades where employees can play ping-pong, pool, and video games; (4) establishing an information resource center in which employees can borrow the latest video games, movies, books, and magazines for free; and (5) providing a gym with group fitness classes.[18]

The key to adequately understanding Herzberg's motivator–hygiene theory is recognizing that he believes that satisfaction is not the opposite of dissatisfaction. Herzberg concludes that "the opposite of job satisfaction is not job dissatisfaction, but rather no job satisfaction; and similarly, the opposite of job dissatisfaction is not job satisfaction, but no dissatisfaction."[19] Herzberg thus asserts that the dissatisfaction–satisfaction continuum contains a zero midpoint at which dissatisfaction and satisfaction are absent. Conceivably, an organization member who has good supervision, pay, and working conditions but a tedious and unchallenging task with little chance of advancement would be at the zero midpoint. That person would have no dissatisfaction (because of good hygiene factors) and no satisfaction (because of a lack of motivators).

Back to the Chapter-Opening Case

1. How do Michelle Rhee's changes in the Washington, D.C. school system affect Herzberg's hygiene factors and motivators?
2. Is the net result of these impacts positive or negative? Explain.

Herzberg's theory has generated a great deal of research and controversy.[20] Research does not support the two-factor aspect of his theory nor the proposition that hygiene factors are unrelated to job satisfaction. Just the same, there are two key implications associated with this theory. First, managers are encouraged to pay attention to hygiene factors and motivators because they both are related to employees' job satisfaction. This is precisely what Lauren Dixon, CEO of Dixon Schawbl, is doing to maintain employee motivation and satisfaction (see Real World/Real People on page 213): Dixon Schawbl was rated as the number one best small-business workplace in 2010. Second, recognizing good performance is important, particularly in a down economy when raises are sparse. It is important to recognize behaviors and results that are linked to the organization's goals.

TO THE POINT

What is the difference between a content and a process theory of motivation?

Process Theories of Motivation

Earlier in the chapter we discussed the difference between content theories of motivation, which focus on the impact of internal factors on motivation, and process theories. Process theories go one step further in explaining motivation by identifying the process by which various internal factors influence motivation. These models also are cognitive in nature. That is, they are based on the premise that motivation is a function of employees' perceptions, thoughts, and beliefs. We now

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Dixon Schawbl Increases Employee Satisfaction by Improving Hygiene Factors

Advertising agency Dixon Schawbl built its office based on input from employees. "The result is a space that features a koi pond, a pair of waterfalls, a slide that employees can take from floor to floor instead of the stairwell, a fireplace, faux-finish walls covered in quirky artwork, contemporary furniture and a padded primal scream room."

CEO Lauren Dixon was amazed about the simple things that employees requested for the new offices. "You'd be surprised by how many people said that they wanted windows that they could open, non-traditional lighting or even just walls that weren't painted white," Dixon says. . . .

"Another reason job satisfaction has remained so high, Dixon believes, is the many opportunities employees have to give back to their community. . . . Not surprisingly, Dixon Schawbl regularly receives a flood of job applicants from around the world. Those who make the cut enjoy a benefits package that includes vacation time, PTO, regular paid holidays, time off for birthdays, 401(k), health care, profit-sharing, maternity leave and flex time."

Which of the hygiene factors and motivators shown in Figure 8–2 were used by Dixon Schawbl?

SOURCE: Excerpted from J Cooper, "Best Small-Business Workplaces 2010," *Entrepreneur,* September 8, 2010, http://www.entrepreneur.com/article/priintthis/217278.html.

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explore the three most common process theories of motivation: equity theory, expectancy theory, and goal-setting theory.

LO.3 Adams's Equity Theory of Motivation

TO THE POINT

How does the concept of organizational justice expand Adams's theory of equity, and what are the practical lessons derived from equity theory?

Defined generally, **equity theory** is a model of motivation that explains how people strive for fairness and justice in social exchanges or give-and-take relationships. As a process theory of motivation, equity theory explains how an individual's motivation to behave in a certain way is fueled by feelings of inequity or a lack of justice. For example, supporters of WikiLeaks conducted cyberattacks against MasterCard and Visa because they felt these companies were unfairly trying to stifle WikiLeaks' dissemination of secret US diplomatic communications. Both MasterCard and Visa were temporarily down as a result of these attacks.[21]

Psychologist J Stacey Adams pioneered application of the equity principle to the workplace. Central to understanding Adams's equity theory of motivation is an awareness of key components of the individual–organization exchange relationship. This relationship is pivotal in the formation of employees' perceptions of equity and inequity and the manner in which people respond to these perceptions.

The Individual–Organization Exchange Relationship

Adams points out that two primary components are involved in the employee–employer exchange, *inputs* and *outcomes.* An employee's inputs, for which he or she expects a just return, include education/training, skills, creativity, seniority, age, personality traits, effort expended, and personal appearance. On the outcome

equity theory Holds that motivation is a function of fairness in social exchanges.

side of the exchange, the organization provides such things as pay/bonuses, medical benefits, challenging assignments, job security, promotions, status symbols, and participation in important decisions.

Negative and Positive Inequity

On the job, feelings of inequity revolve around a person's evaluation of whether he or she receives adequate rewards to compensate for his or her contributive inputs. People perform these evaluations by comparing the perceived fairness of their employment exchange to that of relevant others.[22] This comparative process, which is based on an equity norm, was found to vary across personalities and countries.[23] People tend to compare themselves to other individuals with whom they have close interpersonalities—such as friends—or to similar others—such as people performing the same job or individuals of the same gender or educational level—rather than dissimilar others. For example, we do not compare our salaries to that of the head football coach at Arizona State University. But we do consider our pay relative to other college of business professors. This brings up an interesting trend within the legal profession. Big law firms have taken to paying "outsize salaries to star attorneys, in some cases 10 times what they give other partners, in a strategy that is stretching compensation gaps and testing morale at firms. . . . While there has always been a pay gap at big firms, in the past partners with ownership stakes were paid relatively similar amounts to encourage a team approach and to ward off possible resentment."[24] Do you think that this practice will negatively affect people's work attitudes and levels of engagement?

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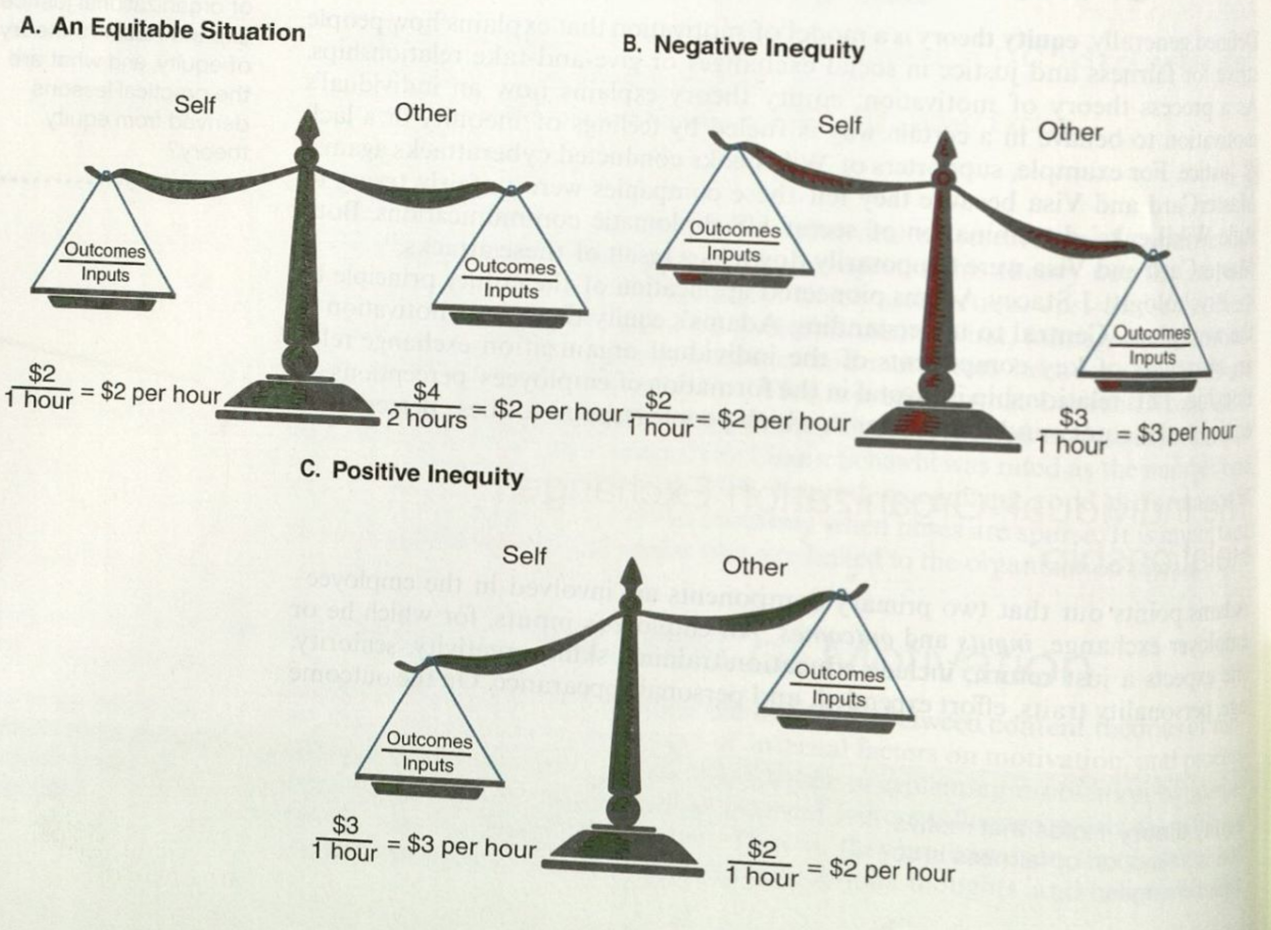
Three different equity relationships are illustrated in Figure 8–3: equity, negative inequity, and positive inequity. Assume the two people in each of the equity

figure 8–3 Negative and Positive Inequity



relationships in Figure 8–3 have equivalent backgrounds (equal education, seniority, and so forth) and perform identical tasks. Only their hourly pay rates differ. Equity exists for an individual when his or her ratio of perceived outcomes to inputs is equal to the ratio of outcomes to inputs for a relevant co-worker (part A in Figure 8–3). Because equity is based on comparing *ratios* of outcomes to inputs, inequity will not necessarily be perceived just because someone else receives greater rewards. If the other person's additional outcomes are due to his or her greater inputs, a sense of equity may still exist. However, if the comparison person enjoys greater outcomes for similar inputs, **negative inequity** will be perceived (part B in Figure 8–3). On the other hand, a person will experience **positive inequity** when his or her outcome to input ratio is greater than that of a relevant co-worker (part C in Figure 8–3). Interestingly, the current economy can create positive inequity for layoff survivors because they feel fortunate to still have a job.

These protestors in Cairo were surely motivated by feelings of inequity. This predominantly non-violent uprising led to the resignation of Egyptian President Hosni Mubarak.

Reducing Inequity Equity ratios can be changed by attempting to alter one's outcomes or adjusting one's inputs. For example, negative inequity might be resolved by asking for a raise or a promotion (i.e., raising outputs) or by reducing inputs (i.e., working fewer hours or exerting less effort). It also is important to note that equity can be restored by altering one's equity ratios behaviorally or cognitively, or both. A cognitive strategy entails psychologically distorting perceptions of one's own or one's comparison person's outcomes and inputs (e.g., conclude that comparison other has more experience or works harder).[25]

It is important to note that people also seek equity in a consumer context. The Real World/Real People on page 216 illustrates how consumers are increasingly using social media to complain about perceptions of inequity. Such complaints can become viral, ultimately resulting in negative views of a company's brand. Organizations now monitor and respond to items that are posted on-line in order to combat this trend.[26]

LO.4 Expanding the Concept of Equity: Organizational Justice

Beginning in the late 1970s, researchers began to expand the role of equity theory in explaining employee attitudes and behavior. This led to a domain of research called *organizational justice.* Organizational justice reflects the extent to which people perceive that they are treated fairly at work. This, in turn, led to the identification of three different components of organizational justice: distributive, procedural, and interactional.[27] **Distributive justice** reflects the perceived fairness of how resources and rewards are distributed or allocated. **Procedural justice** is defined as the perceived fairness of the process and procedures used to make allocation

negative inequity Comparison in which another person receives greater outcomes for similar inputs.

positive inequity Comparison in which another person receives lesser outcomes for similar inputs.

distributive justice The perceived fairness of how resources and rewards are distributed.

procedural justice The perceived fairness of the process and procedures used to make allocation decisions.

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Feelings of Consumer Inequity Can Go Viral

Maybe you've heard about the musician Dave Carroll and his experience as a United Airlines customer. He was so incensed that the company rejected his damage claim after its baggage handlers broke his guitar that he made a catchy YouTube video, "United Breaks Guitars." Eight million people have already viewed this decidedly negative take on the United brand.

Carroll's reaction is hardly unique. The popular mommy blogger Heather Armstrong was so upset over the failure of her Maytag washer and the company's ensuing service missteps that, using her mobile phone, she told her million-plus followers on Twitter they should never buy a Maytag. As another example, Greenpeace supporters barraged Nestlé's Facebook page with complaints about how the company's sourcing policies led to environmental damage.

Would you complain online if you received poor treatment from a company?

SOURCE: Excerpted from J Bernoff and T Schadler, "Empowered," *Harvard Business Review*, July–August 2010, p 95.

decisions. Research shows that positive perceptions of distributive and procedural justice are enhanced by giving employees a "voice" in decisions that affect them. Voice represents the extent to which employees who are affected by a decision can present relevant information about the decision to others. Voice is analogous to asking employees for their input into the decision-making process.

The last justice component, **interactional justice,** relates to the "quality of the interpersonal treatment people receive when procedures are implemented."[28] This form of justice does not pertain to the outcomes or procedures associated with decision making, but rather it focuses on whether or not people feel they are treated fairly when decisions are implemented. Fair interpersonal treatment necessitates that managers communicate truthfully and treat people with courtesy and respect.

Many studies of organizational justice have been conducted over the last two decades. Fortunately, four meta-analyses of more than 200 studies help summarize what has been learned from this research.[29] The following trends were uncovered: (1) job performance was positively associated with both distributive and procedural justice, but procedural justice was the best predictor of this outcome; (2) all three forms of justice were positively correlated with job satisfaction, organizational commitment, organizational citizenship behaviors, and employees' trust, and negatively with employees' withdrawal cognitions and turnover; (3) distributive and procedural injustice were negatively related to negative emotions such as anger; and all three forms of justice were negatively associated with aggressive behavior at work.[30] These results suggest a host of practical lessons for managers.

LO.5 Practical Lessons from Equity Theory

Equity theory has at least six important practical implications. First, research on equity theory emphasizes the need for managers to pay attention to employees' perceptions of what is fair and equitable. No matter how fair management thinks the organization's policies, procedures, and reward system are, each employee's *perception* of the equity of those factors is what counts. For example, a nationwide study of 3,000 US workers revealed that 39% felt underpaid and only 37% reported feeling valued by their employer.[31] Managers thus are encouraged to make hiring decisions on merit-based, job-related information, and to make more attempts at providing positive recognition about employee behavior and performance. Moreover, because justice perceptions are influenced by the extent to which managers explain their decisions, managers are encouraged to explain the rationale behind their decisions.

Second, managers benefit by allowing employees to participate in making decisions about important work outcomes. In general, employees' perceptions of procedural justice are enhanced when they have a voice in the decision-making process. Managers are encouraged to seek employee input on organizational changes that are likely to impact the workforce. For instance, managers at Shell Refining decided to ask top-performing supervisors at its Port Arthur, Texas, refinery for input on how to improve plant performance. The result of this action was higher employee morale and a 30% reduction in unplanned maintenance repairs.[32]

Third, employees should be given the opportunity to appeal decisions that affect their welfare. Being able to appeal a decision fosters perceptions of distributive and procedural justice. Fourth, managers can promote cooperation and teamwork among group members by treating them equitably. Research reveals that people are just as concerned with fairness in group settings as they are with their own personal interests.[33] Fifth, employees' perceptions of justice are strongly influenced by the leadership behavior exhibited by their managers (leadership is discussed in Chapter 16). It thus is important for managers to consider the justice-related implications of their decisions, actions, and public communications. Consider the lawsuit being filed by the Equal Employment Opportunity Commission (EEOC) on behalf of three women who worked for FedEx.

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Example. Federal officials filed a discrimination lawsuit on behalf of three women who say that FedEx Freight, Inc. gave a human-resources job at its Phoenix facility to a less-qualified male candidate.

All three women had prior human-resources experience and were recommended for the position. . . . Two of the women had earned bachelor's degrees, and one had a degree in human-resource management.

FedEx officials hired a male dock worker to be a human-resources field representative. The man did not have a bachelor's degree, according to the EEOC.[34]

The three women were clearly motivated to file a lawsuit based on their feelings of inequity regarding FedEx's hiring decision.

Finally, managers need to pay attention to the organization's climate for justice. For example, an organization's climate for justice was found to significantly influence employees' organizational commitment and job satisfaction.[35] Researchers also believe a climate of justice can significantly influence the type of customer service provided by employees. In turn, this level of service is likely to influence customers' perceptions of "fair service" and their subsequent loyalty and satisfaction.

Managers can attempt to follow these practical implications by monitoring equity and justice perceptions through informal conversations, interviews, or attitude surveys. Researchers have developed and validated a host of surveys that can be used for this purpose.

Back to the Chapter-Opening Case

To what extent are Michelle Rhee's changes consistent with the practical lessons derived from equity theory?

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interactional justice Extent to which people feel fairly treated when procedures are implemented.

LO.6 Vroom's Expectancy Theory

Expectancy theory holds that people are motivated to behave in ways that produce desired combinations of expected outcomes. Generally, expectancy theory can be used to predict motivation and behavior in any situation in which a choice between two or more alternatives must be made. For instance, it can be used to predict whether to quit or stay at a job; whether to exert substantial or minimal effort at a task; and whether to major in management, finance, marketing, psychology, or communication.

Victor Vroom formulated a mathematical model of expectancy in his 1964 book *Work and Motivation.*[36] Vroom's theory has been summarized as follows: "The strength of a tendency to act in a certain way depends on the strength of an expectancy that the act will be followed by a given consequence (or outcome) and on the value or attractiveness of that consequence (or outcome) to the actor."[37]

Motivation, according to Vroom, boils down to the decision of how much effort to exert in a specific task situation. This choice is based on a two-stage sequence of expectations (effort→performance and performance→outcome). First, motivation is affected by an individual's expectation that a certain level of effort will produce the intended performance goal. For example, if you do not believe increasing the amount of time you spend studying will significantly raise your grade on an exam, you probably will not study any harder than usual. Motivation also is influenced by the employee's perceived chances of getting various outcomes as a result of accomplishing his or her performance goal. Finally, individuals are motivated to the extent that they value the outcomes received.

Vroom used a mathematical equation to integrate the above concepts into a predictive model of motivational force or strength. For our purposes, however, it is sufficient to define and explain the three key concepts within Vroom's model—*expectancy, instrumentality*, and *valence.*

Expectancy

An **expectancy**, according to Vroom's terminology, represents an individual's belief that a particular degree of effort will be followed by a particular level of performance. In other words, it is an effort→performance expectation. Expectancies take the form of subjective probabilities. As you may recall from a course in statistics, probabilities range from 0 to 1. An expectancy of 0 indicates effort has no anticipated impact on performance.

For example, suppose you have not memorized the keys on a keyboard. No matter how much effort you exert, your perceived probability of typing 30 error-free words per minute likely would be 0. An expectancy of 1 suggests that performance is totally dependent on effort. If you decided to memorize the letters on a keyboard as well as practice a couple of hours a day for a few weeks (high effort), you should be able to type 30 words per minute without any errors. In contrast, if you do not memorize the letters on a keyboard and only practice an hour or two per week (low effort), there is a very low probability (say, a 20% chance) of being able to type 30 words per minute without any errors.

The following factors influence an employee's expectancy perceptions:

1. Self-esteem
2. Self-efficacy (recall the discussion in Chapter 5)
3. Previous success at the task
4. Help received from a supervisor and subordinates

5. Information necessary to complete the task
6. Good materials and equipment to work with[38]

Instrumentality

An **instrumentality** is a performance→outcome perception. It represents a person's belief that a particular outcome is contingent on accomplishing a specific level of performance. Performance is instrumental when it leads to something else. For example, passing exams is instrumental to graduating from college.

Instrumentalities range from −1.0 to 1.0. An instrumentality of 1.0 indicates attainment of a particular outcome is totally dependent on task performance. An instrumentality of 0 indicates there is no relationship between performance and outcome. For example, most companies link the number of vacation days to seniority, not job performance. Finally, an instrumentality of −1.0 reveals that high performance reduces the chance of obtaining an outcome while low performance increases the chance. For example, the more time you spend studying to get an A on an exam (high performance), the less time you will have for enjoying leisure activities. Similarly, as you lower the amount of time spent studying (low performance), you increase the amount of time that may be devoted to leisure activities.

The concept of instrumentality is illustrated by the pay practices being used at household cleaning products company Reckitt Benckiser. The pay plan has three parts: base salary, and both short- and long-term bonuses/incentives.

Example. Base salaries are set near the median for competitors' pay. The real benefit comes in the form of bonuses. A manager who meets all targets will typically receive 40% of his or her base salary as a bonus that year. A manager who blows the targets out of the water (usually that means doubling the target numbers) can earn a bonus of up to 144%. Long-term compensation, in the form of options and performance-related restricted stock, depends on meeting three-year corporate growth targets for earnings per share. New long-term goals are put into place each year.[39]

Reckitt Benckiser clearly makes bonuses contingent on performance.

Valence

As Vroom used the term, **valence** refers to the positive or negative value people place on outcomes. Valence mirrors our personal preferences. For example, most employees have a positive valence for receiving additional money or recognition. In contrast, job stress and being laid off would likely result in negative valence for most individuals. In Vroom's expectancy model, *outcomes* refer to different consequences that are contingent on performance, such as pay, promotions, or recognition. An outcome's valence depends on an individual's needs and can be measured for research purposes with scales ranging from a negative value to a positive value. For example, an individual's valence toward more recognition can be assessed on a scale ranging from −2 (very undesirable) to 0 (neutral) to +2 (very desirable).

expectancy theory Holds that people are motivated to behave in ways that produce valued outcomes.

expectancy Belief that effort leads to a specific level of performance.

instrumentality A performance outcome perception.

valence The value of a reward or outcome.

Vroom's Expectancy Theory in Action

Vroom's expectancy model of motivation can be used to analyze a real-life motivation program. Consider the following performance problem described by Frederick W Smith, founder and chief executive officer of Federal Express Corporation:

Example. [W]e were having a helluva problem keeping things running on time. The airplanes would come in and everything would get backed up. We tried every kind of control mechanism that you could think of, and none of them worked. Finally, it became obvious that the underlying problem was that it was in the interest of the employees at the cargo terminal—they were college kids, mostly—to run late, because it meant that they made more money. So what we did was give them all a minimum guarantee and say, "Look, if you get through before a certain time, just go home, and you will have beat the system." Well, it was unbelievable. I mean, in the space of about 45 days, the place was way ahead of schedule. And I don't even think it was a conscious thing on their part.[40]

connect Go to www.mcgrawhillconnect.com for an interactive exercise to test your knowledge of Vroom's expectancy theory.

How did Federal Express get its college-age cargo handlers to switch from low effort to high effort? According to Vroom's model, the student workers originally exerted low effort because they were paid on the basis of time, not output. It was in their best interest to work slowly and accumulate as many hours as possible. By offering to let the student workers *go home early if and when they completed their assigned duties,* Federal Express prompted high effort. This new arrangement created two positively valued outcomes: guaranteed pay plus the opportunity to leave early. The motivation to exert high effort became greater than the motivation to exert low effort. Judging from the impressive results, the student workers had both high effort→performance expectancies and positive performance→outcome instrumentalities. Moreover, the guaranteed pay and early departure opportunity evidently had strongly positive valences for the student workers.

Back to the Chapter-Opening Case

To what extent is Michelle Rhee's motivation program consistent with the managerial and organizational implications of expectancy theory? Explain.

Research on Expectancy Theory and Managerial Implications

Many researchers have tested expectancy theory. In support of the theory, a meta-analysis of 77 studies indicated that expectancy theory significantly predicted performance, effort, intentions, preferences, and choice.[41] All told, there is widespread agreement that behavior and attitudes are influenced when organizations link rewards to targeted behaviors.[42] This relationship is discussed in more detail in Chapter 9.

Nonetheless, expectancy theory has been criticized for a variety of reasons. For example, the theory is difficult to test, and the measures used to assess expectancy, instrumentality, and valence have questionable validity. In the final analysis, however, expectancy theory has important practical implications for individual managers and organizations as a whole (see Table 8–2).

Managers are advised to enhance effort→performance expectancies by helping employees accomplish their performance goals. Managers can do this by providing support and coaching and by increasing employees' self-efficacy. It also is table 8–2 Managerial and Organizational Implications of Expectancy Theory

IMPLICATIONS FOR MANAGERS	IMPLICATIONS FOR ORGANIZATIONS
Determine the outcomes employees value.	Reward people for desired performance; and do not keep pay decisions secret.
Identify good performance so appropriate behaviors can be rewarded.	Design challenging jobs.
Make sure employees can achieve targeted performance levels.	Tie some rewards to group accomplishments to build teamwork and encourage cooperation.
Link desired outcomes to targeted levels of performance.	Reward managers for creating, monitoring, and maintaining expectancies, instrumentalities, and outcomes that lead to high effort and goal attainment.
Make sure changes in outcomes are large enough to motivate high effort.	Monitor employee motivation through interviews or anonymous questionnaires.
Monitor the reward system for inequities.	Accommodate individual differences by building flexibility into the motivation program.

important for managers to influence employees' instrumentalities and to monitor valences for various rewards.

In summary, there is no one best type of reward. Individual differences and need theories tell us that people are motivated by different rewards. For example, a recent survey of 1,047 employees from a variety of industries revealed that nonfinancial incentives such as praise, attention from leaders, and opportunity to lead projects were more effective at motivating respondents than financial incentives.[43] Is this true for you? We suspect that some people prefer nonfinancial rewards while others want money. The point is that managers should focus on linking employee performance to valued rewards regardless of the type of reward used to enhance motivation. The Real World/Real People on page 222 illustrates how General Motors is trying to implement this recommendation. Hourly workers at GM historically received pay raises based on seniority and job descriptions. The new approach is designed to directly link pay with performance. GM executives are hoping this new incentive system will lead to higher levels of productivity and profitability. It seems the plan may be working as GM is likely to report its first profitable year since 2004. The company also is planning to pay about $3,000 to each hourly worker in a profit-sharing payout: This is the largest payout in GM history.[44]

LO.7 Motivation through Goal Setting

TO THE POINT

What is the process by which goals affect employee performance, and what are the practical lessons from goal-setting research?

Regardless of the nature of their specific achievements, successful people tend to have one thing in common. Their lives are goal oriented. Consider Mike Proulx, for example. "When Mike Proulx was bagging groceries as a teenager in the 1960s, he decided he would become president of Bashas. [Bashas is a privately held grocery chain in Arizona with more than 150 stores.] That's the job he has now held for three years. . . . When I was 18 I made a series of goals that included by age such and such I would be a store manager, and by a certain age, I was going to be district manager and then vice president and then president."[45] As a process model

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GM's Incentive System Is Consistent with Expectancy Theory

General Motors wants pay for union-represented workers tied to employees' work performance and the company's financial health—much like the way its salaried workers are paid. . . .

GM wants more flexible pay levels for workers as a way to encourage better performance and avoid locking the company into handing out big raises when the company isn't performing well, the company executives say.

"They are trying to give hourly workers the same metrics as salaried workers," GM Vice Chairman Stephen Girsky said Tuesday at the Detroit auto show. "There is a big pay-for-performance element going through the company and there is going to be more of it."

In addition to the performance-based pay, the union and US auto makers are exploring the idea of a profit-sharing formula as a way for workers to cash in on the industry's improving fortunes.

How do you think the union will respond to GM's changes in pay practices?

SOURCE: Excerpted from S Terlep, "GM Rethinks Pay for Unionized Workers," *The Wall Street Journal*, January 12, 2011, p B6.

Bold managerial moves like those described here helped GM to achieve six consecutive profitable quarters over 2010–2011.

of motivation, goal-setting theory explains how the simple behavior of setting goals activates a powerful motivational process that leads to sustained, high performance. This section explores the theory and research pertaining to goal setting, and Chapter 9 continues the discussion by focusing on the practical application of goal setting.

Goals: Definition and Background

Edwin Locke, a leading authority on goal setting, and his colleagues define a goal as "what an individual is trying to accomplish; it is the object or aim of an action."[46] The motivational effect of performance goals and goal-based reward plans has been recognized for a long time. At the turn of the 20th century, Frederick Taylor attempted to scientifically establish how much work of a specified quality an individual should be assigned each day. He proposed that bonuses be based on accomplishing those output standards: Taylor's theory is discussed in the next section of this chapter. More recently, goal setting has been promoted through a widely used management technique called management by objectives (MBO). The application of MBO is outlined in Chapter 9.

How Does Goal Setting Work?

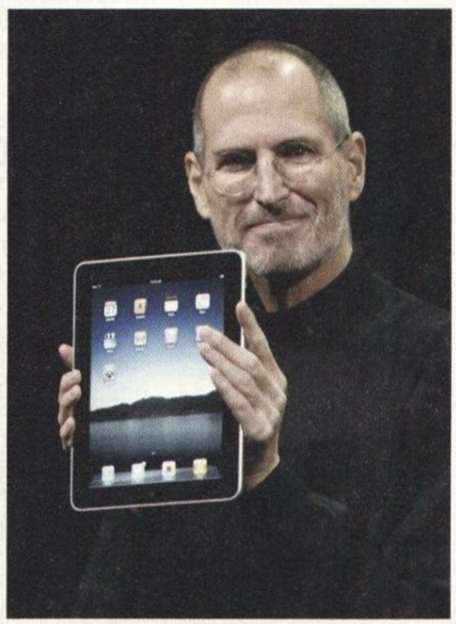
Despite abundant goal-setting research and practice, goal-setting theories are surprisingly scarce. An instructive model was formulated by Locke and his associates. According to Locke's model, goal setting has four motivational mechanisms.

Goals Direct Attention Goals direct one's attention and effort toward goal-relevant activities and away from goal-irrelevant activities. If, for example, you have a term project due in a few days, your thoughts and actions tend to revolve around completing that project. In reality, however, we often work on multiple goals at once. This highlights the importance of prioritizing your goals so that you effectively allocate your efforts over time.[47]

Goals Regulate Effort Not only do goals make us selectively perceptive, they also motivate us to act. The instructor's deadline for turning in your term project would prompt you to complete it, as opposed to going out with friends, watching television, or studying for another course. Generally, the level of effort expended is proportionate to the difficulty of the goal.

Goals Increase Persistence Within the context of goal setting, persistence represents the effort expended on a task over an extended period of time: It takes effort to run 100 meters; it takes persistence to run a 26-mile marathon. Persistent people tend to see obstacles as challenges to be overcome rather than as reasons to fail. A difficult goal that is important to an individual is a constant reminder to keep exerting effort in the appropriate direction. Peter Löscher, CEO of Siemens, wanted to build on the power of persistence by setting goals associated with "green consciousness" and increased wind-energy sales. To do this he hired Peter Solmssen from GE because "the one thing GE does better than anybody is execution," said Solmssen. "They set a target, and they achieve it. That's it." With Solmssen's help, Löscher's new-goal driven approach led to increased wind-energy sales and a 48 percent increase in stock price.[48]

Goals Foster the Development and Application of Task Strategies and Action Plans If you are here and your goal is out there somewhere, you face the problem of getting from here to there. For example, think about the challenge of starting a business. Do you want to earn profits, grow larger, or make the world a better place? To get there, you have to make a tremendous number of decisions and complete a myriad of tasks. Goals can help because they encourage people to develop strategies and action plans that enable them to achieve their goals. A series of studies conducted in South Africa, Zimbabwe, and Namibia found that small businesses were more likely to grow and succeed if their owners engaged in "elaborate and proactive planning."[49] The power of action plans also was used by Chris Liddell, chief financial officer for General Motors, when he was charged with executing the company's IPO in 2010 (see Real World/Real People on page 224).



Steve Jobs, holding the widely popular iPad, died in October 2011. His inventive and innovative traits helped Apple to become one of the largest and most valuable companies in the world.

LO.8 Practical Lessons from Goal-Setting Research

Research consistently has supported goal setting as a motivational technique. Setting performance goals increases individual, group, and organizational performance. Further, the positive effects of goal setting were found in six other countries or regions: Australia, Canada, the Caribbean, England, West Germany, and Japan. Goal setting works in different cultures. Reviews of the many

goal What an individual is trying to accomplish.

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Chris Liddell Executed Detailed Plans to Complete GM's IPO

General Motors's historic IPO was a trial by fire for Chief Financial Officer Chris Liddell. The 52-year-old had to please the auto maker's largest shareholder—the U.S. government—while managing a $23.1 billion offering that spanned three continents, 35 underwriting banks, and 90 promotional meetings. Mr Liddell, a top-flight rugby player in his native New Zealand, started planning the initial offering in March [2010]. "One of the disciplines he learned as a rugby player was the level of preparation that you need to accomplish something great," says James B Lee, Jr, vice chairman of underwriter, J P Morgan Chase & Co.

Mr Liddell told a *Wall Street Journal* reporter that "this thing was planned like a military campaign. Nine months of preparation went into those last two weeks. We knew exactly what we were going to say, how we were going to run the whole demand, bookbuilding process. It was incredibly well executed."

Why is action planning such a key component of goal setting?

SOURCE: Excerpted from D K Berman and S Terlep, "GM's IPO Point Man: Planning Is All," *The Wall Street Journal*, December 4-5, 2010, pp B1, B2.

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goal-setting studies conducted over the past few decades have given managers five practical insights:

1. *Specific high goals lead to greater performance.* **Goal specificity** pertains to the quantifiability of a goal. For example, a goal of selling nine cars a month is more specific than telling a salesperson to do his or her best. Results from more than 1,000 studies entailing over 88 different tasks and 40,000 people demonstrated that performance was greater when people had specific high goals.[50]
2. *Feedback enhances the effect of specific, difficult goals.* Feedback plays a key role in all of our lives. Feedback lets people know if they are headed toward their goals or if they are off course and need to redirect their efforts. Goals plus feedback is the recommended approach. Goals inform people about performance standards and expectations so that they can channel their energies accordingly. In turn, feedback provides the information needed to adjust direction, effort, and strategies for goal accomplishment.
3. *Participative goals, assigned goals, and self-set goals are equally effective.* Both managers and researchers are interested in identifying the best way to set goals. Should goals be participatively set, assigned, or set by the employee him- or herself? A summary of goal-setting research indicated that no single approach was consistently more effective than others in increasing performance.[51] Managers are advised to use a contingency approach by picking a method that seems best suited for the individual and situation at hand.
4. *Action planning facilitates goal accomplishment.* An **action plan** outlines the activities or tasks that need to be accomplished in order to obtain a goal. They can also include dates associated with completing each task, resources needed, and obstacles that must be overcome. Managers can use action plans as a vehicle to have performance discussions with employees, and employees can use them to monitor progress toward goal achievement. An action plan also serves as a cue to remind us of what we should be working on, which in turn was found to lead to goal-relevant behavior and success. As a case in point, research shows that goal setting and action planning helped college students increase their academic performance.[52] Finally, managers are encouraged to allow employees to develop their own action plans because this autonomy fuels higher goal commitment and a sense of doing meaningful work.[53]

5. *Goal commitment and monetary incentives affect goal-setting outcomes.* **Goal commitment** is the extent to which an individual is personally committed to achieving a goal. In general, an individual is expected to persist in attempts to accomplish a goal when he or she is committed to it. Researchers believe that goal commitment moderates the relationship between the difficulty of a goal and performance. That is, difficult goals lead to higher performance only when employees are committed to their goals. Conversely, difficult goals are hypothesized to lead to lower performance when people are not committed to their goals. A meta-analysis of 21 studies supported these predictions.[54] It also is important to note that people are more likely to commit to high goals when they have high self-efficacy about successfully accomplishing their goals.

Like goal setting, the use of monetary incentives to motivate employees is seldom questioned. Unfortunately, research uncovered some negative consequences when goal achievement is linked to individual incentives. Empirical studies demonstrated that goal-based bonus incentives produced higher commitment to easy goals and lower commitment to difficult goals. People were reluctant to commit to high goals that were tied to monetary incentives. People with high goal commitment also offered less help to their co-workers when they received goal-based bonus incentives to accomplish difficult individual goals. Individuals also neglected aspects of the job that were not covered in the performance goals.[55] Finally, a recent survey of 227 executives from multiple industries revealed that 51 percent "bent the rules" in order to accomplish goals.[56] These results suggest that blind pursuit of goal accomplishment can foster unethical behavior.

The above discussion underscores some of the dangers of using goal-based incentives, particularly for employees in complex, interdependent jobs requiring cooperation. Managers need to consider the advantages, disadvantages, and dilemmas of goal-based incentives prior to implementation.

LO.9 Motivating Employees through Job Design

TO THE POINT

What are the similarities and differences between how top-down, bottom-up, and idiosyncratic deals approach job design?

Completing tasks is the core of any job, and job design focuses on increasing employee motivation by changing the type of tasks we complete in the course of doing our jobs. **Job design**, also referred to as *job redesign,* "refers to any set of activities that involve the alteration of specific jobs or interdependent systems of jobs with the intent of improving the quality of employee job experience and their on the-job productivity."[57] Historically, job design was viewed as a top-down approach in which managers changed employees' tasks with the intent of increasing motivation and productivity. In other words, job design was management led. In the last 10 years, this perspective gave way to what have been called bottom-up processes. This approach is based on the idea that employees can proactively change or redesign their own jobs, thereby boosting their own motivation and engagement. Job design is driven by employees rather than managers according to bottom-up processes. The latest approach to job design attempts to merge these two historical perspectives and is referred to as idiosyncratic deals. This view envisions job design as a process in which employees and individual managers jointly

goal specificity Quantifiability of a goal.

action plan Activities or tasks to be accomplished to obtain a goal.

goal commitment Amount of commitment to achieving a goal.

job design Changing the content or process of a specific job to increase job satisfaction and performance.

negotiate the types of tasks employees complete at work. In other words, the process of job design is jointly owned by employees and managers. This section provides an overview of these three conceptually different approaches to job design.[58] More coverage is given to top-down techniques and models because they have been used for longer periods of time and more research is available to evaluate their effectiveness.

Top-Down Approaches

The fundamental premise of top-down approaches is that management is responsible for creating efficient and meaningful combinations of work tasks for employees. If done correctly, the theory is that employees will display higher performance, job satisfaction, and employee engagement, and lower absenteeism and turnover. Let us now consider the five principal top-down approaches: scientific management, job enlargement, job rotation, job enrichment, and the job characteristics model.

Scientific Management Scientific management draws from research in industrial engineering and is most heavily influenced by the work of Frederick Taylor. Taylor, a mechanical engineer, developed the principles of scientific management while working at both Midvale Steel Works and Bethlehem Steel in Pennsylvania. He observed very little cooperation between management and workers and found that employees were underachieving by engaging in output restriction, which Taylor called "systematic soldiering." Taylor's interest in scientific management grew from his desire to improve upon this situation.

Scientific management is "that kind of management which conducts a business or affairs by *standards* established by facts or truths gained through *systematic* observation, experiment, or reasoning."[59] Taylor's approach focused on using research and experimentation to determine the most efficient way to perform jobs. The application of scientific management involves the following five steps: (1) develop standard methods for performing jobs by using time and motion studies, (2) carefully select employees with the appropriate abilities, (3) train workers to use the standard methods and procedures, (4) support workers and reduce interruptions, and (5) provide incentives to reinforce performance.[60] Because jobs are highly specialized and standardized when they are designed according to the principles of scientific management, this approach to job design focuses on increasing efficiency, flexibility, and employee productivity.

Designing jobs according to the principles of scientific management has both positive and negative consequences. Positively, employee efficiency and productivity are increased. On the other hand, research reveals that simplified, repetitive jobs also lead to job dissatisfaction, poor mental health, higher levels of stress, and low sense of accomplishment and personal growth.[61] These negative consequences paved the way for the next four top-down approaches.

Job Enlargement This technique was first used in the late 1940s in response to complaints about tedious and overspecialized jobs. **Job enlargement** involves putting more variety into a worker's job by combining specialized tasks of comparable difficulty. Some call this *horizontally loading* the job. Researchers recommend using job enlargement as part of a broader approach that uses multiple motivational methods because it does not have a significant and lasting positive effect on job performance by itself.[62]

Job Rotation As with job enlargement, job rotation's purpose is to give employees greater variety in their work. **Job rotation** calls for moving employees from one specialized job to another. Rather than performing only one job, workers are trained and given the opportunity to perform two or more separate jobs on

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Tata Consultancy Services Uses Job Rotation

India-based Tata Consultancy Services (TCS), a software services and consulting company, considers job rotation a key strategy for developing its workforce and delivering added value to customers. The overseas program sends employees native to India to contribute to TCS operations in countries such as China, Hungary, and South America, among others. With offices in 42 countries globally and customers spread throughout the world, the ability to send skilled workers overseas is a must. But it also helps TCS provide better service since it draws on the strength of its entire workforce, rather than simply relying on whatever talent can be found in the office located closest to the customer. "It gives us the opportunity to offer a value proposition to our customers from the point of view of quality and knowledge," says Ajoy Mukherjee, vice president, head, global human resources.

Overseas assignments at TCS usually span 18 to 24 months, with employees learning both from their work with the customer, as well as from fellow TCS employees who are based permanently at that location. When the employee returns to India, he or she usually will continue working on the same kind of projects that were worked on abroad, thereby transferring the knowledge gained overseas to the home office. "The rotation is essential in building the competency of our people," says Mukherjee. "They were able to go onsite and meet face-to-face with our customers, and see how things work in another country." In addition to enhancing technical skills, the international people skills of those on overseas assignments are boosted.

Why would this rotation program increase employee satisfaction and performance?

SOURCE: Excerpted from M Weinstein, "Foreign but Familiar," *Training,* January 2009, p 22. Used with permission of Nielsen Business Media.

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a rotating basis. By rotating employees from job to job, managers believe they can stimulate interest and motivation while providing employees with a broader perspective of the organization. Tata Consultancy Services (TCS), for example, uses job rotation as a way to develop its workforce and provide employees with exposure to international operations (see Real World/Real People above). Other proposed advantages of job rotation include increased worker flexibility and easier scheduling because employees are cross-trained to perform different jobs. Organizations also use job rotation as a vehicle to place new employees into the jobs of their choice. The idea is that turnover is reduced and performance increases because people self-select their jobs.

Despite positive experiences from companies such as TCS, it is not possible to draw firm conclusions about the value of job rotation programs because they have not been adequately researched.

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Job Enrichment Job enrichment is the practical application of Frederick Herzberg's motivator–hygiene theory of job satisfaction which we discussed earlier in this chapter. Specifically, **job enrichment** entails modifying a job such that an employee has the opportunity to experience achievement, recognition, stimulating work, responsibility, and advancement. These characteristics are incorporated into a job through vertical loading. Rather than giving employees additional tasks of similar difficulty (horizontal loading), *vertical loading* consists of giving

scientific management Using research and experimentation to find the most efficient way to perform a job.

job enlargement Putting more variety into a job.

job rotation Moving employees from one specialized job to another.

job enrichment Building achievement, recognition, stimulating work, responsibility, and advancement into a job.

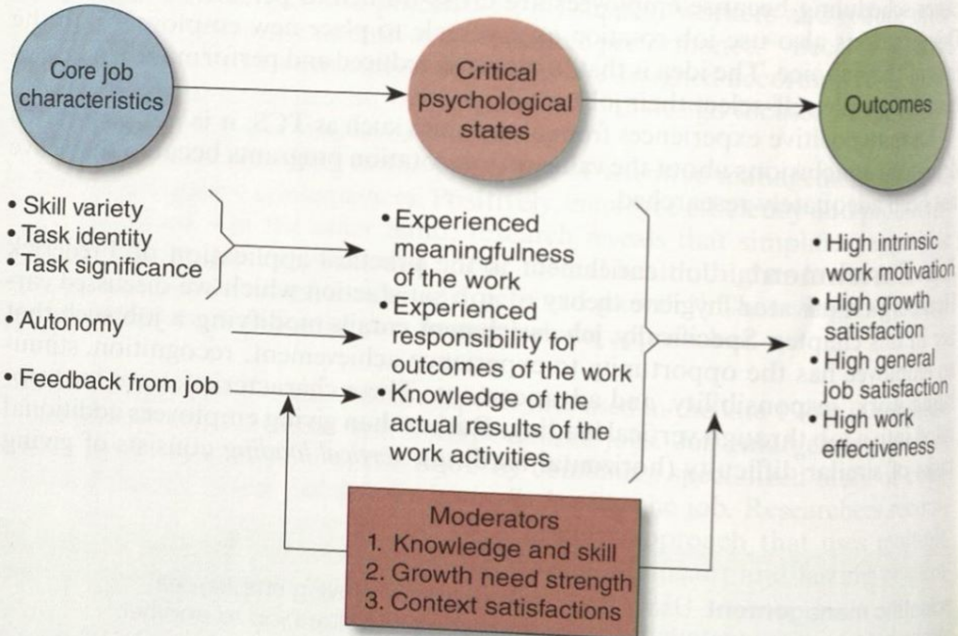
workers more autonomy and responsibility. Intuit, for example, attempts to do this by "encouraging workers to take four hours a week of 'unstructured time' for their own projects and hosting 'idea jams,' where teams present new concepts for prizes."[63]

The Job Characteristics Model Two OB researchers, J Richard Hackman and Greg Oldham, played a central role in developing the job characteristics approach. These researchers tried to determine how work can be structured so that employees are internally or intrinsically motivated. **Intrinsic motivation** occurs when an individual is "turned on to one's work because of the positive internal feelings that are generated by doing well, rather than being dependent on external factors (such as incentive pay or compliments from the boss) for the motivation to work effectively."[64] Intrinsic motivation is closely aligned with the concept of employee engagement, which was discussed in Chapter 6. These positive feelings power a self-perpetuating cycle of motivation. As shown in Figure 8–4, internal work motivation is determined by three psychological states. In turn, these psychological states are fostered by the presence of five core job dimensions. The object of this approach is to promote high intrinsic motivation by designing jobs that possess the five core job characteristics shown in Figure 8–4. Let us examine the core job dimensions.

In general terms, **core job dimensions** are common characteristics found to a varying degree in all jobs. Three of the job characteristics shown in Figure 8-4 combine to determine experienced meaningfulness of work:

- *Skill variety.* The extent to which the job requires an individual to perform a variety of tasks that require him or her to use different skills and abilities.
- *Task identity.* The extent to which the job requires an individual to perform a whole or completely identifiable piece of work. In other words, task

figure 8–4 The Job Characteristics Model



SOURCE: From J Richard Hackman and Greg R Oldham, *Work Redesign* (Prentice Hall Organizational Development Series), 1st ed © 1980, p 90. Reproduced by permission of Pearson Education, Upper Saddle River, NJ.

identity is high when a person works on a product or project from beginning to end and sees a tangible result.

- *Task significance.* The extent to which the job affects the lives of other people within or outside the organization.

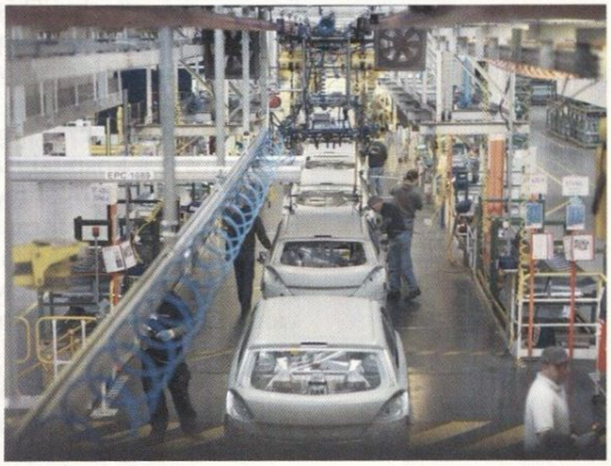
Experienced responsibility is elicited by the job characteristic of autonomy, defined as follows:

- *Autonomy.* The extent to which the job enables an individual to experience freedom, independence, and discretion in both scheduling and determining the procedures used in completing the job.

Finally, knowledge of results is fostered by the job characteristic of feedback, defined as follows:

- *Feedback.* The extent to which an individual receives direct and clear information about how effectively he or she is performing the job.[65]

Hackman and Oldham recognized that everyone does not want a job containing high amounts of the five core job characteristics. They incorporated this conclusion into their model by identifying three attributes that affect how individuals respond to job enrichment. These attributes are concerned with the individual's knowledge and skill, growth need strength (representing the desire to grow and develop as an individual), and context satisfactions (see the box labeled Moderators in Figure 8–4). Context satisfactions represent the extent to which employees are satisfied with various aspects of their job, such as satisfaction with pay, co-workers, and supervision.



Jobs on an assembly line like this are generally low in the five core job characteristics that drive positive psychological states. Auto manufactures try to enrich these jobs by giving employees more responsibility and decision-making latitude.

Research underscores three practical implications of the job characteristics model. First, managers may want to use this model to also increase employee job satisfaction. A meta-analysis involving over 75,000 people demonstrated a moderately strong relationship between job characteristics and satisfaction.[66] Second, this same large-scale meta-analysis showed that managers can enhance employees' intrinsic motivation, job involvement, and performance, while reducing absenteeism and stress by increasing the core job characteristics.[67] Consistent with this finding, Nugget Market, rated as the eighth best place to work for by *Fortune* in 2010, uses a creative recognition program to enhance the motivation and performance. "Employee rallies are an everyday event at this nine-store supermarket chain, where a big flat-screen monitor in each store delivers awards and pumps up the troops. Workers who watch diligently can get \$20–\$1,500 bonuses."[68] Finally, managers are likely to find noticeable increases in the quality of performance after a job redesign program. Results from 21 experimental studies revealed that job redesign resulted in a median increase of 28% in the quality of performance.[69]

intrinsic motivation Motivation caused by positive internal feelings.

core job dimensions Job characteristics found to various degrees in all jobs.

More and more people are crafting jobs that entail doing work from home. What are the challenges of managing people who work from home?

Bottom-Up Approaches

As the term *bottom-up* suggests, this approach to job design is driven by employees rather than managers and is referred to as job crafting. **Job crafting** is defined as "the physical and cognitive changes individuals make in the task or relational boundaries of their work."[70] Employees are viewed as "job crafters" according to this model because they are expected to define and create their own job boundaries. As such, this approach to job design represents proactive and adaptive employee behavior aimed at changing tasks, relationships, and cognitions associated with one's job. Table 8–3 defines and illustrates the three key forms of job crating.

The first form of job crafting involves changing one's task boundaries. You can do this by altering the scope or nature of tasks you complete at work or you can take on fewer or more tasks. This is illustrated by the example of engineers taking on more relationship-oriented activities in order to complete projects. The second form of job crafting, shown in Table 8–3, entails changing the relational nature of one's job. Specifically, you can alter the quantity or quality of interactions you have with others at work, or you can establish new relationships. An example of this is a hospital janitorial employee interacting with patients, ultimately making this employee feels like he or she can impact patient care. Cognitive crafting is the final form of job crafting. It encompasses a change in how you perceive or think about the tasks and relationships associated with your job. For example, a nurse can view accurate record keeping as a key component of providing high-quality health care as opposed to a chore that detracts from helping patients.

The final column in Table 8–3 outlines the potential impact of job crafting on employee motivation and performance. You can see that job crafting is expected to change how employees perceive their jobs. Job crafting is expected to result in more positive attitudes about one's job, which in turn is expected to increases employee motivation, engagement, and performance. Preliminary research supports this proposition.[71]

table 8–3 Forms of Job Crafting

FORM	EXAMPLE	EFFECT ON MEANING OF WORK
Changing number, scope, and type of job tasks	Design engineers engaging in relational tasks that move a project to completion	Work is completed in a more timely fashion; engineers change the meaning of their jobs to be guardians or movers of projects
Changing quality and/or amount of interaction with others encountered in a job	Hospital cleaners actively caring for patients and families, integrating themselves into the workflow of their floor units	Cleaners change the meaning of their jobs to be helpers of the sick; see the work of the floor unit as an integrated whole of which they are a vital part
Changing cognitive task boundaries	Nurses taking responsibility for all information and "insignificant" tasks that may help them to care more appropriately for a patient	Nurses change the way they see the work to be more about patient advocacy, as well as high-quality technical care

SOURCE: A Wrzesniewski and J E Dutton, "Crafting a Job: Revisioning Employees As Active Crafters of Their Work," *Academy of Management Review,* April 2001, p 185.

Idiosyncratic Deals (I-Deals)

This last approach to job design represents a middle ground between top-down and bottom-up methods and attempts to overcome their limitations. For example, top-down approaches are constrained by the fact that managers cannot always create changes in task characteristics that are optimum for everyone. Similarly, job crafting is limited by the amount of latitude people have in changing their own jobs. **Idiosyncratic deals (i-deals)** represent "employment terms individuals negotiate for themselves, taking myriad forms from flexible schedules to career development."[72] Although "star performers" have long negotiated special employment contracts or deals, demographic trends and the changing nature of work have created increased opportunities for more employees to negotiate i-deals.

I-deals tend to involve personal flexibility, developmental needs, and task-related content. The goal of such deals is to increase employee motivation and productivity by allowing employees the flexibility to negotiate employment relationships that meet their needs and values. RSM McGladrey is a great example. The company promotes and encourages the creation of i-deals among its 8,000 employees. The focus of RSM McGladrey's program is to create innovative and flexible ways of working. The company believes that this approach to job design fuels employee engagement, satisfaction, productivity, and customer satisfaction while reducing employee turnover. This belief may prove convincing if one considers the many awards the company has received in the last few years. It was named to *Working Mother*'s list of top 100 companies for the third time in 2009, ranked fifth by *Accounting Today* in its list of top 100 firms in 2010, and one of the best places to launch a career by *BusinessWeek* in 2009.[73] The Real World/Real People on page 232 explains how these i-deals are negotiated.

Although this approach to job design is too new to have generated much research, preliminary evidence is positive. A recent study of hospitals in both the United States and Germany shows that i-deals are associated with less stress and more opportunities to perform meaningful work, which in turn leads to higher levels of employee engagement.[74] Future research is needed to determine the generalizability of these encouraging results.

Putting Motivational Theories to Work

TO THE POINT

What are the challenges managers face when implementing motivational programs?

We started this chapter by noting that motivating employees is a key aspect of being an effective manager. That said, managers face two key challenges when devising motivational programs. First, many managers are stretched in their job duties. They feel pulled in multiple directions and spend far too much time fighting fires instead of proactively focusing on employees' needs. This situation is frustrating and can lead to lower job satisfaction and motivation for managers. It still is imperative, however, for managers to find the time, and a positive attitude, to apply to the task of employee motivation. Jack and Suzy Welch commented on this issue and concluded that "no boss is doing his job properly if he's not letting each of his people know where they stand in constructive detail" and delivering "outsize rewards for outsize performance."[75] Second, managers may not know how to motivate people beyond the simple use of monetary rewards. It is

job crafting Proactive and adaptive employee behavior aimed at changing the nature of one's job.

idiosyncratic deals (i-deals) Process by which employees and managers negotiate tasks completed by employees.

real WORLD // real PEOPLE

RSM McGladrey Encourages I-Deals

[The program allows] employees across the nation to take a portion of the year off, while working full-time or part-time the remainder of the year and receiving a pro-rated paycheck and full benefits all year. . . .

McGladrey employees have been taking advantage of FlexYear schedules for years. . . . The design is simple and focuses on business impact. It makes sense for the company, employees and clients.

First, an interested employee who has been with the firm a minimum of three months and has a performance rating of "achieving expectations" or better initiates a request for one of the firm's seven flexible work options by completing an eight-question business proposal that requires him or her to assess the impact of the request on the firm, its clients and his or her coworkers—and to propose solutions to issues that could arise as a result.

Second, managers evaluate proposals based on the impact on the business. Employees' personal reasons for pursuing the flexible work option are not considered. . . . Typically, employees take about two months off during the summer, but the duration and time of year may vary.

Third, if a proposal will create a neutral or positive impact, managers are encouraged to approve the request, at least on a pilot basis, to keep the employee on board. If there is a negative impact on the business, managers are encouraged to decline the request—even if that means having a difficult conversation with an employee.

Finally, once approved, flexible work options are continually monitored to ensure that they still work for the employee, firm and our clients. They can be modified or ended—by the firm or the employee—at any time, based on individual and business needs.

By making FlexYear part of this business-based approach to flexibility, we were able to position it as a strategic tool that helps leaders manage the cyclical nature of our business while responding to the diverse needs of employees. . . .

Michelle Hickox, a partner in our Dallas office, has been on a FlexYear schedule for eight years and has seen firsthand the positive impact on her family and the firm. Through FlexYear, Hickox has enjoyed taking June and July off each year to make invaluable memories with her two girls. This option also allows her to develop deep relationship with her clients through open conversations about her schedule. And, FlexYear provides stretch opportunities for employees on Hickox's team who work with her clients while she is out.

What problems do you see with creating i-deals?

SOURCE: Excerpted from T Hopke, "Go Ahead, Take a Few Months Off," *HR Magazine*, September 2010, pp 72, 74.

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important for managers to use a broader or more integrated approach when trying to motivate employees. This approach should consider the various theories and models discussed in this chapter as well as concepts covered in previous chapters. Organizations can help managers by providing them with training and coaching that focuses on how they can improve their ability to motivate others.

Summary of Key Concepts

1. *Contrast Maslow's, Alderfer's, and McClelland's need theories.* Maslow proposed that motivation is a function of five basic needs arranged in a prepotent hierarchy. The concept of a stair-step hierarchy has not stood up well under research. Alderfer concluded that three core needs explain behavior—existence, relatedness, and growth. He proposed that more than one need can be activated at a time and frustration of higher-order needs can influence the desire for lower-level needs. McClelland argued that motivation and performance vary according to the strength of an individual's need for achievement. High achievers prefer tasks of moderate difficulty, situations under their control, and a desire for more performance feedback than low achievers. Top managers should have a high need for power coupled with a low need for affiliation.
2. *Explain the practical significance of Herzberg's distinction between motivators and hygiene factors.* Herzberg believes job satisfaction motivates better job performance. His hygiene factors, such as policies, supervision, and salary, erase sources of dissatisfaction. On the other hand, his motivators, such as achievement, responsibility, and recognition, foster job satisfaction. Although Herzberg's motivator–hygiene theory of job satisfaction has been criticized on methodological

grounds, it offers practical advice for motivating employees.

3. *Discuss the role of perceived inequity in employee motivation.* Equity theory is a model of motivation that explains how people strive for fairness and justice in social exchanges. On the job, feelings of inequity revolve around a person's evaluation of whether he or she receives adequate rewards to compensate for his or her contributive inputs. People perform these evaluations by comparing the perceived fairness of their employment exchange with that of relevant others. Perceived inequity creates motivation to restore equity.
4. *Explain the differences among distributive, procedural, and interactional justice.* Distributive, procedural, and interactional justice are the three key components underlying organizational justice. Distributive justice reflects the perceived fairness of how resources and rewards are distributed. Procedural justice represents the perceived fairness of the process and procedures used to make allocation decisions. Interactional justice entails the perceived fairness of a decision maker's behavior in the process of decision making.
5. *Describe the practical lessons derived from equity and interactional justice.* Equity theory has at least six practical implications. First, managers should pay attention to employees' perceptions of what is fair and equitable. It is the employee's view of reality that counts when trying to motivate someone, according to equity theory. Second, employees should be given a voice in decisions that affect them. Third, employees should be given the opportunity to appeal decisions that affect their welfare. Fourth, managers can promote cooperation and teamwork among group members by treating them equitably. Fifth, employees' perceptions of justice are strongly influenced by the leadership behavior exhibited by managers. Finally, managers need to pay attention to the organization's climate for justice because it influences employee attitudes and behavior.
6. *Explain Vroom's expectancy theory.* Expectancy theory assumes motivation is determined by one's perceived chances of achieving valued outcomes. Vroom's expectancy model of motivation reveals how effort→performance expectancies and performance→outcome instrumentalities influence the degree of effort expended to achieve desired (positively valent) outcomes. Managers are advised to enhance effort→performance expectancies by helping employees accomplish their performance goals.
7. *Explain how goal setting motivates an individual.* Four motivational mechanisms of goal setting are as follows: (*a*) Goals direct one's attention, (*b*) goals regulate effort, (*c*) goals increase one's persistence, and (*d*) goals encourage development of goal-attainment strategies and action plans.
8. *Review the five practical lessons from goal-setting research.* First, specific high goals lead to greater performance. Second, feedback enhances the effect of specific, difficult goals. Third, participative goals, assigned goals, and self-set goals are equally effective. Fourth, action planning facilitates goal accomplishment. Fifth, goal commitment and monetary incentives affect goal-setting outcomes.
9. *Discuss the three conceptually different approaches to job design.* The premise of top-down approaches is that management is responsible for creating efficient and meaningful combinations of work tasks for employees. There are five principal top-down approaches: scientific management, job enlargement, job enrichment, job rotation, and a contingency approach called the job characteristics model. Bottom-up approaches, which are referred to as job crafting, are driven by employees rather than managers. Employees are viewed as job crafters who define and create their own job boundaries. Idiosyncratic deals (i-deals) view job design as a process in which employees and managers jointly negotiate the types of tasks employees complete at work.

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OB in Action Case Study

How Should Managers Handle Tough Employment Decisions?[76]

Here is what Bill Conaty, former senior vice president of human resources at General Electric had to say.

> Restructurings, consolidation, salary freezes, a shifting health-care cost burden, furloughs, 401(k) match eliminations . . . this list, as you know, goes on and on. Did your company cancel this year's Christmas party? . . .

My concern is that, cumulatively, these negative actions are tugging at and fraying the delicate bonds of loyalty that tie employees to their employers. I believe it will be the companies that manage to deftly balance the necessary tough competitive actions with genuine compassion for their employees that will win big in the future.

People have long memories. What they don't have right now are a whole lot of career options. And they will judge their employer by how equitably they feel they were treated during the down market. So how exactly do you steer your company through this in a way that won't drive your people into the arms of the first headhunter who calls? . . .

As counterintuitive as it may sound, consider going deeper than you might on staff reductions, rather than nibbling around the edges hoping for a quick market turnaround. . . . When you are ready to make those cuts, deal compassionately with the casualties, financially and emotionally, to provide them as soft a landing as possible. Career transition centers, training opportunities, and a sincere interest in helping those who are moving on become more marketable will genuinely help.

Many companies don't need to be told that. Instead, managers often spend a disproportionate amount of time managing the layoff process and not enough attention on the surviving talent. Those survivors need to be recognized and rewarded. Yes, they'll pay close attention to how humanely layoffs are carried out, but they're also aware that their own workload and stress level has just been stepped up. You want this group to play offense, not to fret over when the next shoe will drop or feel that they're being overburdened.

With financial rewards temporarily off the screen, an astonishingly powerful form of recognition is a genuine pat on the back, along with words along these lines: "I think you're doing a great job under tough circumstances, and you're an essential part of my team." . . .

There's a strong tendency for executives in tight spots to simply clam up, fearing they don't have the answers people want to hear. To avoid appearing inadequate, they'll issue the occasional all-employee e-mail or canned Webcast. But you'll find that you don't need to have all the answers. You'll discover that the rumor mill has painted the most pessimistic picture imaginable, and you will quickly be able to dispel numerous falsehoods and present a clearer and more optimistic view. These times call for a personal touch. Employees who get to see and hear their leaders are far more likely to buy into a future beyond the crisis.

Now back to the subject of holiday parties: It's a mistake to legislate fun out of the workplace. You need to continue to celebrate, especially in tough times. . . . We need to dial down how we celebrate, yes, but it's not natural to have to continuously wear a deadly serious game face.

Questions for Discussion

1. Why is it important to focus on motivating employees who survive a layoff?
2. To what extent is Conaty's advice consistent with equity and expectancy theory?
3. Do you believe that recognition will motivate layoff survivors? Explain.
4. Do you agree that managers should find ways to have fun in the work environment after a layoff? Why or why not?
5. What is the biggest takeaway you get from trying to link content in this chapter to this case?

Legal/Ethical Challenge

Should Retrocessions Be Allowed in the United States?[77]

A retrocession is a kickback that "asset managers may be skimming off investments." While it is little known in the United States, the practice has been an open secret in European private banking for decades—and it recently surfaced as a perk that Zurich-based Credit Suisse may have received from Bernie Madoff's feeder funds.

"How does this work? Essentially, bankers get rebates from fund managers they park money with—and pocket the commissions instead of passing the savings on to clients. Retrocessions typically match 25% of a fund's management fee, says British hedge fund manager Fabien Pictet. So on a $2 billion investment, a management fee of 2%, or $40 million, would yield a $10 million kickback."

What Is Your Opinion about Retrocessions?

1. A retrocession is like getting a sales commission and thus should be allowed.
2. A retrocession is another way that bankers are taking advantage of investors. Commissions should be passed

to investors and not kept by bankers. This practice should be against the law.

3. Bankers should be required to disclose this issue to potential investors and then let individuals decide for themselves. A bank customer may be okay with this practice because they have a long-term relationship with the banker.
4. Invent other options.

Web Resources

For study material and exercises that apply to this chapter, visit our website at **www.mhhe.com/kreitner10e**