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Why 'benefits' do not deliver performance improvement

Before we start to think about non-monetary reward and recognizing achievement, we need to slay a few motivational dragons. In this chapter we will discuss the role that benefits or perks play in the remuneration of employees and why, in general, they do not tend to promote better performance.

Benefits such as free healthcare, childcare subsidies or perks such as access to discounted employee lunches or local gym membership are certainly valuable parts of any remuneration package and can, in some personal circumstances, make employees stay longer or even decide in their absence to resign and join someone new. But let's be clear. They do not improve individual performance at work or reinforce achievement habits.

Employee benefits and perks are neither recognition nor reward, despite their huge presence in the organizations of the developed world. It has been estimated that benefits account for 30 per cent or more of total employee costs for many large organizations. The concept of employee support benefits in the industrialized West originated in the 19th century in the UK to encourage people living in rural areas to move to the growing urban populations. Entire villages and communities were constructed by employers such as Cadbury and other Quaker employers as part of their Christian duty to care for their workers.

Society has moved on since those pioneering days, but benefits have remained a significant part of the competitive employment offer in most industrialized nations. With many employees enjoying lifestyles well above the poverty line in the developed world, benefits have become part of the incentive to attract new employees and retain the ones you already have. According to the Chartered Institute for Personnel and Development, some 90 per cent of UK employees now receive benefits and perks of one kind or another as part of their remuneration package.

Mattel, the toy manufacturer, offers some of its workers 16 hours of paid leave a year for parent- or school-related activity. Deloitte, the management consultancy, provides a sabbatical of three to six years of part-paid leave to pursue approved life- or career-enhancing activities. 3M offers time with ‘mentor mums’ to pregnant employees to help with the challenge of starting a family.

In the United States, ‘fringe benefits’ came into their own after the Second World War when there was a government freeze on wages by the War Labor Board. Employers sought other ways to make their organizations more attractive to would-be employees, despite the general levels of post-war austerity, and began to add benefits to their employment offer.

Tax treatment of benefits and perks

Health insurance as provided by employers in the United States was taxable prior to 1954, but it now stands outside the tax regime. Fiscal treatment of specific benefits is always subject to change depending on the policy makers in power. Every tax jurisdiction has various allowances and tax-exempt procedures for benefits and perks that make the specific item either more or less attractive for recipients.

It could be argued that the rise of the internet for exchange of business information in the late 1990s also accelerated the use of remuneration that stands outside the published salary scales. As almost any service or item of merchandise can now be offered at a discount and paid for electronically there is virtually no limit to the number and types of perk that workers can be offered. Savings can be much more pronounced online depending on the type of supplier, and the more employees you have the more likely the discount will be substantial.

But benefits or perks should not be confused with 'incentives'. When employee motivation is discussed at C-suite level, VPs often say that, if employees are not motivated to work harder with all the benefits they currently receive, why should the organization be offering similar non-monetary rewards for them simply to do their contracted job? This type of analysis misunderstands employee motivation at its most basic level. Nobody works harder or goes the extra mile for an increment in their pension or for higher life insurance.

Benefits exist to retain staff and promote loyalty. They do not encourage higher or exceptional performance on a day-to-day basis. Nor are they designed to do so. When you review the exit surveys of workers who have voluntarily left their jobs, very few leave because their 'perks and benefits' were not good enough. Most leave because they do not get on with their direct line supervisor or manager. When it comes to employee motivation there are bigger issues at stake when deciding to stay with an organization than childcare subsidies and retirement planning. The main reason can be found in Herzberg's seminal study about satisfiers and dissatisfiers, which was originally undertaken during the 1950s and continued throughout his professional life until his death in 2000.

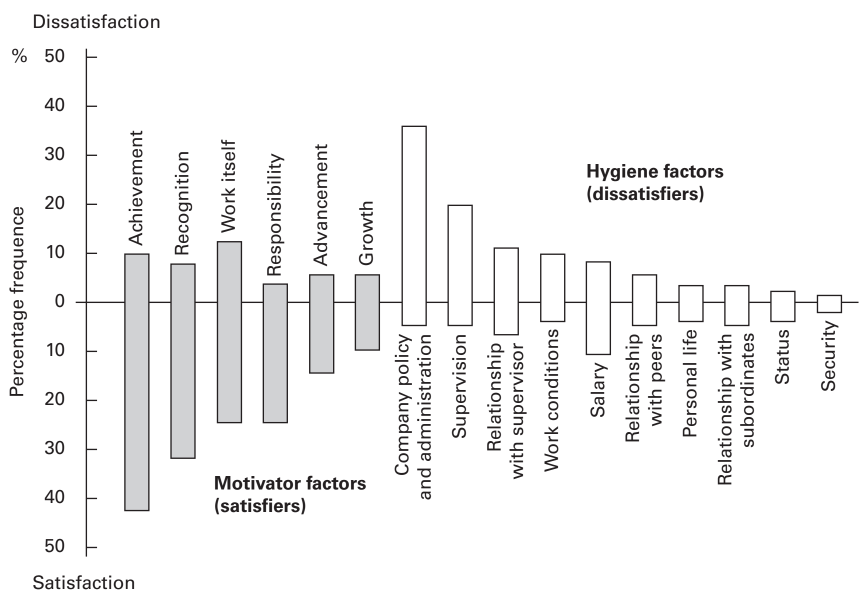
The Motivation to Work by Frederick Herzberg (1959)

The original study was pretty small by the modern standards of 'big data' analysis. Herzberg, along with various research colleagues, analysed the responses to a survey of some 200 engineers and accountants in the Pittsburgh district. Rather than use closed questions requiring a yes/no answer or multiple choice options Herzberg asked open-ended questions about attitudes to incidents at work.

He cross-referenced his survey across some 150 other similar studies that had been undertaken since the 1920s, which provided a unique insight into the interpretation and grouping of the answers. Herzberg's theory attempts to show that to improve performance at work you should provide 'satisfiers'. Simply removing 'dissatisfiers' will not be effective, even though it would appear it should. This is the crux of the whole argument about whether perks and work benefits are there to improve performance or are there for some other reason.

Let's take a look at what Herzberg's diagram (Figure 1.1) actually means. There is an upright scale on the left-hand side which goes from 50 per cent dissatisfaction at the top down to 50 per cent satisfaction. If you are at 0 per cent the factor is neither a satisfier nor a dissatisfier, in theory. The first six grey bars reading left to right are the main factors that the 200 people in Pittsburgh mentioned as providing the most satisfaction at work. We can see this because the bars stretch way down into the 'satisfier' zone. In order, they are a sense of achievement, personal or team recognition, the intrinsic value of the work itself, role responsibility, the opportunity to be promoted (advancement) and personal growth in terms of learning something new. These are known as the 'motivator factors'. The implication is that if you want to motivate workers to make incremental effort or be more fully engaged or more committed to their job roles the

FIGURE 1.1 Herzberg's two-factor theory



organization needs to build processes and programmes that allow these factors to flourish. So to promote higher performance and productivity management should concentrate on developing the 'motivator' factors.

On the right-hand side of Figure 1.1 are the hygiene factors, or the dissatisfiers. In other words, they represent all the factors that make workers dissatisfied with their job role. There may be other factors in any given organization that make people dissatisfied with their work situation, but in this study these were the factors that the respondents highlighted. Reading from left to right the factor most likely to cause dissatisfaction is company policy and administration. We then have supervision (or you could say the personal style of management prevalent in the organization), interpersonal relationships with immediate bosses or supervisors, work conditions, salary (which would include any perks or benefits), relationships with peers, personal life issues, relationship with subordinates, status within the organization (such as job title or inclusion within certain project teams) and lastly security (which points to the financial viability or stability of the organization in general). It is clear from the length of the bars (number of incidents recorded in the original survey) that company management style and the way you are personally managed are by far the biggest dissatisfier factors. In almost every employee survey since this survey was undertaken management style is quoted as the crucial factor in staff retention. The other factors are fairly neutral, as they cluster mostly around the zero axis.

Only 'motivators' improve work performance

What does all this mean with regard to reward and recognition? It strongly suggests that, if they want to improve workers' performance, organizations should spend most of their time on programmes that provide focus on individual achievement, recognition and incentives based on agreed performance goals rather than adjusting salary and benefits levels and all the other hygiene factors, which are mostly neutral in their effect according to Herzberg's diagram (Figure 1.1).

It would be useful for any organization to survey what total worker hours are spent internally on organizing the hygiene factors and what worker hours are dedicated to creating motivator factors. I suspect the time would be heavily skewed towards the dissatisfiers, even though we already know that the satisfiers are actually what make people improve their daily performance.

Naturally, no single activity carried out by the organization has just one effect. It can be argued that providing competitive benefits packages adds to the bottom line of quarterly figures because better retention equals reduced recruitment and training costs. It may also reduce the amount of time employees spend being disengaged and seeking other employment when they should be working on organizational tasks. But these positives are difficult to track and not scientifically verifiable.

One note of caution is the usual one of proportion and timing. It would be simply wrong to look at organizational planning out of context regarding the marketplace and the competitive environment. If a new competitor opened up on your doorstep and was paying 20 per cent higher salaries for the same job roles, you would certainly need to look at remuneration policy quickly rather than embark solely on a recognition programme and ignore the benefits package. All organizations work within a local competitive or sector framework, which is constantly changing. Simply following Herzberg's principles to the exclusion of all others would be foolish. But the evidence shows that only programmes that promote motivators produce higher performance at work. Benefits are the least effective use of resources and budget to encourage higher performance.

Does Herzberg's theory suggest more use of incentives?

It is clear from Figure 1.1 that anything that fosters the celebration of individual achievement and its communication throughout the organization can only be a force for good, all other things being equal. This leads on logically to providing incentives or contingency-based rewards to bring out that innate yearning for achievement and to setting up communication programmes to promote team and individual recognition of those 'achievements'.

Cash or non-cash?

The big debate then moves on to whether the incentives should be money or some other type of reward. According to the Herzberg model, more money (or extra salary) is a hygiene factor and so is not a medium to help improve performance. But we know that commission schemes and bonuses do work in some way to promote higher activity, so shouldn't they be a 'motivator'? (For the answer see Chapter 8.) The broad answer is that surprisingly most people do not work harder for 'more money'. In fact in many knowledge-based organizations, which includes most jobs in the developed world, the work itself is the main driver of high performance, and purely adding more money can actually impair performance and cause friction between employees, leading to lower individual performance, not higher achievement.

We should say something about motivation programmes in general and why they exist. Professional managers with hands-on experience of one-to-one management of individuals and teams will often say that they do not need such techniques to create additional performance. This is no doubt true for many. But what about those who are new to the management of incentive and recognition programmes or simply do not have the communication skills to pull them off in an effective way? According to the 'span of seven' rule, any group larger than seven needs to be motivated remotely in some shape or form. Humans find it difficult to manage personally each individual beyond this number. The role of a centrally organized programme is to ensure that there is a professional framework around which even an averagely competent manager can work.

Sometimes line supervisors complain that the catch-all programme does not work for them within the context of their team or their division. Any general programme introduced for the entire organization for something as personal as individual recognition and reward is probably going to be valid for only say 80 per cent of any given audience. But this is not a reason to abandon the attempt. Organizational life is full of instances where policy or processes are only ever partially achieved. The objective is to achieve as high an uptake as possible, provide remedies for those areas that do not participate and accept the rest as the statistical tail of non-compliance. This is what engagement is all about.

A further issue may be that the programme as devised by the central team has the wrong key performance indicators (KPIs) for their specific division or has a theme that does not resonate with their operational processes. This can be most often experienced by employees who work in advice areas such as consultancy, legal or senior management. Hybrids of the overall programme can easily be produced that offer a similar focus on recognition and incentives but that are relevant to the procedures of a particular area. It simply requires some imagination to see how to dovetail the main programme into more specialized parts of the organization.

Are there any other motivational theories to consider?

Herzberg is quite clear when it comes to isolating what factors would promote better employee performance, but unfortunately not all academic researchers are such good communicators. Often behavioural patterns observed in lab rats are used to illustrate the power of offering incentives. But do the findings apply to humans? Numerous studies over the years have been conducted using students, as they are a cheap and convenient source of compliant survey fodder. But do they really represent how employed workers or professionals would behave in the context of a busy working day?

There is no doubt that theories can point to a number of operational guidelines for programme planners from how often to send messages to the type of reward to offer. They are all top-line findings and may or may not apply to every single organizational situation, but they do answer some of the detailed queries that often come up when the planning for reward and recognition programmes gets under way.

Benefits and perks are not the answer

It is clear from this chapter that although benefits and perks are widely used across the developed world to attract and retain employees they do a very poor job when it comes to encouraging higher performance. The main issue is that they are not contingent on any kind of behaviour, but are an entitlement of being employed. Despite their aggregate cost they are far from transparent in terms of their effectiveness in promoting a more achievement-driven, results-based workforce.

If we now agree that programmes to promote achievement and recognition are the most effective way to improve individual worker and team performance, we need to think about incentive or human motivation theory a little more before we start constructing a strategic reward and recognition plan for any organization. Knowing something specific about human behaviour could save you a lot of money, if the knowledge is applied correctly and in context, especially if large numbers of people are involved.