CHAPTER 3

Human resource management — motivating employees

WHY IT IS IMPORTANT
It is often said that employees are a business’s most important resource. However, employees are more than just resources for a business. They are first and foremost, people — people with their own hopes, ambitions, likes and dislikes, and ultimately their own individual reasons for working. Motivation is the force that drives people to exert individual effort over a sustained period of time. When that effort is exerted in the workplace it is likely to lead to improved productivity and greater success at achieving business objectives.

Finding ways to motivate employees can be the key to getting the best out of them. This will not only benefit the business, but can provide a means of rewarding employees with interesting and challenging career paths, promotion, improvements in pay, and a sense of achievement and personal satisfaction.

WHAT YOU WILL LEARN

Key knowledge
Use each of the points below from the Business Management study design as a heading in your summary notes.

- The relationship between managing employees and business objectives
- Key principles of the following theories of motivation: Hierarchy of Needs (Maslow), Goal setting Theory (Locke & Latham), and the Four Drives Theory (Lawrence & Nohria)
- The advantages and disadvantages of motivation strategies and their effect on long-term employee motivation
- Motivation strategies including performance-related pay, career advancement, investment in training, support and sanction

Key skills
These are the skills you need to demonstrate. Can you demonstrate these skills?
- define, describe and apply relevant business management concepts and terms
- research and analyse case studies and contemporary examples of management related to managing staff in a business
- interpret, discuss and evaluate business information and ideas
- apply knowledge about managing employees to practical and/or simulated business situations
- examine and apply the key principles of the theories of motivation
- compare and evaluate strategies used for motivation and training when managing a business
- propose and justify strategies to manage employees effectively.

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FedEx cares

FedEx Express is a well-known transportation company, delivering packages all over the world. FedEx Express employs more than 300,000 people — that is a lot of employees to keep satisfied. Nevertheless, FedEx has gained a reputation as a great place to work.

According to Kim Garner, FedEx Express Australasia’s managing director, employees are encouraged to excel and contribute to the company. FedEx has a strong people culture; this means that employees are valued and management works towards creating a supportive workplace culture that develops talent.

‘At FedEx, our people are the heart and soul of our business. This is why our founding People-Service-Profit (PSP) philosophy is based on the premise that if we take care of our people, they will take care of our customers, and that will take care of our profit’, says Garner. ‘Our focus has been on our people since we began our operations and our ongoing commitment to building a positive working environment at FedEx through a combination of leadership development and training programs which make our employees feel valued and engaged.’

FedEx has frequently been recognised for its people-first culture including an Australian HR Award for employer of choice. The company values its diverse workforce and is a supporter of gender equality, mature workers and advancement of women in the workplace.
3.1 The relationship between managing employees and business objectives

**KEY CONCEPT**  Effective management of people (human resource management) is likely to result in a business achieving success and fulfilling its objectives.

### Human resource management

Iluka Resources Limited is a great place to work. Staff at the Australian mining company (that explores and processes titanium-based products and zircon) are treated fairly and honestly. Positive work relationships between management and staff are considered vital to the company’s success. Iluka provides a fitness-for-work program for employees, supports employee work-from-home arrangements, and grants access to personal leave for both male and female staff.

Responsibility for maintaining the relationship between employees and the business is known as **human resource management**. In small and medium businesses, human resource management is one of the many responsibilities of the business owner; however, in larger businesses, this task is the responsibility of a specialised **human resource manager**. Such a person will work as part of a team to ensure that the business has the appropriate employees, with the appropriate skills, available to carry out the various duties needed in the locations and at the times they are required.

Human resource managers will also take responsibility for ensuring that the business is able to get the best out of its employees, and that the employees are able to contribute to the achievement of business objectives. Motivated employees are more likely to work hard to achieve those objectives, so employee motivation is central to human resource management.

### Relationship to business objectives

Businesses such as Iluka are successful in achieving their objectives by balancing the need for profitability (and satisfying shareholders) with a regard for the wellbeing of employees. Human resource management’s focus on positive work and employment relationships should lead to a motivated staff, increased productivity and, consequently, the achievement of business objectives.
A large-scale business will usually establish a human resources function or department (sometimes simply referred to as HR) to be responsible for all aspects of staffing (see the organisational structure diagram below). The human resources manager will be involved in determining business objectives, along with the other senior managers. The human resources manager will also need to ensure that the strategies used by the HR department align with the objectives and strategies of the entire business.

The HR department will work closely with the other departments in the business. The HR department may, for example, work closely with the operations management department to recruit and select new staff. Human resources strategies can be used to achieve business objectives by supporting strategies in other areas of the business (see the table below for more examples of how HR strategies can be used to help the business achieve its objectives).

One example of how the human resource management function fits into the organisational structure

The HR department will need to have strategies that ensure that decisions that affect employees are decisions that enhance the objectives of the business. If an objective is to increase sales, the HR department will need to ensure it has staff with good knowledge of the products or services sold by the business, either by recruiting appropriately skilled employees, or by training existing staff. The objective of increasing profits can be enhanced by ensuring staff are sufficiently well trained to work efficiently and contribute to improving business productivity. Ultimately, no business objective can be achieved unless employees are able to make a positive contribution.
HR departments take on many important roles in a business, so a successful HR department can help to increase the success of the business.

**Top Employers Institute**

The Top Employers Institute provides certification for businesses that create outstanding conditions of employment for their employees. Businesses wishing to gain certification are required to participate in the HR Best Practices Survey, which is a comprehensive analysis of the business’s HR environment. This survey explores learning development processes, performance management, leadership development, career planning and development, as well as the remuneration and benefits offered to employees. Results of the survey are validated and audited to ensure accuracy, and only those that pass the strict evaluation criteria are granted certification. Gaining Top Employer certification is a clear indication that the business is an ‘employer of choice’. This is a huge positive for any business as it will attract quality employees, whose skills and talents will make business objectives more achievable.

### TEST your understanding

1. What are human resources?
2. Define what you understand by ‘human resource management’.
3. Why are human resources the most important resource used by businesses?
4. What is the relationship between HR and business objectives?
5. Why is employee motivation central to HR management?

### APPLY your understanding

6. An accident in the workplace has closed a factory for two days. How do you think a human resource manager could attempt to avoid a similar situation in the future?
7. A company has an objective of ‘increasing exports to Asian markets’. What HR strategies would need to be put in place to achieve that objective?
8. Why might a business want to gain certification from the Top Employers Institute?
3.2 An introduction to motivation and Maslow’s hierarchy of needs

**KEY CONCEPT** The force that drives a person to exert individual effort over a sustainable period of time is called motivation. Psychologist Abraham Maslow believed that our needs are the forces that motivate individuals.

Motivating employees is one of the most important management functions, because high levels of motivation result in increasing rates of productivity. **Motivation** is what drives a person to apply individual effort over a sustainable period of time.

To put it another way, motivation is what drives a person to behave in a certain way, or to achieve a certain goal; for example, what motivated you to:

- return to year 11 after completing year 10?
- complete the latest Business Management homework exercises?
- look for a part-time job?

In a work setting, motivation makes people want to work, but what is it that motivates people? For many years, managers have relied on the use of either rewards or punishments to motivate employees. An analogy is often used to try to explain what motivates people: what is most likely to motivate a donkey to move forward (that is, change its behaviour)? Either a carrot can be dangled in front of the donkey (a reward) or the donkey can be hit with a stick (a punishment). Either method may motivate the donkey. In the work environment, ‘rewards’ refer to increased pay and improved conditions, ‘punishment’ refers to fear of a reprimand, demotion or dismissal.

However, research over the past 70 years has revealed that motivation is much more complicated than just these two variables. Different theories have been formulated that conclude that individual employees respond differently to various motivational techniques.

**Maslow’s theory of motivation**

Abraham Maslow (1908–1970), a psychologist, believed that all people have needs to be satisfied, and that they will work towards satisfying those needs. A **need** is what a person requires. He assumed these needs could be arranged according to their importance in a series of steps known as Maslow’s **hierarchy of needs** (see the figure on next page).

Maslow proposed that people work to satisfy their physiological needs first, such as food and water. The wage that a business pays to an employee helps satisfy these needs. People then attempt to satisfy their safety needs, such as shelter and clothing. Businesses help to satisfy this need by providing safe working conditions and job security. Once these first two needs have been satisfied, employees seek to satisfy their social needs. People need to be loved and love someone in return, to be a friend and have friends, for example. Work provides an opportunity for people to meet and form...
working relations that provide a sense of belonging. Esteem needs are satisfied when an employee’s work is appreciated and he or she is given recognition, promotion or added status in the business. Finally, self-actualisation needs refer to an employee’s desire to reach his or her full potential. To satisfy these needs, businesses must provide a workplace that encourages personal growth and development, interesting and creative jobs, and opportunities for advancement.

Maslow’s theory was important because it suggested that businesses have to create workplaces that attempt to satisfy all the needs of an employee. Businesses that attempt to motivate workers through pay rises or job security would only be satisfying lower order needs. Employees would not be fully motivated; they would become despondent, waiting for the day to finish, hating their jobs and only doing them for the money. Occasionally, these employees become so dissatisfied and unmotivated that they become troublemakers.

Maslow’s hierarchy of needs

According to Maslow’s theory, a business might provide a creative or interesting work environment for employees to satisfy their higher order needs, in addition to satisfying all of the needs on the lower levels of the hierarchy.

**TEST your understanding**

1 Which of the following is correct? Motivation is:
   (a) the drive that makes a person do something well once
   (b) the drive that makes someone exert effort over a sustained period of time
   (c) the wish to succeed
   (d) what makes us go to work each day.
2 When talking about motivation, the carrot or stick approach is sometimes mentioned. Explain why giving someone a reward or a punishment might motivate them to act.
3 Arrange these needs in order according to Maslow’s theory:
   (a) esteem needs
   (b) physiological needs
   (c) safety needs
   (d) self-actualisation needs
   (e) social needs.
4 Why is Maslow’s theory important?

**APPLY your understanding**

5 Explain how managers could use Maslow’s theory to motivate staff.
6 How could a business help a person meet their self-actualisation needs?
3.3 Motivational theories: goal-setting theory

**KEY CONCEPT** Goal-setting theory is based on the notion that employees are more likely to be motivated if they are able to strive for specific goals, and can be rewarded for achieving those goals.

**Locke’s goal-setting theory**

Dr Edwin Locke did research on goal setting and motivation during the 1960s. He concluded that employees were motivated by clear goals and appropriate feedback regarding their achievement. Locke maintained that working towards a goal provided the motivation to reach that goal and this, therefore, improved performance. He found that specific and difficult goals led to better performance than vague goals or goals that were too easy to achieve.

That is, Locke found that in order to motivate, goals must be clear and specific and provide a challenge for employees. The employee must also be committed to meet the challenge, and it helps if each employee receives constant feedback that provides clarification and adjustment of the goals and recognition for the efforts being made. The goal or task should not become so overwhelming that a person loses motivation.

**Dr Gary Latham** is a Canadian researcher who experimented with and tested Locke’s theories, producing research results that endorsed the strong connection between goal setting and workplace performance. In 1990, Locke and Latham published *A Theory of Goal Setting and Task Performance*, which further developed Locke’s original proposals.

**The five goal-setting principles**

Locke and Latham identified five principles that should be applied when setting goals for employees. They can be summarised as follows:

- **GOAL**
  - clear
  - specific
  - challenging
  - but not overwhelming

- **MOTIVATION**
  - increased by feedback on:
    - goal achievement
    - recognition for effort

- **PERFORMANCE**
  - improved as a result

Locke’s theory has been applied in many circumstances over a number of years.

Dr Gary Latham is a Canadian researcher who experimented with and tested Locke’s theories, producing research results that endorsed the strong connection between goal setting and workplace performance. In 1990, Locke and Latham published *A Theory of Goal Setting and Task Performance*, which further developed Locke’s original proposals.

** According to Locke’s theory, employees are motivated to achieve goals they have helped to set. The goals should be clear and specific, challenging but not so overwhelming that they are impossible to achieve. Constant feedback on progress and recognition for the effort being made is vital.**

**studyon**

- **Unit 3**
- **AOS 2**
- **Topic 2**
- **Concept 2**

**Goal-setting theory (Locke & Latham)**

Summary screen and practice questions

Locke and Latham’s five principles of goal setting
3.3 Motivational theories: goal-setting theory

Clarity
Simply telling someone to ‘do your best’ or ‘improve your performance’ is not as effective as setting clear achievable and specific measures, such as ‘improve sales by 10 per cent’ or ‘increase production output by 5 per cent’. Giving goals clarity means making them unambiguous and measurable. Goals should be simple, clear and as specific as possible. It is important that everyone understands what is expected, and the result that will be rewarded. A vague goal such as ‘provide leadership to your work colleagues’ has very little value as a means of motivation, because it does not include any specific actions that could be taken to achieve this. In addition, goals should be developed within a time frame, so there is a clear end date for the goal to be achieved. This will vary according to the nature of the goal.

Challenge
People are often motivated by achieving something they have not successfully completed before. The opportunity to complete a task that is highly valued by the owner or management of a business can provide a level of challenge that can motivate an employee. The goal should extend the employee, but should still be achievable. There is no point in setting a goal that is beyond the capabilities of the employee, or that sets him or her up for failure. At the same time, a goal that is too easy, or does not seem to have much importance in the operations of the business, will not provide much in the way of motivation. The significance of the challenge should also govern the rewards available to the employee for successfully achieving the goal. Goals must also be relevant, in that they help to realise the overall business objectives.

Commitment
In order to ensure the employee will actively pursue the achievement of a goal, there must be a commitment on the part of the employee. While it is possible for the goal to be provided entirely by the employer or management, a goal into which the employee has had some input is more likely to serve as motivation. It is here that management styles can play an important role. A manager who adopts a participatory style will seek to give employees maximum input into the determination of appropriate goals. This does not mean that the employee decides the goal, but that it is negotiated between manager and employee, to achieve a balance between the objectives of the business and the particular strengths and skills of the employee. A consultative manager will also seek input from the employee. It is generally recognised that the greater the input from the employee, the more likely it is that the employees will commit to it, which means that a more challenging goal can be set, leading to greater rewards in the end. Increased rewards for achieving a goal will provide greater motivation for the employer to attempt the next goal.

The importance of employee commitment to a goal
Feedback
An effective goal program must also include opportunities for feedback to the employee. Frequency of feedback can depend on the timeframe of the goal. Feedback provides opportunities to offer recognition for progress achieved, to make adjustments to the goal if necessary, and to ensure expectations are clear and realistic. Sometimes a goal can be broken down into smaller milestones to allow for progress to be measured along the way and achievements to be recognised. Feedback can be informal and may consist of little more than a catch-up over coffee. For longer term and more complex goals, formal feedback sessions may be necessary to ensure necessary detail is communicated.

Task complexity
While goals should be challenging enough to motivate employees, it is important the level of complexity should not overwhelm them. It is important that any additional training that is required to assist the employee to complete the task is provided in a way that allows for genuine skill development over time. It is also important that deadlines and completion dates are appropriate for the task and the skill level of the employee. The aim of the exercise is to motivate the employee to contribute to the objectives of the business, and so every effort should be made to ensure that the process provides success for both the employee and the business.

Goal-setting theory is often associated with the concept of setting SMART goals: goals set should be Specific, Measurable, Attainable, Relevant and Time-bound. Setting goals that are specific, measurable and time-bound can relate to the clarity of the goals. Goals that are attainable and relevant relate very much to the levels of challenge and commitment required. When goals are measurable and time-bound, this can assist with the level, frequency and type of feedback provided. Setting goals that are attainable also relates closely to task complexity. Goal setting theory also links closely with the principles of management by objectives (see chapter 4, section 4.3, Performance management strategies). Note: Please be aware that, while related, SMART goals are not a part of Locke’s theory and should not be used to cover the key elements of the theory in your VCAA exam.

TEST your understanding
1. Explain how goal setting affects a person’s motivation.
2. Explain what is meant by ‘clarity’ when it comes to setting goals for employees.
3. Why do you think that setting goals that are easy to achieve might lower motivation?
4. Why is ‘task complexity’ an issue in the process of goal setting?
5. Outline the relationship between the principles of setting SMART goals and the goal setting theory of Locke and Latham.

APPLY your understanding
6. Have you set goals for yourself recently? If you did, how did this affect your motivation?
7. What goals might a football club establish at the start of a new season? Why do clubs set such goals?
8. Dean is a sales manager in charge of 15 sales representatives. He wishes to provide motivation for each of these representatives to improve their sales figures during the coming six-month period, and believes that the goal setting theory may provide him with the means of doing this.
   (a) Outline a step-by-step process he could adopt with each of the sales representatives to establish such a program.
   (b) Explain how he might monitor the process during its operation.
   (c) What would you expect to occur at the completion of the six-month period?
3.4 Motivation theories: four drives theory

**KEY CONCEPT** The four drives theory attempts to identify the basic human drives that determine all human behaviour and apply these as a means of motivating employees in the workplace.

The four drives theory was developed by Dr Paul Lawrence and Dr Nitin Nohria, from the Harvard Business School, and outlined in their book *Driven: How Human Nature Shapes Our Choices*, published in 2002. They identified what they believe are the four main drives that shape the way in which all human beings think and behave. In doing so, they were attempting to explore the very core of human nature and the key determinants of all human behaviour. By applying what they saw as the four basic human drives to the business world, they hoped to be able to identify what motivates a range of stakeholders, including employees, customers, competitors and others.

**The four drives**

Lawrence and Nohria identified the following as fundamental to all human behaviour:

- **the drive to acquire** — includes the desire to own material goods, and encompasses the desire for status, power and influence
- **the drive to bond** — includes the strong need to form relationships with other individuals and groups
- **the drive to comprehend** — includes our desire to satisfy our curiosity, to learn new skills and to explore the world around us
- **the drive to defend** — the desire to remove threats to our safety and security and to protect what we regard as ‘ours’.

The four drives theory provides an A, B, C and D of human behaviour that covers all of our emotions and motivations, and is firmly planted in our evolutionary past. The drives to acquire, bond and comprehend are active drives, while the drive to defend is a latent drive that becomes active only in the face of a threat.

**The four drives and employee motivation**

An employer or manager can harness the four drives in the development of a work environment that will motivate employees and encourage them to work productively towards achieving business objectives.
Acquiring and achieving
The drive to acquire can be expanded to include *achievement* as a means of identifying and including the desire for non-material things, such as status and influence. Employers and managers can apply this in the workplace by:
• ensuring levels of remuneration are comparable with those of competing businesses, to ensure that valued staff are satisfied and not easily lured away
• tying monetary rewards to improvements in performance
• recognising good performance from employees with appropriate financial incentives
• providing opportunities for employees to feel proud of the work they do, and to feel that they can distinguish themselves through their work
• clearly expressing the expectations of the business, particularly in relation to the ways in which work performance will be evaluated
• establishing high levels of performance as the norm, and the standard by which all employees are judged and rewarded.

Bonding and belonging
In the context of motivating employees within a business, the drive to bond is most commonly expressed through a sense of *belonging*. Businesses wishing to harness this drive as a means of motivating employees will encourage this in the following ways:
• Managers and leaders will be people oriented, and will seek to interact with all employees in a positive and encouraging manner.
• Management will seek ways to demonstrate that it cares about individuals on a personal level, by recognising achievements outside of the workplace and milestones such as birthdays, or years of service.
• Teamwork and collaboration will be encouraged and recognised, and collective achievements highly valued.
• Sharing of best management practice amongst employees will be rewarded and staff will be encouraged to support the team culture.
• Employees will be encouraged to trust each other and to support colleagues.
• Personal friendships between employees are fostered and supported.

Comprehending and learning
The drive to comprehend encompasses the need for *learning* to be part of the workplace experience, as well as the need to maintain interest and mental challenges. This drive can be used to provide motivation in the following ways:
• Opportunities to learn new skills are provided on a regular and ongoing basis.
• Tasks are made as interesting as possible.
• Each person’s duties include a variety of different tasks to provide stimulation and avoid the boredom that can come from constant repetition.
• Challenges are built in to all work assignments to increase satisfaction when a difficult task has been completed.
• Employees feel that they are gaining additional skills and valuable experience as they go about their daily work.
• Management actively supports employees in gaining new skills and qualifications, including formal qualifications from external institutions such as universities and TAFE colleges.
• Each job or set of duties within the business is valued as making a significant and meaningful contribution to the achievement of the business’s objectives.
3.4 Motivation theories: four drives theory

Defending

As the latent drive, defending comes into play in ensuring that the work environment is safe and non-threatening, with high levels of trust between employees and management. Motivation comes from removing fears and insecurities from the workplace.

- The workplace is welcoming and supportive, and intimidation is not used as a management technique.
- Managers treat all employees fairly and are seen to do so consistently.
- Systems and processes for determining rewards and recognition within the business are fair and transparent, so that no-one feels that any other employee is the subject of favouritism, or that they have been discriminated against.
- Managers and leaders foster an atmosphere of trust, by ensuring they are consistent and honest in all dealings with employees.
- Employees are encouraged to speak up, to air their concerns and offer suggestions, with full support of management, and without any fear of reprisals.

TEST your understanding

1. What are the ‘four drives’ identified by Lawrence and Mohrja, that they believe provide motivation for all human behaviour?
2. Explain two ways in which the drive to acquire and achieve can be harnessed to motivate employees in a workplace.
3. How can the drive to bond and belong be used to motivate employees?
4. In what ways does the drive to comprehend and learn usually show itself in human behaviour? How can employers make use of this drive to achieve improved work performance?
5. Outline two ways in which an employer can provide a workplace that satisfies and which employees would drive to defend.

APPLY your understanding

6. Create two checklists, one under the heading ‘Things to do’, and one under the heading ‘Things NOT to do’.
   (a) Under the first heading, provide a list of at least eight actions that a manager could take to ensure he or she is making use of the four drives theory to improve employee motivation.
   (b) Under the second heading, develop a list of at least eight actions that a manager should NOT do if he or she wishes to maximise employee motivation using the four drives theory.
In order to increase productivity, it is very important that managers understand the factors that motivate their staff to want to work. The theories of Maslow, Locke and Latham, and Lawrence and Nohria provide us with some guidance as to what motivates staff, but do they work in the real world? Through the following case studies, let us have a look at whether they are just theories, or if they can be put into practice.

**Goal-setting theory — is there any point?**

Insurance Australia Group (IAG) owns brands such as NRMA Insurance, Swann Insurance and CGU. The business uses goal setting with staff when completing performance reviews. An Employee Pledge outlines each employee's accountability (for example, owning their own performance), how they will behave to deliver that performance and what behaviour they will avoid (for example, making excuses for not achieving their goals).

Kevin Cleland, the manager of IAG's retail business insurance sales team, says that there has been a large improvement in the performance of his business unit, as a result of the pledge being used as a framework for performance discussions and goal setting. Goal setting increases incentives for workers to complete work quickly and effectively, improving individual performance.

There are some disadvantages or limitations to Locke's theory. These include:

- time-consuming goals, which can result in employees having a hard time remaining motivated while they complete tasks. These tasks might eventually seem unimportant or not challenging.
- conflict between the goals of the employee and the goals of the business. Goal conflict can have a detrimental effect on both employee and business performance.
- difficult or complex goals that stimulate risky behaviour. Goals need to be challenging but not overwhelming.
- employees lacking skills or the competency to perform actions essential for achieving goals. This may lead to goal-setting failure, undermining performance.

Goal setting increases incentives for workers to complete work quickly and effectively, improving individual performance.
Putting the four drives theory into practice

The Lantern Group is a motivational consulting firm that specialises in working closely with their clients to increase the engagement and motivation of their workforce. The following article appeared in one of their online blogs.

What great leaders need to do
Rightfully or not, many employees look to the company to provide them with their motivation for work. While many of these motivations are inherent in a company, good leaders know that they have to work at it constantly to ensure that they are satisfying all four drives.

1. Focus on all 4 Drives
It is important to understand that all the good work that a company or leader does in these four areas can be ruined if one of the four drives is lacking. Research shows that weakness or fulfilling one of the 4-Drives ‘casts a negative halo’ effect on how the company or leader performs on all the other 3 drives. It is important then for a leader to ensure that they are identifying and addressing any issues that they see in any of the four drive areas.

2. Individualise motivation
It is also important to know that individual employees each have a unique 4-Drive Motivational profile. In other words, some employees will respond or require greater satisfaction of the A drive, while others will focus more on the C drive (or B or D). Each employee will perceive how the company or leader is performing on each of these drives differently. Good leaders are those who understand these differences and can focus specific employees on satisfying the drives of their specific needs.

3. Communicate effectively
Leaders need to effectively communicate how their systems, policies and structure align with the four drives. In other words, they need to be able to explain, or to map out the connections between what the company is doing or providing and how this would satisfy one or more of the drives. For instance, a leader could identify the reasons that they are sponsoring a community service event is not only to help the community (drive D) but also to provide an opportunity for employees to get to know each other and their families (drive B) and to give them a chance to learn a new skill (drive C).

4. Experiment
Good leaders constantly look for ways of enhancing each of the four drives, by being committed to looking for different ways and different opportunities for employees to satisfy their needs. One such way could be to implement new structures and processes and see how they work.

3.5 Motivation strategies — financial

**KEY CONCEPT** A business may use financial or non-financial strategies to motivate employees. Financial strategies usually involve the provision of additional wages or salaries, or other financial benefits as a means of motivating employees.

We all go to work to earn money, in order to purchase the goods and services we need. The opportunity to earn additional wages or salary by increasing or improving work performance can be a powerful form of motivation for employees. An employer has a number of ways of using financial incentives to motivate employees, including performance-related pay, as well as access to a share in the profits of the business.

**Performance-related pay**

An employer can provide motivation with direct payments to employees, such as pay increases, bonuses and commissions.

**Pay increases**

When an employee begins work at a particular business the level of pay will be set by either an Award or an amount agreed to in an employment contract. This will probably be a standard amount paid to any new employee carrying out the same duties in that business. It is then open to the employer to offer pay rises to any employees who work hard, or who make a significant contribution to the achievement of business objectives. Such a pay rise would usually involve an increase in the hourly or daily rate of pay, and can serve as a strong incentive for employees to make that extra effort.

**Bonuses**

A **bonus** is a one-off payment given to a particular employee or group of employees as a reward for meeting particular targets, or some other special effort. It does not involve any ongoing pay rise. Some businesses will hand out bonuses to employees at Christmas time to reward them for their efforts throughout the year, and provide them with a little extra spending money for the festive season. Different employees within the business may receive bonuses of differing amounts, depending on their contribution to the business as perceived by the employer.

**Commissions**

A **commission** is an amount paid for accomplishing a sale. It is usually a fixed percentage of the sale price, and is paid to the salesperson who accomplished the sale of the service or product. The real estate industry is one in which salespeople earn most of their income from commissions. The finance industry also uses commissions for salespeople selling products such as insurance policies. Often the salesperson will be paid a relatively low base salary, which is topped up by commissions. The more sales the person makes, the greater their pay, so they have a strong incentive to make as many sales as possible.

**Other financial incentives**

One of the objectives of a business is to increase profits, so providing employees with access to a share of those profits can be a powerful form of motivation.
Share plans
A registered company can offer shares in the ownership of the business to its employees. If the business is successful, the profit is paid as a dividend to its shareholders, so the employees will gain additional income from contributing to increased profits. If the business is a public company with its shares listed on the Australian Securities Exchange (ASX), good levels of profit can lead to an increase in the share price over time, so the value of the employees’ shareholdings can increase, providing them with a valuable asset. When a company provides shares to its employees in this way, they are usually required to retain ownership of those shares while they remain employed by that company, and often have to sell them back to the company when they leave.

Profit sharing
Instead of providing employees with shares, a company can offer a percentage of the profits to its employees as an incentive to work hard and raise the level of those profits. Usually the employees will be offered a fixed percentage of the profits, so the amount will vary from year to year. Clearly it is in the interests of all employees to maximise profits to earn the largest possible amount from the profit sharing scheme.

Gainsharing
A particular type of profit sharing is a system known as gainsharing. In a gainsharing program, employees are encouraged to offer suggestions to improve productivity in a business. The savings achieved from these improvements are distributed to the employees. The system is not necessarily tied to levels of profit, but to measured improvements in productivity when compared to the previous situation. Because it relies on ideas and suggestions from employees, it can provide a useful tool to engage employees in improving the operational systems of the business.

Advantages and disadvantages of financial motivation strategies
The advantages and disadvantages of different financial motivation strategies can be summarised in the table on the opposite page.
Advantages and disadvantages of different financial motivation strategies

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
</table>
| Pay increases   | • The pay rise can be tied to levels in an Award, and so can be predictable and easily calculated  
• When more experienced employees are on the higher level of pay, it provides the newer employee with a clear target to aim for in a pay rise | • Once the employee is receiving the higher level of pay it is difficult to cut pay if the employee’s performance declines  
• Other employees doing the same work may expect a similar level of pay, even if their performance is not as good, leading to jealousies and lower morale |
| Bonuses         | • Can be varied from employee to employee, depending on level of performance, as each employee’s bonus is confidential  
• Only have to be paid when there is actual performance improvement | • If confidentiality is not maintained, different levels of bonus can lead to conflict between employees  
• If the value of the bonus is not maintained or increased each year, it may lead to employee dissatisfaction |
| Commissions     | • Only apply when sales take place, so a relatively low cost for the employer  
• Can motivate sales staff to work harder to close a deal, so genuinely rewards effort | • If base pay is too low, some employees may not earn enough, so may leave, resulting in high staff turnover  
• Can lead to large differences in staff pay, with possible morale issues |
| Share plans     | • All employees have an interest in increasing profits and improving the share price  
• Employees feel a sense of ownership and belonging in the business as they are shareholders | • Share prices can go up and down independently of the performance of the business because of the vagaries of the market, so may not be a secure investment for the employees  
• Employees are usually not permitted to sell their shares until they leave the company |
| Profit sharing  | • Tied to levels of profit, so genuinely rewards improvements in that measure  
• Is relatively easily calculated, and the percentage can be determined in advance, so is very transparent | • Usually does not vary between employees so does not always identify individual effort or performance  
• If profit drops because of external factors, employees may feel unfairly treated when their share declines |
| Gainsharing     | • Involves employees in improving productivity, so improves level of engagement and commitment  
• Paid according to measurable improvements, so has a readily calculated value | • Employees who have made suggestions for improvement may have to share the benefits with those who have not made such a contribution |

TEST your understanding

1 Explain how an employer can use the promise of pay increases to motivate employees.
2 What is the difference between bonuses and commissions?
3 Outline the possible benefits to employees of owning shares in the company that employs them.
4 How can schemes such as profit sharing and gainsharing reward employees for their contribution to achieving business objectives?

APPLY your understanding

5 If you were managing a business and had the choice of offering permanent pay rises to employees over time, or bonuses once a year for good performance, which would you choose? Provide reasons for your choice.
6 If you were offered a sales job that included a low base pay, but had access to commissions based on the number of sales you achieved, would you be happy to accept those conditions of employment? Give reasons for your answer. What additional information would you want before accepting the position?
7 A small manufacturing business decides to set up a gainsharing program for its employees, while at the same time following Locke and Latham’s goal setting theory. Explain how these two approaches could work together to improve motivation and help achieve business objectives.
As we have seen with the motivation theories of Maslow, Locke and Latham, and Lawrence and Nohria, people’s motivations are often closely related to their personal and emotional needs. Effective managers and business leaders recognise the importance of going beyond purely financial incentives to provide motivation that reflects the individual needs and ambitions of their employees.

**Career advancement**

For most people in the workplace, the opportunity to advance to a better job is an important objective in their career plans. This can occur within a workplace, or by moving to a new workplace. Traditionally in Australia, the majority of people who entered the workforce during the period from the 1950s to the 1980s tended to remain with the one employer for long periods of their working life. Having a secure job was a high priority, and employees were often prepared to wait for a promotion opportunity to come up within their workplace. This has changed over the last 20 to 30 years, with younger employees more willing to change employers every few years in order to move up to a better paid or more challenging or interesting job. In this context, it is important for employers to provide career advancement within the workplace if they wish to retain valued employees.

The opportunity to move into a more challenging or stimulating position, with some supervisory or managerial responsibilities, can provide valuable motivation for employees. Career advancement provides a means by which some of the higher level needs in Maslow’s hierarchy can be satisfied. An opportunity to be involved in decision making in a leadership position can satisfy the social needs; gaining responsibility through promotion can satisfy esteem needs; and providing creative and interesting work can satisfy self-actualisation needs. In the same way, career advancement also satisfies some of the four drives as outlined by Lawrence and Nohria. The drive to achieve and acquire status and influence, the drive to bond and belong, and the drive to learn and comprehend can all be satisfied by promotion and career advancement.
**Investment in training**

Improving the skills of employees has benefits for both the business and the workforce. A skilled workforce can improve productivity, and help achieve core business objectives. Providing employees with additional skills can increase job satisfaction, and promote higher levels of motivation. A more highly skilled job will usually pay more, so naturally employees will take the opportunity to take on additional training to give them access to those types of jobs. A business that invests in training can gain a number of advantages.

In terms of Maslow’s hierarchy, providing additional training supports the esteem need by providing the employee with a sense of accomplishment on successful completion of the training. The personal growth and development that comes from gaining new skills can also help satisfy the self-actualisation need. In terms of Locke and Latham’s goal setting theory, training and skill development goals can be established for employees to improve their own abilities, as well as to contribute to the business in a concrete way. Completing a particular training course is a clear and unambiguous goal; it can provide a suitable challenge; it requires commitment on the part of the employee; it provides many opportunities for positive feedback; and it can involve an appropriate level of task complexity without overwhelming the employee. Staff training also satisfies a number of the drives identified by Lawrence and Nohria. A sense of achievement through the acquisition of new skills, an opportunity to bond and belong by demonstrating a higher level of skills to contribute to business objectives, and the learning and improved comprehension that comes from training can all satisfy these basic drives.

**Support and sanction**

Support and sanction are two sides of the one coin in that they represent the positive and negative ways in which an employer can relate to employees. Providing support and encouragement for employees can motivate them to do better, and should always apply when an employee has done a particularly good job, or achieved a pre-arranged goal or target. Support can also be relevant when an employee has made a mistake, particularly if the employee is relatively new or inexperienced. Most people learn from their mistakes, and provided the mistake has not endangered other workers, or seriously jeopardised the relationship with a valued customer or supplier, the employee

A sanction is a form of penalty or punishment.

Blaming an employee when things go wrong has very limited value.
may benefit from the experience. Providing a supportive environment can encourage the worker to take greater care in future.

At times, sanctions or punishment may be necessary when an employee does the wrong thing in the workplace. This is particularly relevant if the error is deliberate or reckless, and may be potentially harmful to other staff or customers. While positive encouragement is likely to motivate most people, fear of sanctions can also be a motivating factor. Such fear will generally only influence lower order needs on the Maslow hierarchy, such as physiological, or safety and security needs, but can also influence the defence drive as identified by Lawrence and Nohria. A desire to avoid unpleasant consequences can be influential in motivating some people, but otherwise has very limited value. Positive reinforcement and support are likely to be more effective in providing motivation in most cases.

**Advantages and disadvantages of non-financial motivation strategies**

The advantages and disadvantages of different non-financial motivation strategies can be summarised as follows.

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Career advancement</td>
<td>• Can provide a means of retaining valuable employees</td>
<td>• Promotion positions cannot just be created — they have to have some purpose</td>
</tr>
<tr>
<td></td>
<td>• Satisfies three of the higher level needs of Maslow’s hierarchy</td>
<td>• Employees may have to compete for a limited number of promotion positions, creating some rivalries and conflict</td>
</tr>
<tr>
<td></td>
<td>• Can satisfy some of the four drives (Lawrence and Nohria)</td>
<td></td>
</tr>
<tr>
<td>Investment in training</td>
<td>• Benefits the business by improving the skills of employees</td>
<td>• Unless there are sufficient jobs within the business requiring higher level skills, training may be wasted</td>
</tr>
<tr>
<td></td>
<td>• Improving skills can satisfy higher level needs in Maslow’s hierarchy, as well as providing goals for goal-setting theory, and satisfying some of the four drives</td>
<td>• The business may pay the cost of training only to have the employee leave for a position in another business</td>
</tr>
<tr>
<td>Support and sanction</td>
<td>• Support and encouragement can influence employee attitudes, improving motivation</td>
<td>• It may be difficult to find reasons to support and encourage some employees</td>
</tr>
<tr>
<td></td>
<td>• Sanctions for poor behaviour in the workplace can motivate some workers to improve their work performance</td>
<td>• Excessive emphasis on sanctions can reduce employee sense of belonging, and therefore have a negative impact on motivation</td>
</tr>
</tbody>
</table>

**TEST your understanding**

1. Why is it important for employers to provide career advancement opportunities?
2. Explain why investment in training is able to provide benefits for both employers and employees.
3. Under which circumstances might it be appropriate to use a sanction or punishment with an employee?
4. Why is it usually better to use support and encouragement rather than punishment and sanction?

**APPLY your understanding**

5. Jane is human resource manager at a pharmaceuticals company. She is a strong believer in using Maslow’s hierarchy of needs as a means of motivating employees within the company. How can each of the following strategies help her to meet the motivational needs of employees:
   (a) providing career advancement opportunities
   (b) investing in the training of employees?
6. Identify and explain three of the difficulties Jane may face in implementing these strategies.
Motivated employees will always perform better in the workplace than those who simply turn up, do the bare minimum and collect their pay. While everyone recognises the importance of money as a motivating force, the use of non-financial motivation strategies can add to business performance and greatly assist in achieving business objectives.

Motivating means more than money

Managers often instinctively resort to financial reward as the main method of motivating their staff. However, many studies have shown that for people with good salaries, non-financial motivators are more effective than offering extra money. Some non-financial motivators that have been found to be very effective include:

1. **Regular attention from leadership.** This may occur, for example, through monthly one-on-one conversations, which can nurture the bond between employee and manager as well as improve performance. This involves a manager taking time out to reflectively discuss performance with each employee and create individual action plans. Many businesses have replaced their annual performance appraisals with regular check-ins.

2. **Praise or recognition.** Acknowledgement from management is very important for engaging employees. This does not necessarily require the recognition of staff at annual awards nights or functions. However, many businesses do this. A simple thank you note handed to a staff member or an email praising them for a job well done can also have very positive consequences. Employees can also be encouraged to praise or recognise each other.

3. **Responsibility.** By giving employees more responsibility they feel their contribution is more valuable to the business. This might include the opportunity to lead a project or a special task force.

4. **Provide creative, challenging and varied work.** Employees will find their jobs more engaging if they are challenging and interesting. Sometimes tasks can be made more interesting simply by removing unnecessary aspects of the job, such as excessive paperwork or bureaucratic systems.

Financial rewards can result in short-term motivation, which can have damaging, unintended consequences. Non-financial motivators can be much more cost-effective. They also have the extra benefit of making employees feel that the business values them, leading to improved productivity. Motivated employees are more likely to be retained by the business, which reduces recruitment and training costs. Research carried out by RedBalloon and AltusQ in 2013 suggests that a highly engaged workforce is a highly productive workforce. Their Employee Engagement Capabilities Report found that businesses with the highest levels of engagement outperformed other businesses in performance indicators including sales and turnover, profit, productivity, staff retention, attracting talent, customer loyalty and customer satisfaction.

So why don’t more managers make use of non-financial motivators? One factor deterring businesses from using non-financial motivators is the traditional management belief that only money matters as a form of incentive. Another reason is the greater amount of time and commitment required from managers to use the non-financial motivators. Many of these motivators require management to interact with employees, and failing to do so can seriously harm employee engagement.

Optiver is a Dutch market maker trading company. A market maker is a company that quotes a buy and a sell price for financial commodities, such as shares, options and futures. The traders and IT developers who work at Optiver generate large numbers of instructions, using automated trading software, to move in and out of trades very quickly.

The company has created an engaged, highly satisfied workplace at its Australian headquarters in Sydney, which was voted the best place to work in Australia by BRW in 2013. Optiver hires talented people and teams new recruits with a buddy to make the induction process work smoothly. It offers flexible conditions and training in ethics, and makes an effort to cut ‘red tape’ and bureaucracy. Employees are encouraged to pursue interests outside of work. Open communication and teamwork are used to gather and act on the ideas of staff.

The work that staff do at Optiver is, in itself, interesting. Many employees report a major buzz from the experience of trading.
Motivating employees at Fonda Mexican Restaurant

The word ‘Fonda’ is used in Mexico to describe a house with an open kitchen, where visitors are always welcome. The Fonda restaurant chain was founded in Melbourne by David Youl and Tim McDonald in 2011, and aims to carry on this tradition of a relaxed and welcoming dining experience. Although the restaurant now operates at five different sites in Melbourne, David and Tim have chosen not to make use of a franchise model, as they wish to maintain a consistent management culture across each of the restaurants. This culture encompasses the following features:

- Alignment between the business objectives and employee objectives is given highest priority. This means that employees have a direct interest in improving the profits of the business through a system of profit sharing.
- Each branch of the business is managed by a Restaurant Business Leader. This person is paid a base salary, which is augmented monthly by a 7 per cent share of the profit of that restaurant. The higher the profit, the larger the amount paid to the RBL. Base salaries are kept relatively low, but the share in the profits has meant that the actual take home pay is generally higher than the industry average.
- Assisting the RBL in each restaurant is a Senior Assistant Business Leader, who is paid 3 per cent of the profits, and two or three Assistant Business Leaders who are each paid 2 per cent. While base salaries for each of the members of the leadership team is also relatively low, their share of profit inevitably means they actually take home salaries that are higher than comparable employees in other restaurants.
- The leadership teams meet together monthly with the business owners, when profit share payments are made and ideas for improving productivity are shared. Leaders are encouraged to learn from each other and to celebrate the achievement of business goals.
- Every three months, all staff meet for a ‘Buzz Breakfast’, at which a wide variety of staff achievements are reported and celebrated.
- An annual awards dinner is held each year for all employees, and this is seen as the company’s equivalent to a Brownlow Medal celebration.
- Each May, the leadership teams meet to set the objectives for the next financial year. These objectives are broken down into monthly, weekly and even daily goals, and these goals are made measurable and communicated to all staff. It is not unusual for customers in one of the restaurants to see staff stop for 20 seconds and break out into cheering and applause when a daily sales goal or a food preparation time goal has been achieved.
- Staff are known as ‘Fondarians’, and are encouraged to see themselves as important team members. Ideas and suggestions for improvement from all staff is strongly encouraged, acknowledged regularly and celebrated.

In 2015, Fonda was recognised by the Business Review Weekly as the 22nd fastest growing company in Australia, up from 39th the previous year. Aligning staff motivation with business objectives has proved a recipe for success for Fonda in the very crowded and competitive hospitality industry.

A strong alignment between staff motivation and achieving business objectives is central to the culture at Fonda Mexican Restaurants.

TEST your understanding

1 Read ‘Motivating means more than money’. Summarise the incentives that have been found to be effective in motivating staff.
2 To what motivational theories do these motivators relate?
3 Outline factors that could deter managers from using non-financial motivators.
4 How do the owners of Fonda Mexican Restaurants make use of both financial and non-financial strategies to motivate staff?
5 In what ways are the business objectives of Fonda Mexican Restaurants aligned with the objectives of employees in those restaurants?
6 Explain why customers at a Fonda restaurant may occasionally see employees break out into cheering, applause, and congratulating each other.

EXTEND your understanding

7 Survey your family and friends about what motivates them in the workplace. Use a selection of the main motivators as categories, including pay, working conditions, setting goals, achievement, recognition, creative and interesting work, and teamwork. Present your results neatly in graphs supported by a written conclusion, then compare and contrast your findings with those of your classmates.
8 Outline the ways in which the Fonda Mexican Restaurant business demonstrates how each of the following theories of employee motivation can be applied in a practical business situation:
   (a) Maslow’s hierarchy of needs
   (b) the goal setting theory of Locke and Latham
   (c) the four drives theory of Lawrence and Nohria.
SUMMARY

Human resources and business objectives and strategy

- Human resource management involves effectively managing employees in a business with the aim of ensuring the business objectives are successfully met.
- The overall business objectives of the business will determine the objectives and strategies adopted by human resources.

Motivation and Maslow's motivation theory

- In order to achieve business objectives, staff must be motivated. A number of theories have been developed proposing how workers can be motivated.
- Maslow's hierarchy of needs theory requires that managers understand where each worker is situated according to a hierarchy of needs in order to try to satisfy employee needs appropriately.

Motivation theories: Locke and Latham

- Locke and Latham's theory involves the establishment of clear, challenging goals as a way to motivate staff and improve their performance.
- Clarity, challenge, commitment, feedback and task complexity are the essential principles of goal setting theory.

Motivation theories: Lawrence and Nohria

- Lawrence and Nohria identified four basic human drives that determine all human behaviour and applied these to the motivation of employees in the workplace.
- These drives are the drives to acquire, bond, comprehend and defend.

Motivation strategies: financial

- Financial motivation strategies can include direct payment incentives such as pay increases, bonuses and commissions.
- Employees can also be motivated by having the opportunity to share in the performance of the business through share ownership, profit sharing and gainsharing.

Motivation strategies: non-financial

- The opportunity for career advancement and access to training can provide levels of personal challenge and satisfaction that will motivate employees.
- Support and encouragement will generally produce better results than sanctions and punishment in the workplace.

REVIEW QUESTIONS

TEST your understanding

1. Devise your own definition of ‘human resource management’.
2. Explain how human resource objectives and strategies are linked to overall business objectives.
3. Choose one motivational theory and explain how it could be used by a business to motivate staff.
4. Explain how an employer can use pay increases, bonuses and commissions to improve employee motivation.
5. How can share ownership plans, profit sharing and gainsharing be used to align business objectives with the personal objectives of employees?
6. Outline the key non-financial strategies that can be used to motivate employees.

APPLY your understanding

7. An accountant in a major accounting firm is often late to work, his productivity has decreased, and some clients have complained that he is slow to respond to their requests. As the human resource manager, how would you handle this situation? Apply a motivational theory that you think could be used to improve his performance.
8 Examine the advantages and disadvantages of different motivation strategies and describe the three most effective strategies that you would recommend a business use to maximise the motivation of its employees. Give reasons for your choices.

SCHOOL-ASSESSED COURSEWORK

OUTCOME 1
Analyse and evaluate practices and processes related to human resource management.

ASSESSMENT task — structured questions

Time allowed: 50 minutes
Marks allocated: 20 marks (the marks for each question are indicated at the end of each question)
Conditions: closed book (no notes or textbooks may be used when completing this task)

1. What is a ‘human resource manager’? 1 mark

2. What are 4 specific duties, functions or roles carried out by a human resource manager in Australia today? 1 mark

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OMNI TECHNOLOGIES

HUMAN RESOURCES MANAGER

3-year contract
Salary up to $74 000 p.a.

The dramatic growth of Omni Technologies over the past 12 months has placed greater emphasis on the recruitment, retention and effective management and support of the 640+ employees who now work in the business.

This new and challenging position has arisen in response to the need to develop HR practices and initiatives across the company that support the business’s needs and help provide an effective and enjoyable working environment. Key elements of the role include:

• Internal and external recruitment support
• Coordinating HR information and reporting systems
• Providing support to line management
• Developing training and development packages
• Contributing to employee support programs.

The position reports to the Group General Manager and will work in a small team of internal and external staff.

The role requires a person with appropriate tertiary qualifications in HR or a related area and who has extensive HR experience. You will possess well-developed written and verbal communication skills. You will be a skilful negotiator, have strong analytical ability and be self-motivated. Most important is the capacity to work effectively and sensitively with people in a large business.

Salary range: $68 000 to $74 000 per year

Tenure: Three-year contract with the possibility of renewal

Initial inquiries and written applications should be directed to Amelia Murphy, HR Officer on 03 9811 4593 or am@omni.com.au by Friday 31 July.

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PO Box 389
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3 Why is human resource management so important for businesses?  

4 Identify and justify two possible performance indicators that could be used to determine whether or not the successful applicant for a position has his or her contract of employment renewed after three years.  

5 Examine the advertisement on the previous page and answer the questions that follow.  
(a) Briefly explain how the function of HR is linked to the business objectives of large-scale businesses, using the advertisement to illustrate your answer.  
(b) Identify those skills and characteristics identified in the job advertisement that would allow the successful candidate to implement a positive approach to employee motivation.  

6 Read ‘Part of the furniture’ below and then answer the questions that follow.  
(a) Using this information, explain what you think motivates each worker.  
(b) Using a motivational theory that you have studied, explain how this theory could be used to motivate each worker. Also, state clearly the strategies you would adopt.