

Hi Herzberg ? : The Role of Compensation Factors and Suggestions for Performance Compensation System

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Abstract

Purpose - This study extracts performance-reward factors based on the previous studies related to Herzberg's two-factor theory and performance-reward and proposes a research method to identify how these factors have an influence on task performance directly related to production performance and contextual performance that has an indirect influence.

Research Design, Data, and Methodology - This study draws performance-reward factors through Focus Group Interview(FGI), classifies them into economic/uneconomic and direct/indirect factors, draws maintenance/improvement factors and unnecessary ones through IPA, and maximizes the effectiveness of performance-reward factors.

Results - It also identifies how performance-reward factors have an influence on internal and external motives based on previous studies, classifies performance-reward factors into task performance and contextual performance and identifies the influence relationship between these, and proposes a research model to identify the roles of equity sensitivity based on equity theory.

Conclusion - The findings from this study are expected to lay the groundwork for drawing various methods to reduce the turnover rate of employees and be important resources for reinforcing the competitiveness of businesses by classifying the performance -reward factors that may cause internal and external motives from the small and medium-sized manufacturing perspective and presenting methods to identify if these have an influence on task performance and contextual performance.

Keywords: Two-factor Theory, Performance Compensation, Equity Sensitivity, Intrinsic/Extrinsic Motivation, Task/Contextual Performance.

1. Introduction

Evaluation and reward serve as internal and external motivation factors for organizational members from the Human Resource Management(HRM) perspective and simultaneously as a major management means and the most costly factor from the organisational aspect. So far, our Korean businesses have introduced a Resource-Based Payment System breaking from the Seniority and Human Resources Affairs System that'd been sustained from the early 1990s, and Performance-based System has rapidly spread centering on the U.S. since the foreign exchange crisis in 1997. An investigation on businesses with over 100 employees by the Ministry of Labor reported that Annual Salary System which is known to represent the Korean-style Performance and Reward System has rapidly spread from 1.6% in 1996, 23% in 2000, 50.6% in 2006, and even to 66.7% in 2012 (Kang, 2014). At the same time, in fact, Management By Objectives(MBO) and Competency Evaluation System have spread and Performance-based Pay System also continues to increase. However, Performance-Based Evaluation and Reward System is difficult structurally especially in small and medium-sized manufacturers, because they lack space and capacity to handle even human resources management positively due to many limitations in small and medium-sized manufacturers that the business environment of small and medium-sized manufacturers is relatively poorer than that of large ones (Lee, 2014). For this reason, international-level technical skills, even if small and medium-sized manufacturers hold them, are likely to be a hindrance for them to grow to be mediums-size or large businesses.

This study extracts performance-reward factors based on the previous studies related to Herzberg's two-factor theory and performance-reward and proposes a research method to identify how these factors have an influence on task performance directly related to production performance and contextual performance that has an indirect influence. It also presents a research model to identify whether performance -reward factors have an influence on hygiene factor and motivation factor suggested by two-factor theory and suggests a method to re-illuminate two-factor theory through the relationship between these.

The findings from this study are expected to lay the groundwork for drawing various methods to reduce the turnover rate of employees and be important resources for reinforcing the competitiveness of businesses by classifying the performance-reward factors that may cause internal and external motives from the small and medium-sized manufacturing perspective and presenting methods to identify if these have an influence on task performance and contextual performance.

2. Theoretical Background

Employees provide businesses with their labor and are rewarded for their work as a benefit in return. Reward is a comprehensive concept that includes wage, bonus, and welfare benefits. Reward system is an important means to organization management that is essential for all organizations and plays the most important role in creating management innovation and subsequent behavior change. In other words, employees determine their behaviors according to the standards and methods on which reward is based rather than chief executive officer's command(Lee, 2003). Belcher(1974) systematically classified the type of reward economic (monetary) reward and noneconomic(non-monetary) one or extrinsic reward and intrinsic one. On the other hand, Herzberg(1967) advocated the two-factor theory that was classified into motivation factor and hygiene factor and claimed that these factors acted on the continuous line.

When it comes to reward, in addition to Herzberg(1967)'s theory, Maslow(1954)'s Hierarchy of Needs, Vroom(1964)'s Expectancy Theory, Ellingsen and Johannesson(2008)'s Incentive Theory of Motivation, one of the motivation studies in the 1950s support the manifestation of motivation in reward factors. However, relatively passive or negative theories regarding the role of reward are Hull(1952)'s Drive-Reduction Theory and Deci & Ryan(1985)'s Cognitive Evaluation Theory, and according to the Steady-State Model of Job Satisfaction, it can be argued that motive also does not change from the level that an individual initially had. Therefore, if we try to draw performance-reward factors and identify these, it can provide various clues to how many businesses as well as small and medium-sized companies will be utilized in the future.

Borman and Motowidlo(1997) divided the performance of employees to task performance and contextual performance. Task performance is the performance that contributes to product production or key process in an organization, whereas contextual performance is the one that supports organizational, societal, and psychological context that organizational core elements function(Kang, 2014). Borman and Motowidlo(1997) maintained that

there are largely four differences between task performance and contextual performance. First, two concepts contribute to the effectiveness of organization, but have an influence on organizational performance through different means. Second, there are fundamental differences in outcome between the two performances. Third, when it comes to job requirements, task-based activities vary depending on detailed job description, whereas contextual activities appear commonly in many jobs. Finally, task behavior is generally determined as described in jobs or required in job behaviors. In other words, contextual performance is not essentially related to behavior in addition to role, but already determined by job and does the behavior that is determined by discretion.

When it comes to performance-reward, some are synchronized by external factors and others are by internal factors. Lepper and Greene(1978) saw internal and external motive as contrasting factors that exist in both poles on the single dimension, but Amabile et al.(1994) claimed that internal motive and external motive are the independent factors that exist two-dimensionally. This study focuses on internal and external motive because it can be expected to identify which motive is more effective for employees if it is motivated by understanding how extracted performance-reward factors have an influence on internal and external motive to distinguish which reward factor is internal motive or external motive and also identifying the role of internal and external motive in the relationship between performance-reward factor, task activity and contextual activity.

Also, the most important factor that is related to performance-reward is fairness. The formation of perceived fairness is supported by Adams(1965)'s Equity Theory, Festinger(1954)'s Social Comparison Theory, and Folger(1986a, 1986b)'s Referent Cognitions Theory.

Therefore, equity sensitivity needs to be considered in building a research model. Equity sensitivity means 'arousal state about if one is fairly treated' and if there is individual difference in performance-reward, equity sensitivity of each individual is likely to be activated than if it isn't. In other words, if there is severe individual difference in performance-reward, equity sensitivity is activated and attempts to perceive unfairness, for example comparison of one's own input-output ratio and other's input-output ratio will be more actively made. In other words, it is more likely that one takes interest in if the entire evaluation process is fairly proceeded due to the presence of big economic interests and that one observes if one is more rewarded than those who are less performed or similar in performance, and in this case, it may have an influence on task activity or contextual activity.

3. Research Procedure and Propositions

To identify the role of performance-reward factor, first, it is important to draw appropriate performance-reward factors. It's because as suggested in the aforementioned theories, performance-reward factor is likely to act differently at the individual, group, and organizational level. Therefore, the following research procedures will be needed to draw and classify the performance-reward factors and check their applicability.

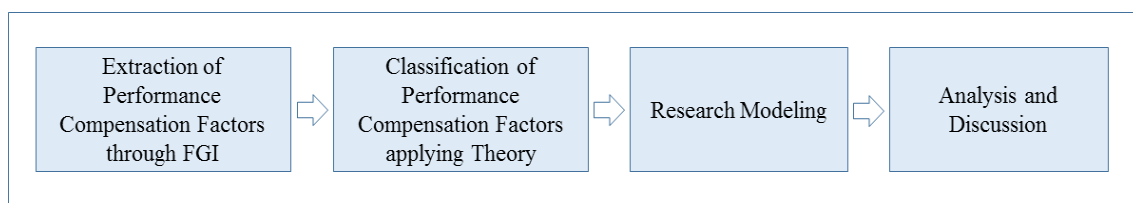


Figure 1: Proposal of Research Procedure

Proposition 1. Draw appropriate factors as performance-reward factor by conducting Focus Group Interview(FGI) in experts.

First, it is necessary to conduct Focus Group Interview(FGI) in personnel and organizational experts, constitute a factor pool appropriate as performance-reward, and extract appropriate factors for businesses, objects of investigation, based on the factors that are related to reward as suggested in Herzberg et al.(1959)'s two-factor theory, Maslow(1954)'s Needs Hierarchy Theory), Vroom(1964)'s Expectancy Theory, and Belcher(1974),

Ellingsen and Johannesson(2008)'s previous studies. The result from this will help enable our investigation into various business groups.

Proposition 2. Lay the groundwork for identifying if two-factor theory acts normally by classifying performance-reward factor to economic/noneconomic and direct/indirect factors.

Herzberg et al.(1959)'s two-factor theory has limitations in that its objects of study are largely the wealthy group who are relatively rich economically, but very interesting strategies can be drawn on the grounds that it provides two different directions : manifestation of motivation through satisfaction of dissatisfaction and satisfaction as reward factor. Therefore, the best way to reinforce the corporate competitiveness in small and medium-sized businesses which have less residual fund is to select and invest the factors that are likely to manifest motivation preferentially through satisfaction to improve productivity. To achieve this, this study saw it desirable to classify performance-reward factor into economic/noneconomic one and direct/indirect one. Generally in case of economic factor, it can be categorized into hygiene factor indirectly or directly, and the effect of manifestation of reward is likely to be limited to satisfying the dissatisfaction. However, Cognitive Evaluation Theory suggests that uneconomic factor is likely to damage internal motive directly or indirectly. So classifying reward factor with vertical or horizontal axis can be a very important criterion for future analysis.

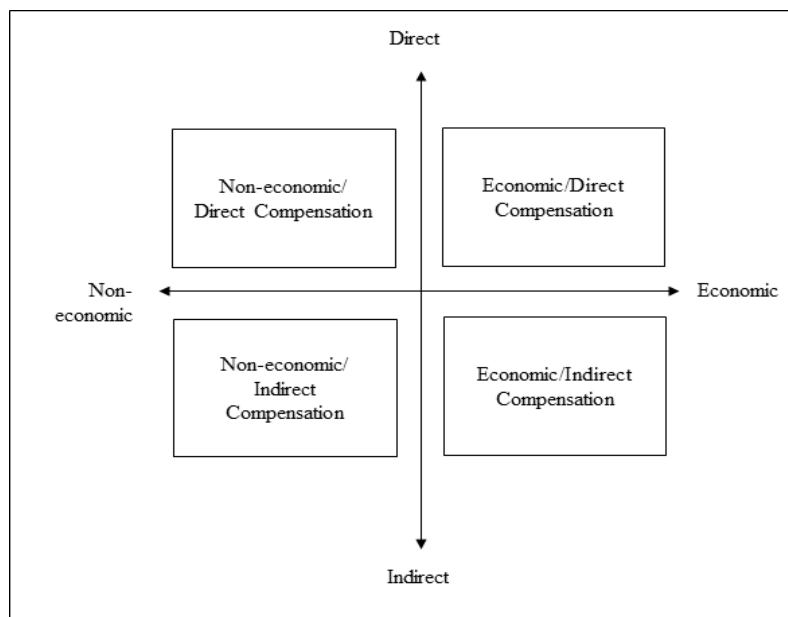


Figure 2: Classification of Compensation

Proposition 3. Draw effective performance-reward operating strategies for businesses, objects of analysis by using IPA(Importance-Performance Analysis).

The analysis through IPA after measuring importance(or expectation) and satisfaction(or outcome) in corporate members of the businesses for drawing effective performance-reward strategies is expected to check performance-reward factors that businesses can maintain or improve and present methods to reduce or abolish if too excessive or ineffective.

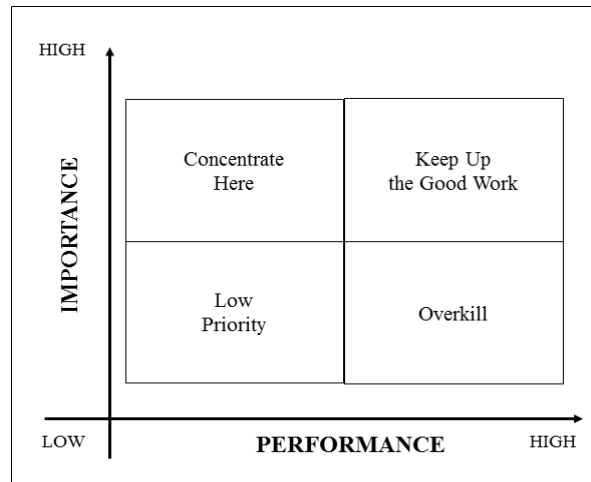


Figure 3: Analysis using IPA

Proposition 4. Check the causal relationship and effective routes by constructing a research model that includes internal and external motive factors and equity sensitivity regarding classified performance-reward factors and outcomes.

First, Herzberg(1959)'s theory can be verified and clues on which factors businesses have to focus more can be drawn by constructing the routes to the causal relationship with internal and external motive factors to identify if performance-reward factors classified as direct/indirect factors can act in the same manner as suggested by two-factor theory. Also, the role of motive factors can be identified by classifying task performance as performance factor that is directly related to productivity and task performance as performance factor that contributes indirectly to organizational development and constructing the routes to the causal relationship with internal and external motive factors and this is expected to draw investment options for improving productivity and the ones for constructing organizational culture and improving organizational atmosphere. On the other hand, the role of each business for creating outcomes as well as methods for leaders, members, and businesses to have an ability to manifest effective motives can be found by identifying the role of equity sensitivity based on Adams(1965)'s Equity Theory, Festinger(1954)'s Social Comparison Theory, and Folger(1986a, 1986b)'s Referent Cognitions Theory. Therefore, the following research models are suggested.

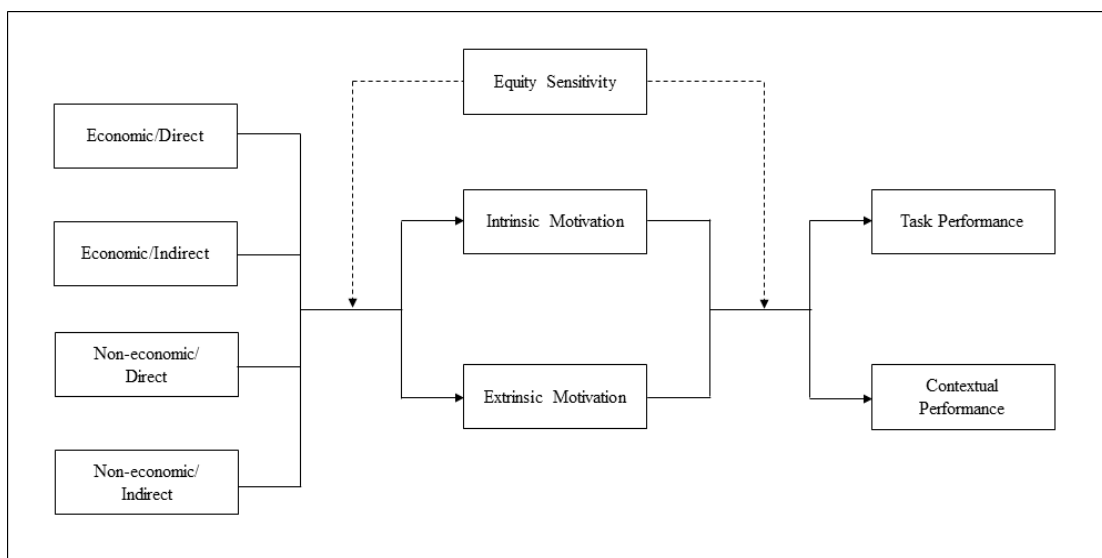


Figure 4: Proposal of Research Model

4. Expected Results

To examine possibility on the effect of parental safety education, the study was conducted on 60 experimental group from M daycare center at Seoul and 60 control group from D daycare center at Seoul. The population statistical background of parent is shown at <Table 1>.

This study aimed to suggest research methods to look for various clues to giving help for effective corporate management by designing research models to identify how to draw performance-reward factors and how performance-reward factors may have an influence on task performance and contextual performance among employees based on Herzberg's two factor theory that focuses on the effectiveness of performance-reward as method to reinforce the competitiveness of small and medium-sized businesses and previous studies. The research methods presented in this study are expected to present various methods to reduce the turnover rate of employees and be important resources for reinforcing the competitiveness of businesses by classifying performance-reward factors that may cause internal and external motives from the small and medium-sized businesses' perspective and identifying if these may have an influence on task performance and contextual performance. Also, it will be possible to verify motivation-hygiene theory from the small and medium-sized manufacturing dimension in relation to Herzberg's two-factor theory. It is also expected to find out the clues to achieving the effective and efficient operation of the performance-reward system by identifying the role of equity sensitivity.

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