



## Employee Motivation and Reward Management

### Case Study (FIN 2017):

#### Motivating Employees Through Reward and Incentives in SMEs

Summarised by SHARPEN Team 2018

#### Abstract

People are the most valuable assets of any company since their performance significantly influences the final outcome. Having good people management practices can help an organisation move one step closer to achieving their goal. This case study addresses how SMEs can use a reward and incentive system to motivate their employees in order to tap into their potential and direct them to achieving the business goals.

### Introduction

Nowadays SME's faces many challenges due to deficiency of resources and size, which could not be compared to established companies. In this case we will explore the problems and needs of local SME in Kajaani called 'Company A', located in the Kainuu region of North Eastern Finland, in the city of Kajaani. Company A was established more than 100 years ago and operates in the field of information technology processes. Company A is a leader in the Data Centre industry. Company A's goal is to provide the best possible customer experiences in the industry by continuously developing their skills and services, as well as improving their customer engagement.

Company A is a member of a software company group and has a new CEO and Human Resource Manager, who is responsible for all the HR operations under group of companies.

Communication seems to be open, however during the research it was established that there are still some miscommunication issues, which should be clarified between the employer and their employees. According to feedback from the employees, there are many unsatisfying moments during work time such as salary changes and the removal of free-time benefits.

By the time the new HR manager started working on improving the situation, a new reward system had been created, although until now this system has not been used among the



workers. Meanwhile, although the workers are glad to have a reward system to increase their motivation, managers could not clearly see the frame and structure of how to reward employees. There is a great need to develop this system, but where should it all begin?

## Objective

The main objective of this case for company A is how to create a fair and logical reward system, which will be implemented according to all the challenges specific to SMEs.

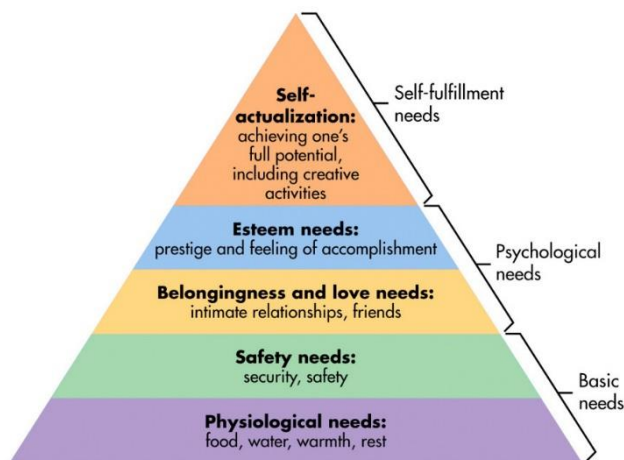
## Research Methods

For this research two methods were chosen. Researchers created two different questionnaires for collecting feedback from personnel in Company A. The first questionnaire was specifically created for HRM and helped researchers to understand the HR operations inside the company and which difficulties could be resolved. The second questionnaire was designed for supervisors and workers. In addition, the project coordinator implemented an online survey that was completed by approximately 20 employees of Company A, which was a very important step to get a clear understanding for developing a reward and incentive system for the company.

## Findings and analysis

People are the most valuable assets of any company since their performance significantly influences the final outcome. Having good people management practices can help an organisation move one step closer to achieving their goal. Hence, an individual motivation scheme including incentives, rewards, leadership, and their work plays a pivotal role in boosting employ performance, which creates an organisation's sustainable success. According to Michael, A.(2014), a motive is a reason for doing something, which organisations strive to instill in each of their employees. A well-motivated workforce will possess clearly defined goals to take action on, reinforcing them to achieve these goals. Hence, establishing a "need" is the initial contribution of motivation. Employees themselves should have the desire to accomplish

the goal. Throughout that process, a behaviour pathway will be selected to support their goal achievement.



**Figure 1: Maslow's hierarchy of human needs**

The model was designed by Maslow (1943) defining unsatisfied needs motivating people behaviours. These needs can change depending on an individual's background and current situation. By satisfying unsatisfied needs, people can accomplish the selected goals.

To satisfy employees' needs, the motivation scheme should be developed intrinsically and extrinsically. In other words, inside and outside motivation. Organisations can control the extrinsic motivation better than intrinsic one by offering rewards such as more pay, recognition, praise or promotion, and equivalent punishments such as disciplinary action, and so on, Herzberg (1957). Hence, financial issue or money is the most influential driven for enhancing employee performance and retaining staffs. A well-constructed and well-communicated reward system is significantly important in motivating employees, which receives proper time, effort, and employee engagement during the process. More importantly, the system should align with the organisation's strategical goals.

Since Company A aims to become one of the leading data centre companies in Nordic, HRM practices play a pivotal role in widening their success path. Hence, enhancing employee performance enormously contributes to the goal achievement. Thoroughly understanding the situation, Company A took further action in developing job descriptions for each employee, and designing performance-based reward systems, which have not been done before. In addition, the company clearly communicated the company culture and strategy together with increasing employee involvement in management activities. These are the key factors to keep employee motivated, which is being practiced at A.



### Organisational strategy:

A strong organisational culture is an important foundation for establishing a good reward system whose end-point is to improve employee performance. As studied, employees in Company A suffered the obscured company strategy after the merger with sister Company B in 2014. Incomplete organisational culture and poor two-way communications between the executive board, managers and other workers had a negative impact on employees' motivation. Therefore, the employers want to change their workplace to a more constructed and reliable company. Besides, during the last years, Company A's HR had been facing a significant problem in losing employees because of the growing popularity of the game development industry in the area. These games companies have attracted many IT specialists and young talents, leading to higher employee resignation at Company A.

### Reward system

Company A has been framing the HRM practice inside the company starting with the development of a reward system for its employees, which covers all their different needs, and appreciates all contributions practically and flexibly. Understanding that, Company A applied the sole version of the reward system originally using intrinsic motivation and socioemotional reward but, according to the survey, the system only lives theoretically (less than 50%). The current reward system faces issues in terms of lacking structure and instruction for both managers and employees. Its implementation greatly depends on supervisors being able to determine what to reward. How to measure employee performance is unclear and the system is complex. As such, managers' currently lack confidence in its use.

## **Proposal for Company A's Reward and Incentive System:**

The structure of the system is designed to be modular so that, if necessary, things can be attached and removed. With any changes, the justifications and reasons for the change need to be communicated to all employees so as to not to undermine their trust in the system. The system also needs to be fair as it must support continued evolution. There can be different modules according to the company's needs. However, for Company A the 'must have' modules in the system are Goals and objectives, Points system, Reward pool, Rewarding process, Monitoring frequency and Rewarding frequency. The main focus of Goals and



objectives is to have a definite goal or goals for the department and employee. Employees who have commendable performance will get reputation points through a points system, enabling them to track their performance. The reward system will make sure that an employee can use their points to earn rewards. By Rewarding process, an employee will know what kind of behaviour and performance is needed to earn a reward. Monitoring frequency will make sure how often managers needs to monitor their rewards. Reward frequency is to measure how often the company should reward an employee based on their performance. Based on the survey conducted on Company A's personnel, it was found that they desire for a system that is fair, clear, provide open feedback and flexible, which already proposed.

## References:

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