

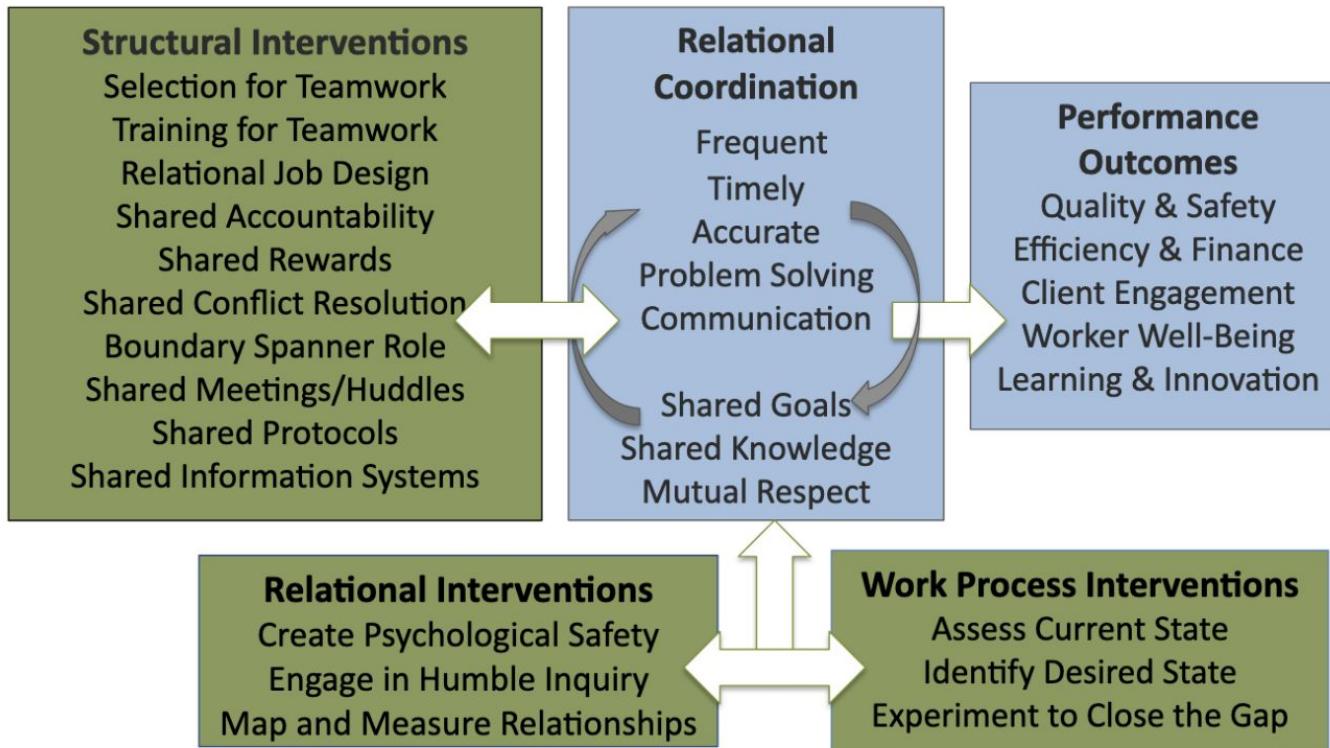
Shared rewards

What It Is: Shared rewards is an approach to monetary and non-monetary incentives that encourages collaborative rather than competitive or siloed behaviors between jobs that are interdependent.

Why It Matters: Organizations are a web of interdependent tasks. Coordination is needed among multiple jobs to achieve most performance outcomes. A siloed approach to incentive pay can create a barrier to collaboration. Shared rewards are relevant for any role that requires interdependent work - whether frontline employees, mid-level managers or the top management team. Shared rewards are also relevant when coordinating with external partners and suppliers.

How To Do It: Guided by results from the Org Structures Assessment Tool, identify jobs that need greater shared rewards. Determine which roles need to coordinate with which other roles to achieve desired outcomes. Then create a performance management matrix with individual goals, team goals and overall organizational goals. Shared rewards, whether monetary or non monetary, should be offered to support team and organizational goals. This process is usually led by HR departments with input from line managers.

Shared rewards are part of the Relational Model of Change



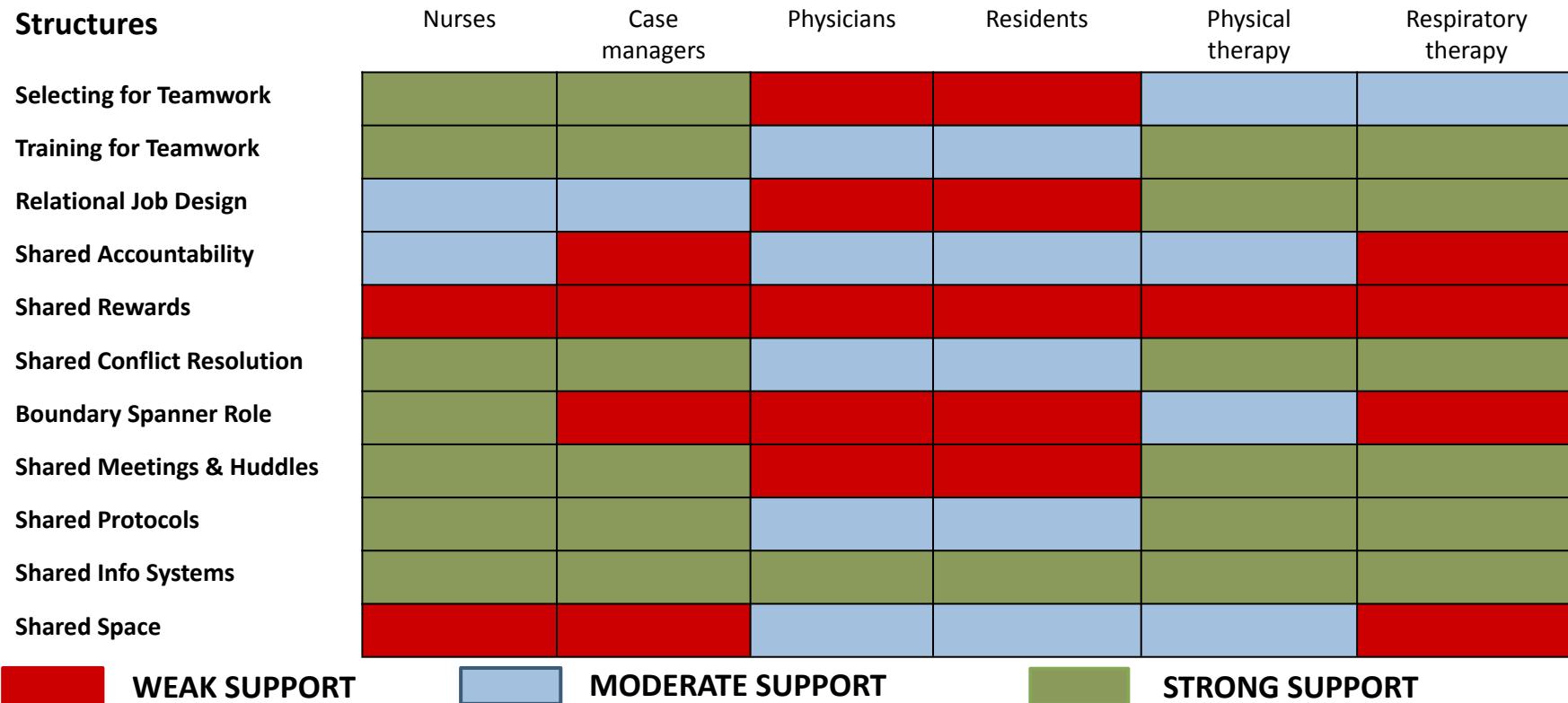
Other structures in the Relational Model of Change

- Selecting & training for teamwork
- Relational job design
- Shared accountability & rewards
- Shared conflict resolution
- Boundary spanner roles
- Shared meetings & huddles
- Shared protocols
- Shared information systems
- Shared space

A summary of the evidence:
Bolton, R., Logan, C., & Gittell, J. H. (2021). [Revisiting relational coordination: A systematic review](#). *The Journal of Applied Behavioral Science*, 57(3), 290-322.

Gittell, J. H. (2016). [Structural interventions](#) in *Transforming relationships for high performance: The power of relational coordination*. Stanford University Press.

Identify needs using the Org Structures Assessment Tool



Compensation = pay and benefits

Total rewards are even broader

Money, goods or services offered by employer in exchange for specific employee behaviors

Total rewards also include quality of the work environment, schedule control, work/life balance, ability to contribute to mission

Total rewards are also called total compensation or “employee value proposition”

The compensation package

Direct compensation

- Base pay
 - Salary
 - Wages
- Incentive pay/merit pay
- Deferred pay
 - Savings plan
 - Stock purchase
 - Annuity

Indirect compensation

- Protection programs
 - Health insurance
 - Life insurance
 - Disability income
 - Pension
 - Social security
- Pay for time not worked
- Services and perquisites
 - Recreational facilities
 - Car
 - Financial planning
 - Low-cost meals

Total rewards include intangible and non-financial



Employee value proposition

All positive attributes of the job

All negative attributes of the job

Compensation / rewards influence behavior

Compensation / rewards can play a *powerful* role in influencing the beliefs and behavior of people in organizations

Rewards should

- ◆ Attract and retain the talent needed by the organization
- ◆ Signal to employees the major objectives of the organization
- ◆ Encourage employees to develop needed skills and abilities
- ◆ Motivate employees to perform effectively
- ◆ Support coordination where it's needed
- ◆ Support the type of **culture and values** the organization wants to build
- ◆ Be seen as FAIR

Rewards should be fair – equity theory

- ◆ Employees tend to judge compensation based on its equity or fairness
- ◆ But what makes compensation fair or unfair?

Equity theory

- ◆ Equity is the balance between what the employee contributes to the organization and the rewards the employee gets in return
- ◆ Equity is determined through comparison – what is my rewards/contribution ratio compared to other relevant people?
- ◆ Who are “other relevant people”?

rewards/contribution = rewards/contribution

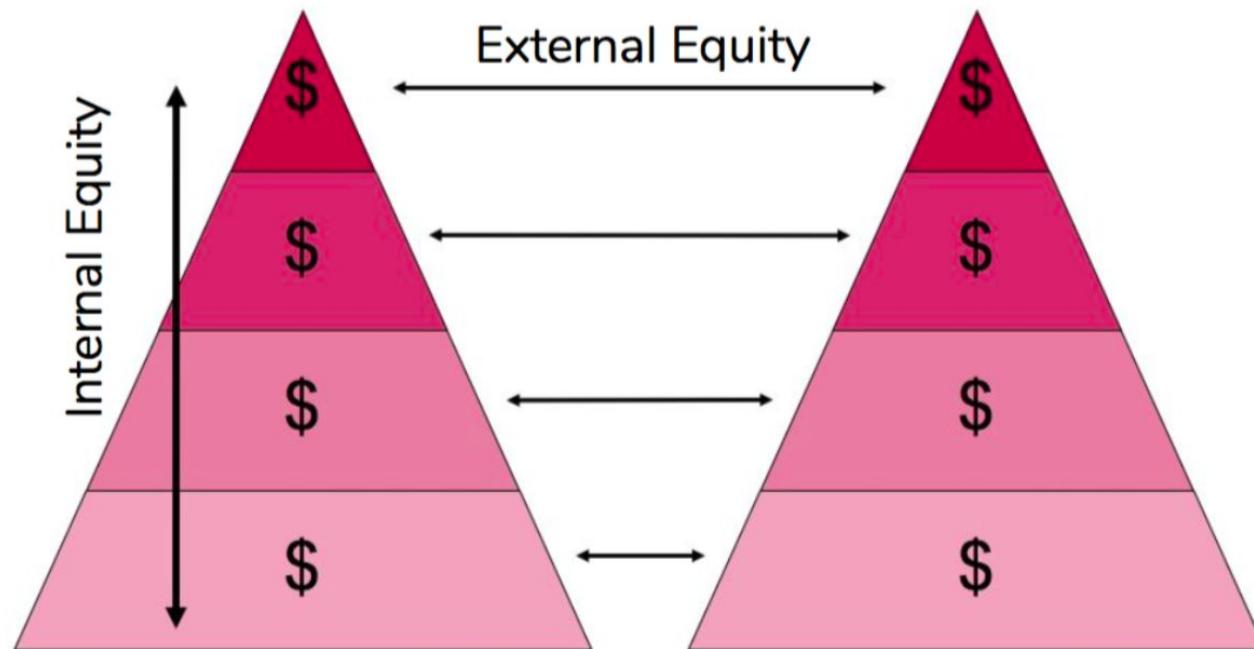
[me]

["others"]

Types of equity

- ◆ **Individual equity** - *same job in the same org* – differences in pay should be based on relative contribution of the individual
- ◆ **Internal equity** - *different jobs in same org* – differences in pay should be based on relative contribution of the job
- ◆ **External equity** - *same job in different org* – differences in pay should be based on factors like size of organization or ability to pay

Internal & External Equity



Tradeoffs between internal and external equity

- ◆ External equity says pay your top managers many times more than a frontline worker (if that's what other organizations are doing)
- ◆ Internal equity may say pay them a smaller differential (based on their contributions to the mission, where frontline workers are essential)
- ◆ How do we assess the value or contribution of a job?

When applying equity theory consider

- ◆ Equity defined as contribution relative to reward
- ◆ But how to assess the contribution of a job?
- ◆ Jobs tend to get valued differently depending on who has them – jobs held predominantly by women or people of color tend to be considered jobs of lower value, deserving less compensation – based on custom and bias
- ◆ In addition to gender and race, there is a hierarchy of jobs that allows exploitation – we overvalue managerial work and undervalue work that produces goods and services

Wage inequality impacts performance outcomes

Bamberger, B., Homburg, C., & Wielgos, D. M. (2021). [Wage inequality: Its impact on customer satisfaction and firm performance](#). *Journal of Marketing*, 85(6), 24-43.

Also consider incentive pay

- ◆ Popular approach to enhancing productivity
- ◆ 68-80 percent of organizations say pay for performance is a very important objective
- ◆ Incentive pay *doubled* as a percent of total compensation for salaried (exempt) employees in the 1990s - has leveled off since then

Some good reasons to offer incentive pay

- ◆ High performers benefit and are more likely to stay
- ◆ Improved performance can result
- ◆ If people are rewarded for increasing revenues, compensation costs will vary with organization's ability to pay
- ◆ Employees will better understand organizational objectives
- ◆ But there are also unintended negative effects of incentive pay, depending on how it is designed

Downsides to incentive pay

Employee motivation depends on both

- intrinsic factors (identity, respect, recognition)
- extrinsic factors (pay)

Consider the “crowding out” hypothesis

Consider Maslow’s hierarchy of needs

Negative impacts of incentive pay

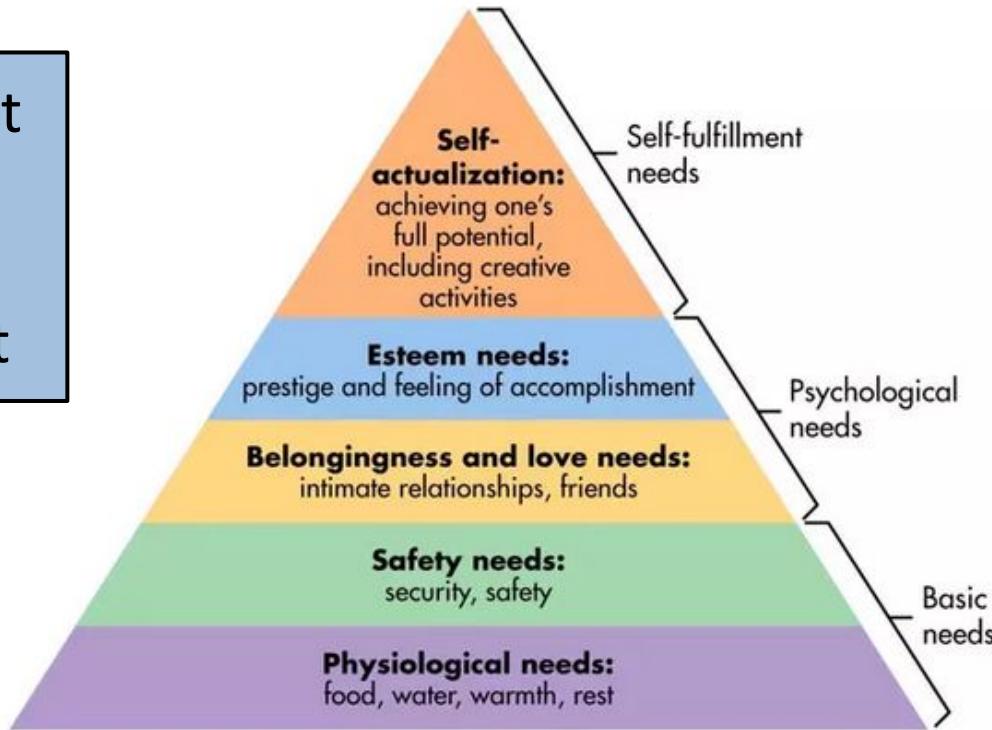
- ◆ Reduces intrinsic motivation
- ◆ Results in short-term compliance at best
- ◆ Results in unethical behavior
- ◆ **Breeds unhealthy competition among co-workers, reducing coordination and teamwork – sub-goal optimization**
- ◆ Subject to favoritism and manipulation
- ◆ Focuses management attention on motivation, when underlying problems may exist in job design, hiring or training

Intrinsic vs extrinsic motivation

- ◆ Intrinsic motivation includes the motivation to contribute to the whole based on one's identification with the whole - team spirit, patriotism, etc. - respect is a big motivator
- ◆ Extrinsic motivation is based on the material rewards - includes the motivation to meet one's basic needs, or accrue additional wealth
- ◆ Crowding out hypothesis: extrinsic rewards can “crowd out” intrinsic motivation
- ◆ Maslow's hierarchy of needs suggests that extrinsic needs should be addressed before intrinsic needs are addressed

Maslow's hierarchy of needs

Basic needs must be met before other needs become relevant



RELATIONAL
COORDINATION
COLLABORATIVE

Reduce negative side effects of incentive pay

- ◆ Consider intrinsic rewards like recognition, praise, promotions rather than just extrinsic rewards
- ◆ **Pay attention to the *level of aggregation* to avoid sub-goal optimization – jobs that are interdependent should have shared incentives/rewards**

Level of aggregation – a *design choice*

- ◆ Individual
- ◆ Group
- ◆ Organization

Individual incentive pay

- ◆ Commission
- ◆ Bonus
- ◆ Skill-based pay
- ◆ Merit pay

Group or organization incentive pay

- ◆ Group bonuses
- ◆ Profit-sharing
- ◆ Gain-sharing
- ◆ Employee stock ownership plans

Group or organization incentive pay

- ◆ Group incentive pay rewards group effort
- ◆ Performance is seen as arising from combined efforts of the group
- ◆ But individuals may feel they have little impact on group performance
- ◆ Individuals may take advantage of the group, and “free ride”

Group or organization incentive pay

- ◆ To avoid free-riding, a culture of teamwork is needed
- ◆ Works best as part of an HR strategy that is supported by other practices - relational job design, hiring for teamwork, training for teamwork and shared accountability

Other structures in the Relational Model of Change

- Selecting & training for teamwork
- Relational job design
- Shared accountability & rewards
- Shared conflict resolution
- Boundary spanner roles
- Shared meetings & huddles
- Shared protocols
- Shared information systems
- Shared space

A summary of the evidence:
Bolton, R., Logan, C., & Gittell, J. H. (2021). [Revisiting relational coordination: A systematic review](#). *The Journal of Applied Behavioral Science*, 57(3), 290-322.

Gittell, J. H. (2016). [Structural interventions](#) in *Transforming relationships for high performance: The power of relational coordination*. Stanford University Press.

Individual and shared rewards - monetary and not

	Intrinsic Rewards	Extrinsic Rewards
Individual Rewards	Individual recognition Individual achievement Individual power Individual respect	Individual bonuses Individual commissions Individual piece rate
Group / Organization Rewards	Group recognition Group achievement Collective power Mutual respect	Group bonuses Organizational bonuses Group piece rate



Bottom line: rewards can impact coordination

- Extreme reward differentials between jobs may increase social distance - thus reducing shared goals, shared knowledge and mutual respect
- Incentive pay that is competitively designed between jobs may reduce shared goals, shared knowledge, mutual respect

Evidence from research

Find summary here:

Bolton, R., Logan, C., & Gittell, J. H. (2021). [Revisiting relational coordination: A systematic review](#). *The Journal of Applied Behavioral Science*, 57(3), 290-322

Bamberger, B., Homburg, C., & Wielgos, D. M. (2021). [Wage inequality: Its impact on customer satisfaction and firm performance](#). *Journal of Marketing*, 85(6), 24-43.