Payoff

Leading-edge IS departments are using empowered, customer-focused teams--self-managed teams--to provide innovative uses of information technology to the organizations they serve. Teams require sustenance if continuous improvement is to be achieved. This article describes how IS management can motivate teams and individual team members by rethinking traditional methods for reward and compensation.

Problems Addressed

Moving up within the organization has long been seen by IS professionals as a reward worth working hard to attain; however, such traditional expectations of career growth are beginning to shatter as hierarchies in IS departments flatten. Long-term security has also been a traditional expectation of IS professionals, who have always been in demand. However, major corporations are laying people off as part of downsizing, rightsizing, and outsourcing strategies to become competitive.

This article discusses methods to motivate IS employees to perform at ever-higher levels of quality, productivity, and customer service as IS departments change their unwritten contracts with employees. The recommended actions center around rethinking traditional methods for rewards and compensation.

Determining What Motivates Information Systems Managers and Professionals

Rewards serve to address individual needs or motives in order to motivate individuals to meet the organization's needs. The first step is to consider the needs or motives of IS managers and professionals. Studies and experience consistently point to the following motivators:

- They want praise, recognition, and respect.
- They want to control their own destiny by making decisions related to work and having control over their careers.
- They want to know how they are doing.
- They want to feel they are contributing to something worthwhile.
- They want to be challenged and to grow professionally.
- They want the chance to play another game of “pinball.” The pinball analogy is that if you win the game, you get to play another round. Tracy Kidder, author of The Soul of a New Machine, noted the high level of motivation of a Data General Corp. team
charged with building a new computer. In this example, the team members were compelled to succeed on the project so they would get the chance to build another computer.

- They want to be financially compensated for their performance and participate in the organization's success.
- Some professionals want social relationships. (Research shows, however, that many other IS professionals have low social needs and do not want as much social interaction as other professionals.)
- They want to be secure.
- Some professionals want more flexibility in hours and location.

Managerial Implications

Of course, motivations vary among individual IS managers and professionals. Individuals are motivated to perform at a high level if the reward for doing so is attractive (i.e., meets their needs), if they believe they can achieve the specified goals, and if they believe that performance will lead to the desired rewards. This has several managerial implications. First, motivation varies by individual; not everyone values the same rewards. Second, goals have to be clear and perceived to be attainable. Finally, people have to believe that rewards are linked to performance. Therefore, the organization must make the link between performance and rewards visible.

Motivational Reward Strategies for the New IS Environment

The following reward strategies are proving to be effective in this new environment. Compensation is considered last because studies of IS and other high-technology professional workers indicate that the most important rewards are the professional, rather than financial, ones.

Providing a Vision People Want to Achieve

IS professionals are motivated to contribute to something worthwhile. Successful leaders can inspire others with the power and excitement of their vision and give people a sense of purpose and pride in their work. An example is an experiment in which two groups are given an unassembled puzzle. One group is given the pieces in a plastic bag and the other, in a box with a picture of the completed puzzle. There is little doubt that the second group would complete its puzzle first. The leader's job is to paint the big picture and to give people a clear sense of what the puzzle will look like when all have put their pieces in place.

Giving People the Opportunity to Learn and Grow

The chance to learn new skills or apply them in new arenas is an important motivator in a turbulent environment because it is oriented toward securing the future. It also meets the need for growth and recognition. Access to education, training, mentors, and challenging projects can be very motivating.
Tomorrow's careers will be more professional, in which opportunity involves the chance to take on more challenging assignments. New careers will also be more entrepreneurial (i.e., success is starting a new venture either within the organization or outside it) and less bureaucratic (i.e., success is measured by advancing up the hierarchy). The overall effect of these changes in careers, as well as of downsizing and outsourcing, is a loosening of employment bonds between organizations and people. Job insecurity is a consequence.

**Employability.**

If employment at a particular organization cannot be guaranteed, then organizations must help satisfy the need for security through employability. Employability security comes from the knowledge that today's work enhances the person's value in terms of future opportunities. It comes from the chance to accumulate human capital—skills and reputation—that can be invested in new opportunities as they arise. IS departments must invest in people's learning and growth, give them opportunities to apply their skills in new arenas, encourage innovative contributions, and reward their performance. The IS department benefits because people are willing and eager to take on challenging assignments.

Methods for enhancing employability include: work-related seminars; tuition reimbursement; funds for travel to professional meetings; funds for professional association memberships, journal subscriptions, and books; cross-functional job rotation; challenging assignments; and an environment in which failure is used as a learning opportunity.

**Sharing Power and Information—Empowerment**

IS professionals want to be informed and have control over their work environment. Without gasoline (power), the capabilities of the most finely tuned, high-performance automobile would be useless. This is true of people as well. Without power, people cannot perform at their best.

The more people feel a sense of power and influence, the greater their ownership and investment in the organization's success, the better their ability to perform their jobs, and the greater their sense of personal well-being. Empowerment leads to better performance than if employees feel like bureaucrats who have to ask permission at every step.

Empowerment benefits leaders as well. When people are empowered and can accomplish more on their own, the leader's own sphere of influence is enhanced because people feel grateful. Leaders build credits they can draw on when extraordinary efforts are needed.

Ways to share power and information include giving people discretion and autonomy over tasks and resources, asking people what they need to do their jobs most effectively and getting it for them, giving problem-solving teams a budget to implement ideas, keeping people informed, giving people greater visibility and recognition, building relationships for others, and encouraging employees to evaluate their managers and each other.

**Establishing Teamwork as a Way of Doing Business**

Teams—corrective action, quality improvement, or self-managed—are proliferating in IS departments driven by Total Quality Management initiatives, flattening hierarchies, and
the need to produce higher-quality products faster and cheaper. Teams address individuals' motives for social relationships, their need to be more in control of their destiny, and challenge and professional growth. In organizations with true rather than nominal team cultures, teams transform relationships and work processes—they challenge virtually everything about how business is conducted.

Conceptually, teams are based on the incorporation of several core job dimensions that research has shown lead to high motivation and satisfaction as well as performance. These dimensions are skill variety, task identity (the team owns a complete task or process), task significance, autonomy, and feedback (see the Job Characteristics Model in Exhibit 1). The model can be used to design teams and identify elements to build into jobs to make teams successful. The model is especially suited to people with high growth needs, which studies show to be a key characteristic of IS professionals.

**Job Characteristics Model**

**Showing an Interest in Employees' Performance and Careers**

Coaching and expressing confidence in employees are ways of taking an active interest in them. These actions address employees' needs for praise and growth. Coaches of IS professionals should give feedback regularly, not simply at the end of the performance evaluation season. Managers should also provide material support whenever possible and moral support at all times.

**Enhancing Reputation**

Reputation is a key resource in professional careers and the chance to enhance it can be an outstanding motivator. Enhancing reputation is a way to meet needs for recognition, for individuals to see themselves as winners, and for security (i.e., employability). Managers can enhance reputation—and enhance motivation—by providing public recognition and visible awards, crediting the authors of innovation, publicizing people outside their own departments, and linking people into organizational and professional networks.

**Acknowledging Accomplishments**

Organizations traditionally focus on financial ways of recognizing accomplishments. Nonfinancial awards can also be motivating, especially for IS professionals. Awards satisfy needs for recognition.

Too many organizations shroud awards (financial and other types) in secrecy, worrying that those who do not receive them will be jealous and demotivated. If the message the organization wants to send is that it values performance and rewards it, awards should not be kept a secret.

Methods of recognizing and celebrating accomplishments include holding recognition events and special lunches to acknowledge extraordinary efforts, praising people in memos to senior management or in organizational newsletters, and sending letters directly to employees. With long, multiyear IS projects, milestones can instead be recognized. People who feel like winners like to up the ante and raise their work standards.
Creating Dual Career Ladders

Most IS departments can cite examples of excellent IS professionals who became less-than-excellent IS managers. Unfortunately, many outstanding IS professionals have found the only avenue for increasing financial rewards to be promotion into management. However, many talented technical people experience frustration and failure as managers. In the future, those who might be successful as managers may not have the chance as hierarchies flatten.

Some IS departments have instituted dual career ladders as a way to address these issues and keep senior professionals in positions where they can succeed and continue to make significant contributions. In some cases, technical tracks do not go as high as senior IS management positions, but they do overlap at least with the lower- to middle-management positions.

Promotion up the technical ladder should be based on carefully defined criteria representing excellence in the discipline. As with research and development professionals, where dual career ladders are now common, selection and evaluation can be conducted through a committee of professionals and, in some cases, managers who hold higher ranks. At the highest levels, committee members may even be drawn from a distinguished list of professionals who do not necessarily belong to the organization. Although movement up the managerial ladder is usually associated with increasing power and decision-making authority, movement up the professional ladder is usually indicated by greater autonomy in the practice of the individual's craft.

Providing Midcareer Breaks

Managers can send high performers, who either are or will be in management positions, to management development programs at business schools. These programs help prepare someone with a specialized background for general management responsibilities. This is a reward because it meets people's needs to grow and be recognized. The organization is rewarded in turn because it welcomes back a more skilled employee.

Free Time and Flexible Work Hours and Location

These rewards reflect respect and trust, and give people greater control over their destiny. They are effective vehicles for rewarding and retaining performers who need flexible work structures, such as those with day-care or elder-care responsibilities.

Giving People a Share of the Value They Create

Most IS managers would say their compensation systems are based on paying for performance, rather than for time in the job. However, the reality in many cases is that differentials in salary increases are small, performance appraisal is not done well, and performance measures are inadequate. Because subjective performance measures are not trusted, people do not believe that pay based on such measures is really a result of performance.

In practice, the so-called merit raise is based less on merit and more on cost-of-living adjustments that often do not satisfy even those who receive the raises. The tiny range of difference among employees is usually just enough to create conflict. Past merit payments become part of the individual's base salary, thereby creating an annuity, and people
continue to get paid for past performance. To be motivating, however, changes in pay should be 10% to 15% rather than the often-seen 2% to 6%.

Too many managers are unwilling to recommend large and small pay actions, even when they are warranted. Consequently, people get raises even if they do not really meet their objectives. One reason is the unpleasant task of explaining to subordinates why they are getting a low raise. If managers make excuses, such as their hands were tied by the budget or by the personnel department's policies, it clearly communicates to the employee that pay increases are beyond the manager's control and thus not based on performance.

The practice of allocating a budget amount to a manager to divide among employees on the basis of merit can be disruptive of teamwork. It clearly puts team members in a competitive situation in which team performance does not matter, but individual performance does. In many cases, managers are asked to distribute their ratings using a forced-distribution format because a normal distribution is usually assumed, even though the people being rated are not a random sample of the population. These IS professionals have been carefully selected and trained. In addition, the number of individuals being rated is far too small to render a normal distribution.

Organizations are moving to new strategies in compensation. According to the American Productivity Center, 75% of organizations use at least one nontraditional pay plan. Most of these programs share two characteristics: they put more of each employee's pay at risk and they link that pay more closely to performance. Incentive pay systems not only induce individuals and teams to produce more, but they also hold down wages and wage-related benefits and let compensation costs rise and fall with the organization's fortunes.

Financial Compensation Systems Based on Performance

Four nontraditional pay plans that should be considered are profit sharing, gain sharing, performance bonuses, and share of venture returns.

**Profit Sharing**

Profit sharing returns a share of business profits to employees at the corporate or business-unit level. Most plans set a profit goal and pay back a share of all profits achieved above that goal. According to compensation experts, profit sharing is not a very effective motivator, mainly because most employees perceive they have little influence on overall profits.

**Gain Sharing**

Gain sharing operates somewhat like a corporate profit-sharing plan, but is based solely on business-unit results. Because of the narrow scope, gain-sharing plans are more motivating than profit sharing. When participants meet or exceed group performance goals, they receive bonuses. Early gain-sharing plans focused narrowly on such productivity measures as cutting labor costs and were used mainly with operational staff at the plant level.

Service providers are experimenting with gain-sharing programs. At one credit services department in a manufacturing company, staff members receive quarterly bonuses that are based on how much they collect in accounts receivable. In one example, the manager invested $22,000 and got back more than $100,000 in collections. Staff members,
informed of quarterly objectives and monthly collection amounts, recognize the direct impact of their performance on income.

IS departments are also exploring gain-sharing programs, especially among self-managing teams. At Corning, Inc., an applications development team is part of a gain-sharing pilot in the corporate Administrative Services Center. The plan includes incentives for spending within budget, customer satisfaction, process improvement, and cost reduction.

**Performance Bonuses**

Performance bonuses are cash incentives paid to individual employees or teams for exceptional performance. Bonuses do not roll into base pay. In some IS departments, managers decide who should receive bonuses; in others, anyone in the organization can nominate recipients and a panel of peers makes the decisions.

Sometimes bonuses are paid out in cash equivalents. An IS department may award American Express Be My Guest chits; another may award gift certificates and tickets. Still another may award gifts to families of IS staff members who work overtime. One high-technology company in the Boston area offers a competitive bonus of 25% of an engineer’s salary based on the performance of the team. Each team may submit a proposal to management explaining why it deserves a bonus based on costs saved or value added to the organization. In another IS department, an applications development team proposed taking over a critical project that had been outsourced and was foundering. The team stipulated that if it came in under budget, ahead of schedule, and met specific quality requirements, it should receive a bonus. The team met its criteria and got the bonus. Still another IS department awards $500 to each member of teams that complete projects with no more than 5% variance.

In the IS department at Medtronic, Inc., a medical device manufacturer headquartered in Minneapolis, bonuses are granted in lieu of salary increases. Salaries are adjusted based on the market, but not performance. Bonuses are granted annually on the basis of performance and awarded as a lump sum. Exceptional performers can earn annual bonuses of 24% while those whose performance is rated in the expected category receive no bonus (thereby freeing up more funds for exceptional performer rewards). Employees have to earn their bonuses each year. Managers at Medtronic believe that their new compensation system has actually helped recruit and retain star performers.

**Share of Venture Returns**

This compensation method focuses on long-term company success. Company stock is distributed to employees as part of a bonus payment or through company-sponsored stock option or stock purchase programs. A stock plan addresses individual needs for security and participation in the organization’s financial success. Its intent is to make employees at all levels think and act as if they were owners.

Research indicates employee owners tend to be more committed to their organizations. It gives them a financial incentive to figure out ways of working smarter. Organizations that combine ownership and employee involvement have consistently been shown to improve performance.
Key Success Factors in Implementing Reward Systems
Several factors should be kept in mind when implementing new reward systems for the IS department.

Develop a Vision of Organization Strategy and Culture
Those organizations with a clear vision of the strategy and culture to be served by the reward system usually install more successful nontraditional reward programs. They focus on the links between business priorities and reward design issues, taking time to prepare the organization for implementation and develop accurate measures.

Make Sure Employees Understand Performance Priorities
Employees must also know what they should do to support these priorities and that this support leads to rewards. Effective two-way communication is key to ensuring that employees understand the link between goals and rewards. Providing rewards that are attractive ensures that employees will be motivated to meet goals.

Track Programs for Success
Any program must be audited and controlled to ensure that it stays on course. A one- or two-degree correction one month out is much easier to accomplish than a 40-degree correction 12 months out. View incentive programs as ongoing, constantly monitored management programs.

Let People Make a Difference
Successful programs focus on work designed with wide margins for employees to exercise discretion. People can make a difference on their jobs, and management values the additional contribution sufficiently to pay additional rewards when peak performance is achieved.

Separate the Incentive from the Base Pay
The reward of traditional merit adjustments is lost when folded into base pay. Moreover, adjustments to salaries contribute to high fixed costs and pay compression, especially among long-term employees.

Stay Flexible
Adapt programs as business conditions and plans change.

Reflect Upside and Downside Risk
Programs that reflect risk reinforce a sense of partnership among stakeholders.

Make Information About the Pay System Public
Disclosure enhances the credibility of the link between pay and performance. Secrecy leads to consistent distortions of people's perceptions of how pay is administered. It leads to overestimates of the pay of others so that in comparison, individuals feel more poorly paid than in fact they are.

An effective performance evaluation system should include:
· Clear, measurable objectives created with the active participation of those being evaluated and perceived as tough but achievable.

· Understanding on the part of those being evaluated of the impact of accomplishing the objectives on financial compensation.

· A mechanism for soliciting input on performance from as many relevant sources as possible, both inside and outside the IS department.

· Open communication on performance so those being evaluated feel they had meaningful input. In addition, the organization's culture must value effective performance evaluation.

Foster a Climate of Continual Learning
All IS members need a dose of humility sprinkled on their basic self-confidence. Humility acknowledges there are always new things to learn to improve the future.

Recommended Course of Action
The dream of having organizations appreciate that effective information services contribute to their ability to compete globally is coming true. For IS departments not yet positioned to meet the challenge, the dream begins to take on the quality of a nightmare of ever-greater demands for the latest and greatest technology solutions and services. To adapt, IS departments need highly motivated and skilled IS professionals who are prepared to meet and exceed the company's sometimes daunting requirements—even as pressures to reduce costs constrict their ability to do so.

Overall strategies to help the IS department meet these challenges successfully include flattening the management hierarchy, adopting Total Quality Management, and establishing self-managed teams that are empowered and customer focused. Another strategy detailed in this article is to create reward and compensation systems that motivate. New reward systems are different from those of traditional bureaucrats. They are based less on status and more on contribution, and they consist not of regular promotion and automatic pay raises but of excitement about a vision, challenging assignments, and a share of the glory and gains of success. For IS professionals the new security is not employment security, but employability security.

Leading-edge IS organizations are demonstrating that taken together and implemented in an integrated fashion, these strategies unleash creativity, commitment, and ownership in IS. As a result, the minds, hearts, and spirits of IS professionals are enlisted toward delivering world-class services and systems their organizations truly value.

Bibliography


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