How important is money to motivate people to work?

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Abstract

In this chapter, we explore research on the importance of money to motivate people to work. We begin by reviewing research on the role of money in people's lives and as a motivator of working, showing that even though people need a decent basic income, money is not the best motivator of work performance. This is followed by a review of research on the effects of performance-based compensation on motivation, performance, and well-being, concluding that financial incentives do not seem to be as powerful to drive performance as portrayed in many motivation theories, and that there is still a need to better understand how such incentives relate to need satisfaction and work motivation. Moreover, incentives seem to have undesirable side-effects on moral engagement, stress, and well-being. We also explore other aspects of compensation, including how fairness and the relative distribution of money within organizations influence need satisfaction, motivation, and work outcomes, as well as how motivational assumptions and payment norms and preferences might modify how money influences motivation. We end with an identification of remaining knowledge gaps and suggestions for future research on the effects of compensation on work motivation that would benefit from using self-determination theory, as well as the practical implications of what is known thus far for the design of compensation systems.

Keywords: self-determination theory, incentives, rewards, compensation, performance, well-being

How important is money to motivate people to work?

It has been argued that work is compensated because “the overwhelming majority of workers would not otherwise perform the tasks” (Lazear, 2018, p. 195). Lazear, an influential behavioral economist, says that without compensation, only enjoyable tasks would get done and those most needed by society would be neglected. Besides the fact that statistics on volunteer work attest the impressive contributions volunteers make to essential services that are far from always enjoyable (e.g., ABS, 2019; Ironmonger, 2012), and that 76% of people admit they would continue to work even if they did not need money (Paulsen, 2008), views like those of Lazear on the importance of money to motivate work have dominated the field of compensation management (Lawler, 2000; Pfeffer, 2007; Shaw & Mitra, 2017). These perspectives illustrate the classical debate on whether money (compensation) or other factors are the main driver of individual behavior. On the one side, there are those who emphasize instrumentality and advocate that individuals engage in behavior only if they personally gain from these behaviors (e.g., Lazear, 2018; Olson, 1971). On the other, there are proponents of the view that individual behavior rather is a function of more intrinsic factors, such as joy, meaningfulness, altruism, values, or the perceived importance of a certain cause (e.g., Sen, 1982; Weber, 1968). *Self-determination theory* (SDT; Ryan & Deci, 2017) is perfectly suited to understand this range of different motivational drivers of individual behavior.

In this chapter, we explore research on the importance of money, compensation, and compensation systems to motivate people to work so that we can better understand (1) the importance of money in people’s lives and as a motivator of working, (2) how performance-based incentives influence motivation, performance, and well-being, (3) how fairness and the relative distribution of money within organizations influence work outcomes, and (4) how motivational assumptions and payment norms and preferences might modify how money influences motivation. We end with an identification of remaining knowledge gaps and suggestions for future research on the effects of compensation on work motivation, as well as the practical implications of what is known thus far for the design of compensation systems.

The Importance of Money

There is no doubt that receiving an income is important in people's lives as it is necessary in our currently structured societies to have money to at least meet basic physiological and security needs, as evidenced through how income influences life expectancy (Chetty et al., 2016; Statistics Sweden, 2016). Income influences many of the life decisions people make, including occupational and job choices, as well as other choices such as where to live, and whether to get married, and have children (Leana & Meuris, 2015). However, once a minimum income threshold is reached, money does not necessarily translate into additional happiness (Jebb et al., 2018; Kahneman & Deaton, 2010), and people often overestimate the extent to which additional money would make them happier (Anik et al., 2009).

Another important aspect of money is its availability. Insecure employment breeds insecure earnings that create stress (Odle-Dusseau et al., 2018; Sverke et al., 2002). Thus, not earning an income that meets basic survival needs leads to financial insecurity, which in turn has been associated with numerous negative outcomes, including disrupted cognitive functioning (and consequently learning, decision-making and work performance), moral disengagement (John et al., 2014; Pitesa & Thau, 2014; Sharma et al., 2014), and lower health and well-being (Haushofer & Fehr, 2014; Howell et al., 2013; Leana & Meuris, 2015). Research on unemployment (e.g., Jahoda, 1982; Warr, 1987) indicates that individuals who lose their jobs lose not only the manifest benefits of work (i.e., their salary) but also various latent benefits associated with having a job (opportunity to make a meaningful contribution, social contact, status and identity, time structure, and the possibility to engage in structured activities). This indicates that work/employment offers many benefits beyond money and, contradicting Lazear (2018), many reasons for wanting to work besides money. Research on job insecurity indicates that the perceived risk of losing one's job can have detrimental consequences for employees' attitudes, work-related behavior, and health (for meta-analytic results, see, e.g., Jiang & Lavaysse, 2018; Sverke et al., 2002, 2019).

This might seem at first glance to contradict research that shows that having strong materialistic goals is bad for one's well-being (Dittmar et al., 2014; Kasser & Ryan, 1993). However, research actually shows that if the goal underlying the desire for money is to reach income security, it does not negatively impact autonomous work motivation (i.e., meaning and enjoyment-based motivation; Chen & Hsieh, 2015). In line with this, satisfying levels of pay have been found to positively impact autonomous work motivation (Kuvaas et al., 2016), but research shows that this positive impact could shift and even turn negative if the way money is administered and distributed is perceived as controlling the employee (Cerasoli et al., 2016; Kuvaas et al., 2020).

In addition, the *relative distribution* of money can influence employee pay- and job satisfaction, willingness to remain and autonomous work motivation (Card et al., 2012). Of particular interest, previous research has shown that monetarily disadvantaged employees in work units experienced decreases in their pay and job satisfaction and increases in their job search intentions when they got access to information about the actual pay differences between them and their peers (i.e., when they understood that they were disadvantaged). However, these variables remained intact among advantaged employees even when they were made aware about the fact that they were better paid than their peers (Card et al., 2012). In line with this, our own work in progress indicates that, among white-collar workers employed in a large energy company, those on the lower end of the pay ladder who perceived pay inequalities experienced decreases in their autonomous work motivation, while being on the higher end of the pay ladder did not influence autonomous work motivation (Nordgren Selar et al., manuscript in preparation). Taken together, these results indicate that pay inequalities are more likely to decrease disadvantaged employees' job satisfaction, willingness to remain and autonomous work motivation than they are to increase advantaged employees relations with these outcomes. Thus, above income insecurity, both the management of compensation (i.e., whether it is controlling and decreases the experience of autonomy) and employee perceptions of being disadvantaged are likely to influence these outcomes – perhaps with the unintended consequence of lowering employee autonomous motivation.

Going back to Lazear's (2018) argument that money is the most powerful motivator of work performance, it can be compared to other means to motivate workers. This can be done by examining its motivational power relative to other key organizational practices likely to affect need satisfaction, such as the provision of feedback, managerial styles, and redesigning work to make it more autonomously motivating.

One meta-analysis of 98 interventions to change one of 11 work practices (e.g., work redesign, training, performance appraisals, goal setting, financial incentives) showed that financial incentives yielded the greatest changes in performance (Guzzo et al., 1985). Another review of 61 field experiments on incentives, participation, goal setting and job enrichment similarly revealed that financial incentives led to slightly greater performance improvements than the other changes (Locke et al., 1980). Most of the jobs or tasks in these meta-analyses were simple and repetitive physical or algorithmic tasks for which performance is easy to measure and quantify (e.g., tree planting, animal trapping, welding, punch card processing). In contrast, today's work involves more complex tasks that require more cognitive processing and problem-solving in often increasingly uncertain and interdependent contexts (Griffin et al., 2007). Today's work challenges may thus require more autonomous motivational styles that are more strongly associated with flexibility, proactivity and creativity than controlling styles (Gagné et al., 2021; Van den Broeck et al., 2021). In addition, costs associated with employee turnover and ill-being are increasingly within the scope of organizational concerns, given that they too affect the bottom line. Again, meta-analytic findings show the strong advantage of promoting autonomous motivation over controlled motivation to promote well-being and retention (Van den Broeck et al., 2021). Therefore, it is doubtful that the conclusions drawn from these older meta-analyses, that money is the most powerful motivator of performance, would hold for contemporary work.

Our own recent research (together with Falkenberg and Hellgren) examined the importance of compensation relative to the importance of other sources of psychological need satisfaction in a contemporary sample of workers. In a study of 582 highly skilled white-collar workers in the Swedish energy sector, we found that factors related to a performance-based pay system (i.e., instrumentality, procedural fairness) had negligible and mixed relations to performance relative to other practices that were more strongly related to need satisfaction, particularly job autonomy and to a lesser extent receiving constructive feedback (Nordgren Selar et al., 2020). These results concur with a slightly older study of Swedish nurses in which it was also found that feedback, job autonomy and workload were more predictive of work attitudes and performance than justice perceptions related to the pay system (Andersson-Stråberg et al., 2007). Though more research is needed, this research supports the idea that performance-based incentives may not have the predicted strong and uniform positive effects for many of today's jobs.

In conclusion, in the contemporary world of work, people need money to fulfill many of their needs and having secure employment and income therefore matters. To the extent that people can improve their life circumstances through money, it can help fulfill both survival and psychological needs (Di Domenico & Fournier, 2014). However, we should not place too much weight on compensation to motivate performance relative to other means to motivate workers, such as providing them autonomy through good work design and giving adequate feedback to enhance their feelings of competence, as demonstrated in our ongoing research. Lastly, people do not only consider their income in absolute terms but also in relative social comparison terms. Equity theory (Adams, 1965) has often been used to examine the importance of justice perceptions in pay administration and there has also been quite a bit of research on pay dispersion (Shaw, 2014), but none before our most recent study of Swedish workers has considered how pay dispersion may influence autonomous work motivation. Future research could continue to elaborate on these findings to fully understand how income, both absolute and relative, influences need satisfaction and work motivation. Later in this chapter, we elaborate on equity perceptions, but before that, we consider another aspect of income security caused by using pay-for-performance compensation schemes that deserves attention.

Performance-based compensation

In contrast to skill-based and seniority-based compensation, where pay levels and pay raises depend on factors such as credentials and tenure in an organization, performance-based compensation refers to cases where compensation depends (partly or completely) on how well an individual employee performs their work or produces results (e.g., Gerhart & Fang, 2014; Lawler, 1990). Different types of performance-based pay schemes are used, including merit increases based on (typically) yearly performance appraisals, commissions or "piece-rates" delivered for producing results (e.g., selling a product, manufacturing a widget), and bonuses for reaching a performance target (typical targets include sales quota, customer satisfaction ratings, safety record, attendance, and getting an "exceeds expectations" rating from manager in yearly appraisal). Apart from merit increases, the other forms of performance-based pay imply that one's total compensation can vary upward and downward across time, making the portion of one's income based on performance less secure.

There have been heated debates about the effects of performance-based incentives on work motivation and performance. One of self-determination theory's sub-theories, cognitive evaluation theory (Deci & Ryan, 1980), is devoted to understanding the effects of contingent rewards on intrinsic motivation. It proposes that tangible contingent rewards can influence intrinsic motivation through their effects on autonomy and competence satisfaction. A second sub-theory, organismic evaluation theory, similarly argues that autonomy and competence experiences also affect autonomous extrinsic motivation (i.e., identified regulation; Ryan & Deci, 2017). Given that it has been shown to be important for workers to have higher autonomous relative to controlled forms of motivation in order to perform well, be engaged and avoid burnout at work (Howard et al., 2016), it is important to consider how performance-based pay influence workers' basic need satisfaction and motivation.

Numerous meta-analyses and reviews of research on the effects of contingent pay on motivation and performance have been conducted (e.g., Cerasoli et al., 2014, 2016; Deci et al., 1999; Gerhart & Rynes, 2003; Jenkins et al., 1998; Kim et al., 2021; Lazear, 2018; Locke et al., 1980; Weibel et al., 2010). Though incentives have been shown to lead to higher performance across many of these reviews, the effects seem to be limited to performance quantity rather than quality (Cerasoli et al., 2014, 2016; Jenkins et al., 1998) and to simple boring tasks rather than complex interesting ones (Weibel et al., 2010). Although previous research has emphasized the importance of employees seeing a clear connection between their pay and how they perform (i.e., "clear line of sight"; Lawler, 2000) and perceiving pay decisions as fair (Andersson-Stråberg et al., 2007), employees actually rarely see a clear connection between their pay and performance (Gerhart et al., 2009; Kuvaas et al., 2016). Many would argue that this lack of perceived instrumentality would make incentives less powerful in driving performance (Jensen & Meckling, 1976; Lawler, 1990; Vroom, 1964). However, meta-analytic results indicate that indirectly contingent incentives (i.e., pay that is loosely related to performance, or lower in instrumentality) are more strongly related to need satisfaction and intrinsic motivation than are directly contingent incentives (i.e., pay that is tightly related to performance, or higher in instrumentality; Cerasoli et al., 2014, 2016). In other words, through their evidenced positive associations with intrinsic motivation and need satisfaction, indirect instrumental incentives are more likely to increase employee performance than are directly instrumental incentives, because intrinsic motivation is much more strongly associated with work performance than external regulation (Van den Broeck et al., 2021).

It has also been shown that incentives may lead to "collateral damage" such as stress and anxiety (Dahl & Pierce, 2020; Parker et al., 2019). Due to the uncertainty associated with it, performance-based pay can create income insecurity (especially when a significant ratio of one's income is from this source). Insecurity might explain the relation between the introduction of performance-based pay schemes and increases in psychotropic prescriptions for anxiety and depression in a sample of thousands of Danish workers (Dahl & Pierce, 2020). Not surprisingly, stress consequences are more pronounced for high-stake rewards (i.e., having to meet a quota to obtain the reward) relative to low-stake rewards (e.g., a piece-rate system; Parker et al., 2019).

In conclusion, income insecurity can also be caused by using performance-based compensation, which could explain the "collateral damage" associated with the use of performance-based incentives. Research on the effects of performance-based incentives on motivation and performance also suggests that support for classic theories advocating for their use (i.e., agency and expectancy theories; Jensen & Meckling, 1976; Vroom, 1964) is not as solid as portrayed in the general compensation literature. Self-determination theory provides alternative views on how performance-based incentives may influence motivation and performance through the satisfaction or frustration of psychological needs and some recent work, including recent meta-analyses (Cerasoli et al., 2016), providing support for SDT-based predictions. Most intriguing are the results concerning the (lack of) impact of perceived instrumentality on performance. However, much more research is needed to fully understand the impact of incentives on motivation, performance, and well-being.

Other Important Compensation Characteristics

SDT research on compensation had not considered, until recently, other aspects of compensation that have been considered extensively in compensation research: fairness and pay dispersion.

Many compensation researchers argue that performance-based pay is perceived to be more equitable because it rewards employees based on their contributions (e.g., Lawler, 2000). We think SDT could be used to further understand how and why. First, research indicates there are important relations between need satisfaction and general work-related perceptions of justice (Gillet et al., 2013, 2015) but the causal direction is unclear as studies have mainly used cross-sectional designs.

Justice is generally conceived of as a four-dimensional construct (Colquitt, 2001). Distributive justice refers to the fairness of how resources, such as pay, are distributed in organizations, while procedural justice reflects employees' fairness perceptions regarding the rules or procedures used to make decisions about how to distribute resources (i.e., consistent use of rules, appeals process). Informational justice reflects perceptions of having received sufficient information in time, while interpersonal justice concerns aspects such as being treated with respect and dignity, and the absence of discrimination.

Little research to date has examined how each of these forms of justice specifically relate to the satisfaction of competence, autonomy and relatedness, and it would be useful to know this as it would help us understand the psychological function of justice in promoting motivation and performance so we know how to influence need satisfaction through pay. One study has found that both employee perceptions of pay-related justice and congruence between employee and manager reports of their enacted pay-related justice result in more positive work attitudes, a stronger willingness to remain in the organization, and better performance (Malmrud et al., 2020), however types of justice were collapsed for analyses. Another recent study suggests that some types of pay-related justice may be more important than others in influencing need satisfaction. Olafsen and colleagues (2015) found that it was not the equitable distribution of income that mattered most to satisfying psychological needs and promoting autonomous motivation, but whether procedures to determine the income (i.e., performance evaluation and feedback) were perceived to be just. What is still not known is whether different forms of pay (i.e., fixed versus performance-based) will yield different perceptions of justice, and whether justice perceptions derived from different forms of pay might influence need satisfaction differently.

Another characteristic of compensation systems created by the use of performance-based pay is the dispersion of pay it creates amongst groups of workers doing the same job. So far, research suggests variable effects of high pay dispersion on performance ranging from positive to negative (Shaw, 2014). Pay dispersion is also directly related to increased turnover, and perceptions of justice is an important moderator of the effect of dispersion on outcomes (Shaw, 2014). Dispersion also leads to lower collaboration and knowledge sharing, consequently lowering firm performance (Siegel & Hambrick, 2012; Kleinbaum et al., 2013).

A recent study of 1146 Swedish private sector workers examined the relative importance of different characteristics of compensation systems, including income levels, the perceived dispersion of pay amongst their work group, the extent to which managers emphasized the connection between performance and rewards and the perceived procedural justice of their pay system (Nordgren Selar et al., under review). Interestingly, the best paid group (but with high pay dispersion) had lower task performance and higher turnover intention than employees that had average pay levels but lower pay dispersion. These groups had similar perceived justice levels, indicating that pay dispersion was the variable that impacted outcomes most. In addition, a profile containing employees with incomes slightly below the national average in Sweden – characterized by pay compression and procedural fairness – were more willing to remain with their organization and experienced lower levels of work-related exhaustion than one moderately and one highly dispersed profile that were both characterized by relatively similar levels of pay as this compressed profile. What we do not know is why pay dispersion was negatively related to outcomes; therefore conducting research to look at how it might influence need satisfaction and work motivation would help.

The Influence of Motivational Assumptions and Payment Norms

Unless explicitly volunteering their time, people expect to be compensated in exchange for their labor. Executives and HR managers assume that to attract high talent in an organization, compensation must be competitive (Gerhart & Milkovitch, 1990). It is typically assumed that performance-based pay is an effective means to attract talent and drive performance (Kessler & Purcell, 1992; Shaw & Gupta, 2015). Yet, if job candidates express that they are attracted to a job for the monetary compensation it offers, they are seen as less desirable candidates because it is assumed that their desire for money means they have less intrinsic motivation for the job. This is known as the motivation purity bias (Derfler-Rozin & Pitesa, 2020), and the reason for advising job candidates not to ask any questions about compensation during job interviews. Once hired, however, the same decision-makers assume that workers will perform better if they receive performance-based pay! This might be happening simply because people are typically seen as having a preference for extrinsic rather than intrinsic “incentives” (an extrinsic incentives bias; Heath, 1999) when they are in an employment context, because the motivational power of self-interest is often overestimated (Miller & Ratner, 1998), and because it is generally assumed that people work for money and are therefore extrinsically motivated (Deci et al., 1974). This leads organizations to adopt "Theory X" approaches to managing workers, including monitoring, micro-managing and paying contingently on performance (McGregor, 1960), which may lead to a self-fulfilling prophecy. Given that decision-makers tend to over-emphasize compensation as a motivational factor (Magee et al., 2011), and that, as discussed in the previous section, other work factors seem to actually be more important to motivation than compensation, it seems important to change how future business leaders are educated on these matters.

Is there a basis for employers' reluctance to hire people who are motivated by money? Research suggests that a focus on money can have some unintended consequences. The mere salience of money (which performance-based pay heightens) or wealth can cause lower prosociality and moral disengagement (Gino & Mogilner, 2014; Gino & Pierce, 2009; Kouchaki et al., 2013; Vohs et al., 2006, 2008). Other research shows that exchange rules might also affect effort and decisions, such that a "market" or economic exchange framing (i.e., short-term transactional) leads people to reduce efforts and act more out of self-interest, relative to a social exchange frame (i.e., long-term trust-based; Heyman & Ariely, 2004; Kouchaki et al., 2013). A case in point is recent evidence that people who receive performance-based pay prioritize spending time with colleagues over spending time with family and friends, and they do so in order to reach their performance targets (Hur et al., 2018). Performance-based pay has also been associated with "moral disengagement" that has been deemed responsible for ethical breaches, risky decision-making and interpersonal deviance (Burns & Kedia, 2006; Donoher et al., 2007; Gläser et al., 2017; Gläser & Van Quaquebeke, 2019; Harris & Bromiley, 2007; Roman & Munuera, 2005; Schweitzer et al., 2004). Even "charging" for time worked has been associated with increased stress, reduced happiness, and less willingness to volunteer (DeVoe & House, 2012; DeVoe & Pfeffer, 2007ab, 2010, 2011; Pfeffer & Carney, 2018) because people come to view time as money.

Another interesting question is whether a job candidate's primary motivation influences their attraction to organizations that offer performance-based pay. There is quite limited research on this question. One study found that intrinsically motivated candidates had a preference for merit-pay schemes (which are essentially base salary increases based on performance evaluations) because they offer more performance challenge, while extrinsically motivated candidates were attracted to jobs with higher starting salaries and safer seniority-based pay increases (Clugston et al., 2000). It is possible that intrinsically motivated candidates feel more competent than extrinsically motivated candidates (Vallerand & Reid, 1984), and it has been shown that people who feel competent tend to prefer riskier performance-based compensation programs because they are confident in their chances of getting good compensation this way (Fahr et al., 1991). What it does to their motivation once in the job has not been examined, meaning that initial motivation has not been evaluated as a boundary condition on the effects of incentives on subsequent work motivation.

Payment norms (i.e., beliefs about whether people should be paid or not for their efforts and whether people expect to be paid) can also influence people's motivation toward tasks. When people are told the norm is to pay for a certain task, their intrinsic motivation toward that task is less likely to be negatively affected by a monetary reward, quite possibly because getting paid is not experienced as controlling one's behavior when the norm and expectation is to be paid (Staw et al., 1980). In other words, pay norms may modify the functional significance of the pay. What has not been considered in research done on the role of payment norms is whether equity considerations could be added to analyses of functional significance: If the norm is to pay, employees may feel cheated out of something if they do not get paid, but if the norm is not to pay, they might not feel cheated out when not rewarded but controlled when rewarded.

Related to the issue of norms is whether people perceive a task as work or play. When a task is rewarded, people are more likely to consider the task as work (i.e., unpleasant) rather than play (i.e., pleasant). For example, research has demonstrated that when children must do a task before being permitted to do another one (where both are equally interesting), children as young 4 years old assume the first task will be uninteresting before even trying it (Lepper et al., 1982), and show less interest for it when they do engage in it (Lepper & Greene, 1975). Labelling a task as work versus play may also change how people approach a task. For example, labelling a word-puzzle task as work supervised by a "production manager" made MBA students focus more on quantitative performance aspects and use a more goal-directed approach (an ends-oriented approach), whereas labelling a task as play supervised by a "starship captain" made students use a means-oriented approach, focus more on qualitative performance and provide more elaborate creative responses (they also enjoyed it more; Glynn, 1994). Some researchers argue that relationship rules may also account for the finding that rewards lead to framing tasks as work (Heiman & Ariely, 2004). For example, when a prisoner's dilemma game is labelled as "the Wall Street Game", people tend to compete more and cooperate less than when it is labelled as "the Community Game" (Liberman et al., 2004). Economic exchange relationship rules might be triggered by rewards and by other means to labelling a task as "work", whereas communal relationship rules might be triggered by the absence of rewards and through interest and meaning (i.e., autonomous motivation). This was demonstrated in experiment by Heiman and Ariely (2004) where compensating people with candy did not influence helping (a communal frame), but if the monetary value of the candy was mentioned, then it led people to adjust their helping effort to the amount of reward received (an economic frame).

Another interesting set of findings is that when people receive money in exchange for labor, they subsequently place more importance on money than when they receive money from investments or a coin toss (DeVoe et al., 2013). This apparently happens because money received for labor indicates one's competence, thus imbuing the money with more symbolic value. It is also the case that performance-based pay increases one's desire for money relative to fixed pay, resulting in putting more effort to earn more and less willingness to give it to a charity (Hur & Nordgren, 2016). This is apparently due to such pay schemes creating an attentional fixation on money.

In conclusion, motivational assumptions influence how money is used to motivate workers and workers also have expectations and preference for certain pay systems that can be influenced by norms and by their motivations. Money itself appears to influence how people view tasks and it influences their behavior and well-being. There might very well be a vicious cycle whereby expecting income to be based on performance (which is taught in most business schools to be the best way to compensate workers) increases attraction into jobs that offer performance-based pay. Once received, the perceived value of monetary incentives might increase, thereby increasing more controlled types of motivation, which are not strongly positively related to performance and well-being (Van den Broeck et al., 2021).

Future Research Directions

Besides the identified gaps mentioned in previous sections, we suggest other research avenues. Gerhart and Fang (2015) pointed out the lack of research linking the effects of rewards on intrinsic motivation to the effects of rewards on performance. Howard et al. (2016) have also pointed out the lack of research examining possible interactive effects between different types of motivation and demonstrated, using latent profile analyses, that motivational combinations matter for performance and well-being outcomes: Profiles that have relatively higher autonomous to controlled types of motivation yield better outcomes. In other words, adding controlled motivation (particularly external regulation) to high autonomous motivation leads to decrements in performance and well-being. What remains to be discovered is how performance-based compensation (and its instrumentality and controllingness) and pay inequality influence belongingness to these different work motivation profiles, and how need satisfaction explains these effects.

Both Gagné and Deci (2005) and Gerhart and Fang (2015) have emphasized that the effects of pay-for-performance schemes could change for different types of tasks (interesting versus boring, algorithmic versus heuristic) and for different performance measures (behavior versus results, individual versus aggregate, and quantitative versus qualitative, creative and innovative performance). Recently Gagné et al. (2021) also proposed that autonomous motivation may be particularly important for adaptive and proactive performance, rather than just for measures of job proficiency. Given that the future of work is likely to be more interdependent and uncertain (requiring cooperation, adaptivity and proactivity) and where technology is likely to replace humans for simple and algorithmic work (Gagné et al., 2021), autonomous motivation is what we will need to promote foremost. With the evidence we have thus far on the effects of performance-based pay on work motivation, we cannot advocate for its use to promote autonomous motivation. However, research using complex heuristic tasks is lacking. Indeed most of the research conducted on the effects of incentives on motivation and performance has used rather simple and short-term tasks, even in studies purportedly looking at the interest level of the task or creative ones (e.g., puzzles, coming up with slogans) that do not reflect what people do in most of today's jobs. We need to find ways to study the effects of incentives in realistic contemporary jobs.

It is also difficult to treat the effects of performance-based compensation on motivation and work outcomes without considering what employees plan to do with their money. As shown through the body of research considering money motives, more intrinsic reasons for wanting money leads to more positive outcomes than extrinsic reasons (Thibault Landry et al., 2016). Thus, there might be interactive effects between the characteristics of performance-based pay programs (e.g., how controlling or salient they are experienced to be) and money motives.

Finally, it is still unclear whether performance-based pay is perceived as being a fairer way of compensating good performance relative to fixed pay programs. There are many angles from which to consider fairness including the view that pay should be based on needs (Dornstein, 1989), that there should be equal pay for all or at least for those doing similar work (e.g., Rawls, 1971), and that pay should be based on performance and contribution to attaining organizational goals (Lawler, 2000). Yet procedural justice has been shown to be more important to autonomous motivation than distributive justice (Olafsen et al., 2015). Meta-analytic evidence also shows that procedural justice is more strongly related to performance than distributive justice (Cohen-Charash & Spector, 2001). Therefore, would it be the case that fixed pay setting decisions, if they are perceived as procedurally fair (i.e., based on accurate information, transparent, with an appeals process), would work as well as, if not better than, performance-based pay decisions? Only more research will help answer this question.

Implications for the design of compensation systems

Given that compensation accounts for 20-50% of total operating expenses in organizations (Gerhart & Milkovitch, 1990), it is surprising that compensation does not seem to have that much effect on employee need satisfaction, motivation, and performance, relative to less costly strategic actions such as creating job autonomy and providing feedback (Nordgren Selar et al., 2020). This does not mean that people do not place any importance on compensation in their lives. People need money to live, so an income that provides for basic physiological and security needs at a minimum is important and it needs to follow cost of living inflation. Income should also be secure enough (i.e., not too heavily based on performance), which means jobs must be secure enough (avoid short term contractual arrangements when possible).

It is also better to emphasize, when managing employees, common goals rather than using a “this is what you are paid for” mentality. Use other means of motivating people, including enriched job designs, procedurally just performance appraisals with constructive feedback, and the development of relationships based on trust rather than a mere exchange. People are more likely to derive satisfaction for the competence, autonomy and relatedness needs this way, therefore making such strategies more likely to promote autonomous rather than controlled motivation.

Finally, when they design compensation and incentive systems, employers need to think about how they will influence the satisfaction of needs for competence, autonomy, and relatedness, if they want to promote autonomous motivation and optimal functioning (i.e., performance and well-being). If performance-based pay is used, they should avoid making it too salient on a day-to-day basis and avoid creating large pay dispersion from it.

Conclusions

The distinction between money and other factors as drivers of motivation has a long history. For instance, Max Weber (1968), noted that value-rationality (doing things based on ethical, ideological or religious values) is just as rational a motive as instrumental rationality (doing things based on self-interest or personal gain) for engaging in social action. From an organizational theory perspective, Etzioni (1975) noted that utilitarian management principles make employees prone to commit to their organization based on instrumentality (as long as they gain from it). While this was recognized as a better strategy than leading through coercion, Etzioni argued that normative management (through visions, culture, and values) is more effective and will result in moral attachment to the organization. The same lines of reasoning can also be found with respect to leadership, where transformational leadership (i.e., charismatic, inspirational, and empowering) is generally argued (and found) to bring about more autonomous motivation than transactional leadership (i.e., a directive approach, contingently rewarding, close monitoring, and sanctions for deviations; Bass, 1985; Gagné et al., 2020; Montano et al., 2017).

All of these theoretical frameworks point to major differences in beliefs about whether motivation stems from internal or external sources. McGregor (1960) made this explicit in his theory of managerial styles, where Theory X describes a management style based on the belief that people are not inherently motivated and must be coerced or seduced (e.g., with rewards) in order to perform, and where Theory Y describes a management style based on the belief that people are inherently motivated and that this motivation can be nurtured by giving people autonomy. We also can see this dichotomy of assumptions about human nature amongst the theories used to advocate for rewards (e.g., agency and expectancy theories) and theories used to caution against their use (e.g., self-determination theory). Interestingly, these divergent assumptions about what motivates people to work influences how employers use money at different points of an employee's journey from attracting them, to selecting them based on their motivations, to managing them to perform. Organizations might need to explore their own assumptions and be more aware of how they drive their human resource management decisions.

We began this chapter by questioning how important money is to motivate workers. Money is an important factor to attract and retain workers (Rynes et al., 2005), and there have been repeated calls for more research into its effectiveness as a motivator of performance (Gerhart & Fang, 2015; Gupta & Shaw, 2014). However, we have also highlighted that there is strong debate about the outcomes of the relative distribution of money, as exemplified by contrasting results in previous research about performance-based compensation and pay inequality among colleagues. We particularly need to better understand how and why monetary incentives, and their relative distribution, work by focusing on psychological mechanisms (Rynes et al., 2005). For example, we need to know more about how different compensation systems (e.g., compressed vs performance-based; see e.g., Bloom, 1999) and pay inequality influences the motivational profile of workers once they are hired, and how this influences their performance and well-being, both of which have consequences for organizations. Moreover, we must consider the burden these systems place on managers and organizational resources and whether they are worth it if the impact of performance-based rewards is not as important as once thought. Performance-based pay requires more precise performance measures that are considered "objective" and accurate, and adequate monitoring systems to capture these measures (which can also be experienced as controlling; Enzle & Anderson, 1993; Lepper & Greene, 1975). In addition, performance appraisals based on such measures demand more work from managers.

As noted by Aguinis et al. (2013), money on its own does not improve knowledge or abilities, nor does it improve job quality. However, how money is given and distributed can influence need satisfaction and have consequences for performance and well-being. Self-determination theory suggests a focus on the satisfaction of needs for competence, autonomy, and relatedness, with propositions already put forward by Gagné and Forest (2008), some of which were recently tested (Kuvaas et al., 2020). We should continue to develop our knowledge in this area through more research to create better compensation systems that will promote good motivation and optimal functioning in work environments.

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