Motivating people: Getting beyond money

The economic slump offers business leaders a chance to more effectively reward talented employees by emphasizing nonfinancial motivators rather than bonuses.

NOVEMBER 2009 • Martin Dewhurst, Matthew Guthridge, and Elizabeth Mohr
Source: Organization Practice

This is a Conversation Starter, one in a series of invited opinions on topical issues. Read the essay, then share your thoughts by commenting below.

Companies around the world are cutting back their financial-incentive programs, but few have used other ways of inspiring talent. We think they should. Numerous studies have concluded that for people with satisfactory salaries, some nonfinancial motivators are more effective than extra cash in building long-term employee engagement in most sectors, job functions, and business contexts. Many financial rewards mainly generate short-term boosts of energy, which can have damaging unintended consequences. Indeed, the economic crisis, with its imperative to reduce costs and to balance short- and long-term performance effectively, gives business leaders a great opportunity to reassess the combination of financial and nonfinancial incentives that will serve their companies best through and beyond the downturn.

A recent McKinsey Quarterly survey underscores the opportunity. The respondents view three noncash motivators—praise from immediate managers, leadership attention (for example, one-on-one conversations), and a chance to lead projects or task forces—as no less or even more effective motivators than the three highest-rated financial incentives: cash bonuses, increased base pay, and stock or stock options (exhibit). The survey’s top three nonfinancial motivators play critical roles in making employees feel that their companies value them, take their well-being seriously, and strive to create opportunities for career growth. These themes recur constantly in most studies on ways to motivate and engage employees.
There couldn’t be a better time to reinforce more cost-effective approaches. Money’s traditional role as the dominant motivator is under pressure from declining corporate revenues, sagging stock markets, and increasing scrutiny by regulators, activist shareholders, and the general public. Our in-depth interviews with HR directors suggest that many companies have cut remuneration costs by 15 percent or more.

What’s more, employee motivation is sagging throughout the world—morale has fallen at almost half of all companies, according to another McKinsey survey—at a time when businesses need engaged leaders and other employees willing to go above and beyond expectations. Organizations face the challenge of retaining talented people amid morale-sapping layoffs that tend to increase voluntary turnover over the medium term. Often, top performers are the first to go. Strong talent management is critical to recruit new ones from, for example, the financial sector, who have been laid off from their employers or feel disenchanted with them.

Yet while 70 percent of organizations have adjusted their reward-and-motivation programs during the past 12 months or plan to do so, relatively few have gone beyond the direct management of costs. Two-thirds of the executives we surveyed cited cost reductions as one of the top three reasons for the changes; 27 percent made changes to increase employee motivation; and only 9 percent had the goal of attracting new talent. Regional differences were striking. Forty-five percent of the respondents in developing markets, where economies have proved more robust, cited employee motivation as a key reason for modifying incentives, compared with only 19 percent in the United States and Western Europe, where the crisis hit hardest.

Even though overall reliance on financial incentives fell over the past 12 months, a number of companies curtailed their use of nonfinancial ones as well. Thirteen percent of the survey respondents report that managers praise their subordinates less often, 20 percent that opportunities to lead projects or task forces are scarcer, and 26 percent that leadership attention to motivate talent is less forthcoming.

Why haven’t many organizations made more use of cost-effective nonfinancial motivators at a time when cash is hard to find? One reason may be that many executives hesitate to challenge the traditional managerial wisdom: money is what really counts. While executives themselves may be equally influenced by other things, they still think that bonuses are the dominant incentive for most people. “Managers see motivation in terms of the size of the compensation,” explained an HR director from the financial-services industry.

Another reason is probably that nonfinancial ways to motivate people do, on the whole, require more time and commitment from senior managers. One HR director we interviewed spoke of their tendency to “hide” in their offices—primarily reflecting uncertainty about the current situation and outlook. This lack of interaction between managers and their people creates a highly damaging void that saps employee engagement.

Some far-thinking companies, though, are working hard to understand what motivates employees and to act on their findings. One global pharmaceutical company conducted a survey that showed that in some countries employees emphasized the role of senior leadership; in others, social responsibility. The company is now increasing the weight of engagement metrics in its management scorecard so that they are seen as core performance objectives. One biotech company has reframed the incentives issue by putting the focus on “recognition” instead of “reward” in order to inspire a more thoughtful discussion about what motivates people.

The top three nonfinancial motivators our survey respondents cited offer guidance on where management might focus. The HR directors we spoke with, for example, emphasized leadership attention as a way to signal the importance of retaining top talent. When one global pharma company’s CEO was crafting corporate strategy this year, he convened several focus groups of talented managers to generate ideas about how to create more value for the business. With the same aims, a leading beverage company asked every executive committee member to meet with the critical people in their own product groups.

“One-on-one meetings between staff and leaders are hugely motivational,” explained an HR
director from a mining and basic-materials company—“they make people feel valued during these difficult times.” By contrast, our survey’s respondents rated large-scale communications events, such as the town hall meetings common during the economic crisis, as one of the least effective nonfinancial motivators, along with unpaid or partially paid leave, training programs, and flexible work arrangements. While communication is critical, attempts to convey messages about the state of the business often have some spin, one HR director told us.

A chance to lead projects is a motivator that only half of the companies in our survey use frequently, although this is a particularly powerful way of inspiring employees to make a strong contribution at a challenging time. Such opportunities also develop their leadership capabilities, with long-term benefits for the organization. One HR director in the basic-materials industry explained that involvement in special projects “makes people feel like they’re part of the answer—and part of the company’s future.” A leading company from the beverages industry, for example, selected 30 high-potential managers to participate in a leadership program that created a series of projects designed and led by the participants. “Now is the time to swim upstream and invest more in our high potentials,” said the HR director, when launching the program this year.

With profitability returning to some geographies and sectors, we see signs that bonuses will be making a comeback: for instance, 28 percent of our survey respondents say that their companies plan to reintroduce financial incentives in the coming year. While such rewards certainly have an important role to play, business leaders would do well to consider the lessons of the crisis and think broadly about the best ways to engage and inspire employees. A talent strategy that emphasizes the frequent use of the right nonfinancial motivators would benefit most companies in bleak times and fair. By acting now, they could exit the downturn stronger than they entered it.

About the Authors
Martin Dewhurst is a director in McKinsey’s London office, where Matthew Guthridge is an associate principal and Elizabeth Mohr is a consultant.

Notes
2 McKinsey Quarterly conducted the survey in June 2009 and received responses from 1,047 executives, managers, and employees around the world. More than a quarter of the respondents were corporate directors or CEOs or other C-level executives. The sample represents all regions and most sectors.
Another tip for motivating employees to be on time is finding the employee with the best attendance record and displaying the information on your notice board, publishing it in your internal Web site, and motivating other employees.

9 AUGUST 2010
Andrea Learned
President
Learned On, LLC
Burlington, VT USA

I see it as a question of sustainability....

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Greg Gauhier
Sr. Partner
Foxwood Associates
Green Bay, WI USA

Financial rewards must remain reasonable to enable the non-financials to have the motivational benefits they’re capable of bringing....

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Artie Debidien
Senior Management Consultant
ConQuaestor
Amsterdam, Netherlands

Leaders themselves are also people who’d like to be motivated and feel valued through non financial motivators. Change of leaders and influencers as a result of this lack, is also disruptive...

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Yahya Abdal-Aziz
Senior Analyst
Frontier Software (retired)
Melbourne, VIC Australia

...How can today’s managers expect an unequal partnership to flourish?

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Adrian Caulfield
Student
Ireland

...if technologies develop faster and faster, many more people could find themselves unemployed with tasks becoming predominantly technology-driven and employee motivation might turn out to be employee horse trading.

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Kenneth Armitage
Lt Commander
Suffolk, England

...Regrettably, most pay schemes ignore the fundamental principle that an organization is a group of people that functions more efficiently and more effectively as a team....

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Satinder Kaur
Deputy general manager
ICICI Bank Ltd
Mumbai, India

...The non-financial motivators mentioned in the article above are actually about engagement....

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<tbody>
<tr>
<td>19 MAY 2010</td>
<td>Dipayan Dey</td>
<td>Senior Consultant, Ernst &amp; Young</td>
<td>India</td>
<td>An extremely effective non-cash indirect incentive would be adoption of austerity practices such as sacrificing self bonuses and salary hikes for the CXOs and decision makers.</td>
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<tr>
<td>19 MAY 2010</td>
<td>Vishal Ruia</td>
<td>Senior Manager, PricewaterhouseCoopers</td>
<td>Mumbai, India</td>
<td>Non-Monetary factors are important only if they hint about a possible monetary benefit in future (like leadership recognition, rewards and accolades, etc).</td>
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<tr>
<td>19 MAY 2010</td>
<td>Chua Choon Kiat</td>
<td>IT Consultant, Sony Global Solutions Inc.</td>
<td>Tokyo, Japan</td>
<td>In my opinion, each individual is unique and only when the manager truly understands each subordinate’s character, motivation can be achieved easily with the right incentives, monetary or non-monetary.</td>
</tr>
<tr>
<td>19 MAY 2010</td>
<td>Sathyavageeswaran P</td>
<td>Principle Consultant, Morison (UAE) Consulting</td>
<td>Bangalore India</td>
<td>Some of the solutions offered by the authors such as leadership attention through one-to-one meetings are childish and unsustainable.</td>
</tr>
<tr>
<td>18 MAY 2010</td>
<td>Prathima Acharya</td>
<td>Technical Director and Managing Member</td>
<td>NC - USA</td>
<td>At every year-end review, my direct reports (Scientists at all levels - PhD, MS, and BS) bring an updated resume. After the review, I would help them add one or two new bullet points that would make them more marketable.</td>
</tr>
<tr>
<td>18 MAY 2010</td>
<td>Ray Gaster</td>
<td>President, Gaster Lumber</td>
<td>Savannah, GA USA</td>
<td>Not so sure all this non-monetary reward is going to continue to motivate people once a real recovery takes hold. These types of practice should be taking place by leaders in biz regardless of the economic conditions.</td>
</tr>
<tr>
<td>18 MAY 2010</td>
<td>Stuart Anson</td>
<td>Business Development Manager, Shell</td>
<td>Dubai UAE</td>
<td>When the senior manager gets invited by colleagues for a casual lunch then they know they have broken down all barriers.</td>
</tr>
<tr>
<td>18 MAY 2010</td>
<td>Jerry Dion</td>
<td>Technology Matrix Manager, US Dept. of Energy</td>
<td>Washington, DC USA</td>
<td>Previous MQ articles on organizational complexity paint a different picture of how management can &quot;get out of the way&quot; and enable employees to be more productive.</td>
</tr>
<tr>
<td>18 MAY 2010</td>
<td>Ravi Ramakrishnan</td>
<td>Consultant</td>
<td></td>
<td>There is a well-developed theory on employee motivation called Frederick...</td>
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[Read more](http://www.mckinseyquarterly.com/Motivating_people_Getting_beyond...)}
Motivating people, getting beyond money - McKinsey Quarterly - Organ... http://www.mckinseyquarterly.com/Motivating_people_Getting_beyon...
...I've seen that training can be a very effective non-financial reward. Employees feel they are earning something that—in contrast to money—they won't just spend, it'll stay with them...

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Luc Galoppin
Managing Director
Reply-mc.com
Belgium

...The causality that is suggested in this article is rude and unjust. That is a disgruntling observation as this attitude puts HRM in the corner of HCM - where C stands for 'Commodities'....

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Stephen Gordon
Director IW Business Strategy Consulting
Microsoft Corporation
New York, NY USA

...I have seen companies adopt programs to motivate employee participation in problem solving by developing their own "American Express Rewards" point system....

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Dave Macdonald
Special Projects Administrator
WPCG
Vancouver, Canada

This raises some great points, but it's worth noting that rewards, compensation, and recognition need to align the organization's strategy with the needs of the employees....

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Naval Sabharwal
Business Leader
Anantara Solutions Pvt Ltd
Mumbai, Maharashtra, India

...It would be worth undertaking studies on armed forces in developing countries as well in other organizations as to whether good or bad leadership improves or decreases talent retention.

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Barry Seeskin
President
Organizational Measures, LLC
St. Louis, MO USA

...It's important, I think, to also recognize that the power of these nonfinancial incentives derives to a great extent from the rarity of their application....

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Jason Barreto
Director
G Travel
UK

In reality few employers will entrust untested employees for new projects in order to motivate them. It always boils down to money.

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Anunachalam
Chairmandurai
Sourcing executive
Alstom
Delhi, India

...I strongly suggest that it's time to argue that the intrinsic motivating factors are specific to the work nature/job profile of the employee.

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Christopher Grancher
Sr. Demand Planner
Shure, Inc
Niles, IL USA

...A global addition here is the golden rule, with a twist: treat others how you would like to be treated, but respecting personal preferences. How can you know what is important to someone if you don't ask?...
The main reason for any company’s focus on excessive monetary incentives lies in the incapability of sales managers or leaders to motivate employees from within and create an open environment.

Building on the themes this article raises, Dan Pink gave a talk at TED earlier this year that is worth mentioning in this context. His argument was that monetary rewards...

The biggest thing an employee needs is to feel part of an organisation. What managers fail to do is to engage the employee....

Public sector organisations in India, as employers, stand out in providing non-financial rewards....

I believe we are living in a transition period. We are departing the industrial age and all the ideas we developed about productivity will be challenged.

...I have seen immediate managers praise some employees publicly, and later sheepishly admit in private that they had to pick “someone” because there was a directive from HR to create “employee engagement.”...

I believe that financial and non-financial incentives go hand-in-hand in commanding loyalty and commitment from employees....

...In my view and experience people are willing to stick around and give their best for managers who they see as one concerned about their well being, both as employees and as persons.
...Have we trained some disciplines (for example, sales people and maybe top management) to assess how rewarding their jobs are by what they earn—even if they could never enjoy spending the amounts they achieve?

Donna Stevenson
General Manager, Service
Superior Propane
Hamilton, ON, Canada

...Project participation is one of the motivators we have used most often resulting in improved morale, increased competency levels, enhanced team membership, and increased customer service with bottom line improvement....

9 NOVEMBER 2009

Yael Ravin
Manager, Collaboration & Social Computing
IBM
New York, NY USA

You have not discussed promotions, which traditionally reflect, in addition to an increase to the base salary, strong recognition of performance from management....

9 NOVEMBER 2009

Andrew Payne
SRD director
Halcrow Group Ltd
Swindon, UK

The big challenge for companies on motivation is to work equally as hard at understanding what satisfies employees as we do for customers....

9 NOVEMBER 2009

Jiten Chouksey
Head - Learning & Development (India)
Eaton Corporation
Pune, India

...leaders need to understand and accept that motivating relationships take time and effort to develop. The initiative, at least in the initial stages, has to come from their side....

9 NOVEMBER 2009

Miguel Camacho
Principal
Axonica Consultores
Geneva, Switzerland

Funny it takes so much discussion to establish something which is rather obvious: people don't work only for the money. It seems everybody who's been involved in competitive sports knows this perfectly...

9 NOVEMBER 2009

Nyasha Gopo
Assistant Manager
Ernst & Young
Cape Town, South Africa

...What service businesses need to take from this crisis is that employees are not machines that can merely be switched on and off or be upgraded for better performance....

9 NOVEMBER 2009

Arun Vemuri
Head - Reasearch and Analytics
Reliance MediaWorks
Mumbai, India

...A clear vision and well-articulated goals by a top management that passionately believes in and loves what they do should be motivating enough for all working towards achieving a goal.

9 NOVEMBER 2009

Neeru Biswas
Program director, The Asia Institute
SolBridge International
...what troubles me is that companies are moving back so quickly to bonuses again. Did no learning take place from what happened on Wall Street?

9 NOVEMBER 2009

Ronaldo Souza
Director
Brighton Investimentos
Sao Paulo, Brazil

...The article picks a few simple words that can make the entire difference: time and attention from immediate leadership, and that’s what many organizations aren’t prepared to provide....

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8 NOVEMBER 2009

Mark Knaeps
Senior Client Partner
GoalDeployment.com
Newport Beach, CA USA

...Whenever, people talk about a great company to work for they always describe its “culture” not the salary levels.

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8 NOVEMBER 2009

Alex Walsh
UK EPR Deputy Chief Engineer
Amec
Paris, France

The trouble with monetary rewards is that people get used to them; they and their spouses come to expect them....

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7 NOVEMBER 2009

Richard Rudman
New Zealand

Once again, it appears we have top managers and executives saying that non-financial incentives and rewards are the most effective motivating factors for their staff. Yet these same top people continue to award themselves huge salaries...

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7 NOVEMBER 2009

Walter Risi
Manager of Technology Services
Pragma Consultores
Buenos Aires, Argentina

Several companies make a frequent mistake here, and that is ignoring that the value of non-financial reward (NFR) is tightly tied to the different employee segments of the organization....

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7 NOVEMBER 2009

Dilip Naidu
Owner
Strategy Consultants
Pune, India

...Once the employee believes and identifies with the ‘purpose’ and ‘destiny’ of the organization his commitment would be unconditional.

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Bob Pinato
President
International Connections Consultants
Shanghai, China

In the years I have managed sales, marketing, engineering, and factory staff, one thing I have learned is that there is no one formula which fits all disciplines....

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7 NOVEMBER 2009

Richard Husada
Dr, Pharmacist
Pensioned
Malvern VIC, Australia

...Another point is to measure successes and openly compare it in terms of Key Performance Indicators (KPI), so as to provide satisfaction of top performers by knowing where they are in comparison to their peers....

Read more
Prabir Jha  
Senior Vice President - HR  
Dr. Reddy's Laboratories  
India

...Simple truisms but unfortunately very underleveraged. Reminds us to make that honest effort to practice positive psychology!

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Michael Walsh  
Developmental Facilitator  
Productive Management Solutions  
Melbourne, Victoria  
Australia

It would be great to have better information about the effectiveness of financial and non-financial measures as tracked against performance measures....

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Mahadevan Sundarraj  
Director  
Collabrant Incubators  
Bangalore, India

Did we need a survey of 1500 people around the world to come to this conclusion?...

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Peter Smyth  
Director  
The Counseling Institute  
Woodbridge, ON Canada

...Treating employees with recognition, respect, and reciprocity, provides a very human context where challenges and everyday demands can be met with energy and optimism....

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Rocio Aguirre  
Commercial Training Lead  
Monsanto  
Mexico

...I would like to suggest training and skill development as another non-monetary incentive (yet it has a cost for the company) for several reasons...

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Shankar Sharma  
CEO  
Arab Financial Services Co. B.S.C.(c)  
Manama, Kingdom of Bahrain

...We find that engaging in one-to-one meetings with team leaders and team leaders in turn with their direct reports brings in great buy-in from staff and boosts morale....

Read more

Bob Wheeler  
Chief Petty Officer  
2d Marine Division  
Camp Lejeune, NC USA

The military has always had a challenge in this regard, as we can not offer much in the way of financial bonuses. That being said, we have gotten pretty good at finding other ways to recognize our people....

Read more

Derek Irvine  
Chief Strategist  
Globoforce  
Dublin, Ireland

...I would add that as companies look to restart recognition programs as the economy recovers, they must communicate very clearly to employees why such programs were cut and why they are being added back now...

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Koundinya Kammanadiminti  
IT Business Office

...To some extent the reality that companies are not performing well sets an expectation among employees about the financial motivators (or the
lack there of), so they don’t place large value on them.

6 NOVEMBER 2009

Nancy Loretangeli
Senior Executive Assistant
MRAm
Princeton, NJ USA

This article outlines why I often say to my manager, “you inspire me.” She is one of the few that knows how to provide challenges and give special recognition.

6 NOVEMBER 2009

Neil Reay
Sr. Consultant / CMO
Impact Consulting
Lehi, UT USA

...In times when employees feel powerless and uncertain or threatened, showing that the organization sees value in them for the long-term is comforting and allows them to focus in their future with the company.

6 NOVEMBER 2009

Doug Linman, PhD
Chief Science Officer, Founder
Suntco
California, USA

...Mentorship is truly the ultimate gift of advancing people into accomplishing their greatest. Their rewards come quickly and over a lifetime of sometimes small, sometimes extraordinary effort.

6 NOVEMBER 2009

Ken Ferry
Lead Engineer
Henderson Water Utility
Henderson, KY USA

After reading this article, it seems evident that there are still many people who do not understand the difference between people and things.

6 NOVEMBER 2009

L. J. Lekkerkerk
MSc/lecturer
Radboud University
Nijmegen
Nijmegen, Netherlands

I can confirm that attention from top leaders works. I ran the suggestion scheme in a plant of the late Fokker Aircraft Company.

6 NOVEMBER 2009

Sridutt YS
Bangalore

I think the biggest motivators are appreciation, personal time for family, and then earnings. I don’t know about others, but I find that these work for me.

6 NOVEMBER 2009

Eli Santiago
VP Operations
Human Arc
Cleveland, OH USA

I would offer that the caveat “satisfactory salary” levels may deter a broader application of non-financial rewards to those at the lower echelons in an organization.

6 NOVEMBER 2009

Anne Murray-Randolph
AVP Communications and Strategic Projects
Yale University
New Haven, CT USA

...The handwritten personal note is effective—even with Younger generations who have never written or received a note—it’s a total and very positive surprise.
Executive Leadership must include creating and supporting a culture of health and well being as a motivator and competitive business strategy.

...so much more is being accomplished when the personal and cultural aspects of life can be integrated with the vision of the business.