

Analysis of Motivational Factors in a Not-For-Profit Organisation

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This paper is a contribution to effective remuneration policy in the third sector. The essential issue of the paper is an understanding of the influence of intrinsic and extrinsic rewards on the motivation of not-for-profit staff. The paper reports on a study, using discriminant analysis, undertaken in an organisation providing services for people with disabilities, and which is facing a changing funding model. The organisation is made up of two units, in one of which employees can earn a performance bonus. This situation allows for a clear assessment of how extrinsic rewards are perceived by staff as a source of motivation. The important findings of the study are that remuneration policy in the third sector should take account of the fact that intrinsic rewards play a significant role in motivation. Extrinsic rewards do motivate staff, but in combination with intrinsic rewards.

Field of Research: Business and Management, Management and Productivity Issues

1. Introduction

The aim of this study is to shed light on effective remuneration policy for the third sector. To do so, the study aims to develop an understanding of what motivates employees to work in a Not-for-Profit (NFP) organisation. It is an attempt to model the factors explaining why people work in the sector and what motivates them. In particular, the study models the relative importance of intrinsic and extrinsic rewards to employees. An important aspect of the study is that the motivational effect of both intrinsic and extrinsic rewards is examined in a two-sector organisation, one sector of which pays a performance bonus (an obvious extrinsic reward) and the other sector does not. The organisation in question is in the open employment sector, finding employment for disabled people. In Australia the open employment sector experiences higher staff turnover than other sectors in the economy, resulting in unnecessary costs and disruption (Graffam, Noblet, Crosbie and Lavelle (2005)). The open employment sector is facing a changed funding model being introduced by the Australian Federal Government. The sector will no longer receive block funding, paid irrespective of employment found for clients of the organisation, but will be paid on the basis of clients being placed in employment. Government funding will be reduced the longer it takes to find employment for the client. The funding changes

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have the potential to create uncertainty and increased pressure to find placements for unemployed clients as speedily as possible, irrespective of their needs.

The particular issue to be considered in this paper is what motivates people to work in and remain in the NFP sector despite being paid less than their private sector counterparts. While Gupta and Mitra (1998) argue that money is an important motivator, the NFP literature indicates that intrinsic rewards are important to staff and that classical agency theory is inadequate to explain the motivation of employees in this sector. Extrinsic rewards, such as monetary bonuses, are incentives provided by others and are external to the recipient. Intrinsic rewards are personal, "internal" responses, such as satisfaction or pride in an accomplishment. The debate about the influence of extrinsic and intrinsic rewards on motivation is cast in dichotomous terms. However, as will be discussed later, where an organisation's mission and policies support and enable staff to help its clients, there will be a congruence of motives between the organisation and its employees.

Both sides of the debate point to research evidence supporting the importance of extrinsic and intrinsic rewards, respectively, to motivation. However, much of the evidence indicating the importance of extrinsic rewards comes from the business sector or was obtained using an experimental research method in which the context of the task is not considered. In fact participants in experiments are often required to perform trivial tasks. The focus of the experiment is usually to determine the effects of changing the level or frequency of rewards, not what the participants are required to do. However, in a human services context the nature of the task is not trivial, and in all likelihood is the reason for the employee being in the sector. The fact that the employee is working in a NFP organisation is indicative of a set of values in which extrinsic rewards are not the first consideration (Weisbrod (1983), Preston (1989), Roomkin and Weisbrod (1999)).

Human behaviour is complex and not easily analysed by research that ignores the context of that behaviour. While extrinsic rewards cannot be ignored in motivation, the role attributed to them by agency theory is not necessarily correct – it is probably overstated. The paper continues (section 2) with a statement of the context of the problem – the role of intrinsic and extrinsic rewards in the disability employment sector. In section 3 is discussed the literature dealing with intrinsic and extrinsic rewards; followed by section 4 which is a brief description of the organisation in the study. In section 5 is highlighted the theoretical issues raised in section 3 (literature review) and which give rise to the research question. Section 6 outlines the research method, and section 7 summarises the statistical findings. Finally, section 8 states the conclusions.

2. The Context Of This Study

Theoretical discussion about the role of intrinsic and extrinsic rewards in the motivation of staff of NFP organisations has practical implications for the disability employment sector in Australia, as it is grappling with greater than average employee turnover. In a study undertaken by Graffam, Noblet, Crosbie and Lavelle (2005) it was found that the employee turnover rate in the open disability employment industry

was 27.3 per cent in comparison to the all industries average of 12.4 per cent. The higher than average employee turnover is problematic for the industry. According to Graffam, Noblet, Crosbie and Lavelle (2005) the costs to the industry including the recruitment of replacement personnel, administrative, advertising and screening costs are significant. Other costs include interviewing, security checks, the processing of references, lost productivity and the cost of training, and costs associated with the period prior to departure when employees tend to be less productive. Therefore, workforce satisfaction and motivation are important issues for the sector.

3. Rewards In The Not-For-Profit Sector

3.1 Extrinsic Rewards

Agency theory suggests that people are motivated by extrinsic rewards and that, due to self-interest, employees will only perform tasks for which they are rewarded. In theory this means that people will only work to the best of their abilities if they consider their remuneration to be adequate. Because of the trade-off between effort and reward, people will only engage in employment that provides maximum extrinsic rewards. According to Jensen and Meckling (1976); Eisenhardt (1989); Baiman (1990); agency theory states that individuals are wealth maximisers – altruism is not a consideration – and that extrinsic rewards will motivate people and improve performance. Gupta and Mitra (1998) using meta-analysis found that financial incentives have a strong relationship with performance. They found that financial incentives were particularly powerful with respect to performance quantity. However, results were uncertain when regarding performance quality – an important consideration in the human services sector. Also, according to the authors, their meta-analysis does not indicate the relative value of money to intrinsic rewards. However it does show that money is important.

The results of research in the public sector would appear to contradict the conclusions of Gupta and Mitra. According to O'Donnell and Shields (2002) the application of performance-related pay in the Australian Public Service (APS) has been problematic. Similarly the research of Marsden and Richardson (1994) found that performance-related pay had limited motivational effects. Also, there were widespread concerns about the procedural fairness of the system. O'Donnell (1998) found that the attempt to apply performance bonuses to senior officers of the APS did not contribute to an improvement in performance. Also, the OECD (1993) questioned the motivational effects of pay increases and bonuses, particularly for senior public service managers. However, Gaertner and Gaertner (1985) report that performance appraisals that placed emphasis on the development needs of public sector managers had the potential to increase the performance of the manager. This finding suggests that extrinsic rewards coupled with training or feedback that could assist the individual to improve performance have greater significance than extrinsic rewards alone.

The application of extrinsic rewards requires performance appraisals. However, according to Williams (1998) performance appraisals are often poorly done, and are seen as being contentious and the source of disagreement between the employee and management. O'Donnell and Shields (2002) point out that there is evidence that

a goal-setting approach in the public sector may be more effective in improving performance than performance appraisal that is behaviourally-based. Similar results were reported by Dowling and Richardson (1997) who showed that UK National Health Service (NHS) managers were positive about role and goal clarity, and feedback and support from superiors. Redman *et al.* (2000) found that two-thirds of NHS managers reported that a performance management system contributed to their motivation and job satisfaction. However, the performance-related pay component of the system was perceived negatively. Respondents were particularly critical of performance pay being given to individuals in instances where performance was heavily dependent on a team effort. The findings of Gaertner and Gaertner (1985), Dowling and Richardson (1997), Redman *et al.* (2000) and O'Donnell and Shields (2002) suggest that extrinsic rewards by themselves are problematic and that staff motivation also involves intrinsic rewards such as pride at doing a good job and a sense of doing something worthwhile. Kohn (1993) argues that extrinsic rewards are similar to bribes and send a message to employees that the tasks they undertake are not worthwhile. However, despite generally lower pay, people work in the third sector because they consider the task to be important.

3.2 Intrinsic Rewards

Williams (1998) points out that people have different values, motives and perceptions and are not passive recipients who will automatically respond to work systems as management wishes. In keeping with the findings of Etzioni (1988) and Larson (1977), values are considered to be important in the development of an individual's commitment to an organisation. Holcombe (1995) argues that bringing about a congruence of individual values with organisational values is creating a sense of mission that is an employee's personal commitment to the mission of the organisation. In her study of the Grameen Bank in Bangladesh, Holcombe demonstrates how important is employee identification with the organisation's goals and values to the achievement of the mission of the organisation. According to Brown and Yoshioka (2003) NFP staff, particularly volunteers, tend to be motivated by the values and mission of the organisation. However, they also found that a perception that pay was inadequate was a source of dissatisfaction, which could lead to a reduction of commitment to the organisation. Thus, whilst the values and the mission of the organisation are an important source of motivation, extrinsic rewards cannot be ignored.

Agency theory cannot explain why people work for NFP organisations despite generally receiving less pay than for equivalent jobs in the business sector. Almer, Higgs and Hooks (2005) argue that most agency models of compensation are only concerned with financial benefits; but Etzioni (1988), and Berry, Broadbent and Otley (1995), state that individuals may also derive utility from non-economic factors or rewards. Larson (1977) reports that serving the public good and control over the work environment can modify the behaviour of individuals. Therefore, while pay cannot be ignored, these writers argue that there are factors other than pay that attract people to NFP organisations. Further, Brown and Yoshioka (2003) cite Mason (1996) as stating that many individuals in NFP organisations conceptualise money as a means to accomplish larger objectives and not as an end in itself, either personally or organisationally. Therefore financial incentives and controls may not be as effective in NFP's. Speckbacher (2003) quotes Rose-Ackerman (1996) as stating

that NFP organisations may attract committed employees more easily precisely because the absence of owners is a signal to such employees that their selflessness will not be enriching someone else. This position has been supported empirically by Weisbrod (1983), Preston (1989), and Roomkin and Weisbrod (1999).

The literature quoted so far has argued that intrinsic rewards are important in the NFP context. In fact Deckop and Cirka (2000) are of the opinion that intrinsic rewards have a greater impact in NFP organisations than in other organisations. Results reported by them support the contention of Osterloh and Frey (2002) that extrinsic rewards can 'crowd out' intrinsic motivation. Deckop and Cirka (2000) found that a merit pay scheme may reduce intrinsic motivation for those employees who were highly motivated intrinsically before the scheme was introduced. This position has been questioned by Gupta and Mitra (1998) who argue that their meta-research does not show the crowding out of intrinsic rewards by extrinsic rewards. However, the authors do not provide the context of these findings.

4. The Organisation

The organisation in which this study took place provides services for people with various degrees of intellectual and physical disability. It is divided into two units: the *Employment* unit, the larger of the two, which finds employment in the open market for its clients; and the *Lifestyles* unit, which provides independent living skills for intellectually disabled people. The organisation can be regarded as successful as it has operated for six years, has a staff of about 60 people and has received public recognition for its work, including complimentary newspaper reports. It is located on a number of sites across Melbourne's western suburbs, with each site having a manager. Each staff member in the *Employment* unit looks after approximately 20 clients, while *Lifestyles* unit staff develop and present programs for individuals and small groups. There are a number of part-time employees in both units. Many staff reside in close proximity to the site at which they work. Staff and management in both units expressed a strong sense of fraternity. While the two units are aware of each other they consider themselves to be operating independently, having different clients and different sources of funding.

Whereas the *Employment* unit staff have considerable autonomy, *Lifestyles* staff are on duty for the period that clients are in the unit – from 8.30 am to 3.00 pm. This requirement makes it difficult to have meetings or training as staff are responsible for the welfare of their clients. *Lifestyles* staff have an open-plan staff room that encourages collegiality; *Employment* unit staff are spread over a number of sites and are often away from their home site. The organisation has two main sources of funding. The *Employment* unit, to date, has received block funding from the Australian Federal Government, while the *Lifestyles* unit is funded by Victorian State Government grants. The relationship between the Federal Government and the organisation is defined contractually and reflects the introduction of business ideology into the NFP sector. This change was seen as potentially disruptive requiring the organisation to adopt a more business-like approach in an attempt to maintain performance and thus funding. The Federal Government has decided to fund open employment agencies on the basis of the number of clients they find employment for rather than by a set grant paid irrespective of the number of clients who had been found employment. This change had been mooted for a number of years and

management decided to improve *Employment* unit staff performance by offering a bonus if they were able to increase the number of clients placed in employment. However, management did not extend the bonus to *Lifestyles* unit staff as it was felt that it would be inappropriate.

5. Issues

In this study the context is particularly relevant as it defines employee activities and rewards. Staff of the *Employment* unit can participate in the bonus scheme, while staff in the *Lifestyles* unit cannot. The context also means that staff of the two units work under differing conditions, as outlined above. However, both groups work in a sector in which pay is less than for an equivalent job in the business sector. This acceptance of lower pay indicates, prima facie, that intrinsic rewards associated with their employment compensates for the lower pay. In other words, fundamental to employees' attitude towards pay is their attitude toward other factors: in particular intrinsic rewards. The mission and values of the NFP organisation as an intrinsic reward play an important role in the motivation of NFP staff. The NFP literature, discussed above, questions the effectiveness of extrinsic rewards as a significant source of motivation.

6. Research Method

In order to test the proposition that extrinsic rewards are of questionable value, the research method used was to identify factors that are important to employee motivation. *Discriminant analysis* (using *SPSS*) was used, which revealed the relative importance of extrinsic and intrinsic rewards in the motivation of staff in an organisation providing services for the disabled. *Discriminant analysis* was applied to six factors, as per section 7 following. A survey given to the 60 staff of the organisation provided the data. The survey instrument was developed in conjunction with a manager in the organisation. Participants indicated their responses to the six statements via the use of a five-point likert scale. Response categories ranged from strongly disagreeing to strongly agreeing. Respondents returned 52 useable responses.

7. Statistical Analysis

Of the six predictor variables (see Appendix, Table 3) used in the model, the three strongest, in order of importance as motivators, are:

1. Achievement of a good work/life balance
2. A reward system based on individual, rather than team, outcomes
3. Belief that bonus schemes can increase work performance

These three most important predictor variables are clearly a mixture of intrinsic and extrinsic influences. Variable 1 is obviously intrinsic in nature, and it is the strongest of the three. Variables 2 and 3, whilst being apparently extrinsic in nature, do have intrinsic properties. A bonus can be seen to reinforce the idea of a job well done (an

intrinsic motivator). Therefore, their extrinsic aspect is strongly bound up with the internal evaluation of them by the employee. The specified model is significant at the 5 per cent level ($p = .05$) (see Appendix, Table 1); and it explains 27 per cent of the variation between employees as to whether or not they are satisfied with their pay (see Appendix, Table 2). This relatively low explanatory power suggests just how complex is the issue of employee motivation.

8. Conclusions

A model was formulated and estimated to distinguish factors that are influential in differentiating between staff who are motivated by pay and those who are not. The study is an exploratory one, and the findings stem from a small-sample research exercise. The three strongest variables in predicting whether or not staff are motivated by their pay are: whether or not work allows for the achievement of a good work/life balance, preference for a reward system based on individual rather than team outcomes, and a belief that bonus schemes can increase work performance. What this suggests is, first, in order for staff of an organisation to be motivated by intrinsic factors and therefore satisfied with their pay, they need to feel that their employment allows them to achieve a good work/life balance. Second, motivation is also related to a system of rewards based on individual outcomes, and to a belief that bonus schemes can increase work performance. With the exception of the “bonus schemes” factor, these three factors are predominantly of an intrinsic nature, and thus, in contrast to Gupta and Mitra (1998), intrinsic factors are important in the motivation of staff.

There are extrinsic elements, though, in the motivation of staff. However, these extrinsic elements are not independent: they are bound up with the intrinsic factors. For example, with respect to the issue of bonus schemes, which, on the surface, are an extrinsic reward, anecdotal evidence suggests that the real effect of a bonus is to confirm in the mind of the employee that their performance is regarded favourably. There is a literature for the NFP sector indicating that intrinsic motivation of staff is important; in particular, Weisbrod (1983), Preston (1989), and Roomkin and Weisbrod (1999). The findings of this study support the contention that intrinsic factors are of fundamental importance to NFP organisations. Our conclusion in this respect is strengthened by the fact that intrinsic variables were found to be important motivators in both organisational units of the employer – the one paying employees a performance bonus and the other one not.

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Appendix: SPSS output**Table 1**

Wilks' Lambda

Test of Function(s)	Wilks' Lambda	Chi-square	df	Sig.
1	.733	12.402	6	.054

Table 2

Eigenvalues

Function	Eigenvalue	% of Variance	Cumulative %	Canonical Correlation
1	.364 ^a	100.0	100.0	.516

a. First 1 canonical discriminant functions were used in the analysis.

(.516) squared = 26.6 per cent

Table 3**Standardized Canonical Discriminant Function Coefficients**

	Function
	1
Do you have a strong association with someone outside of the organisation that has a disability or have a disability yourself	.177
Our pay is not comparable with others working in similar organisations	.069
Working at the organisation allows me to achieve a good work / life balance	.823
I have fun while working at the organisation	.158
I believe that bonus schemes can increase work performance	.533
I would prefer a reward system based on my individual outcomes rather than based on my team outcomes	.626