

Study: Not all managers motivated by incentive pay

January 27 2016



Joyce Cong Ying Wang

Incentive compensation is becoming an increasingly popular practice, with firms offering managers incentive pay in the hopes of improving company performance. But not all managers respond to performance-based pay, according to new research from The University of Texas at Dallas.

Doctoral candidate Joyce Cong Ying Wang said the study, recently published online in the *Journal of Organizational Behavior*, examined differences in individual characteristics—specifically career ambition and task attention—and business context to see how they affected managers' responses to incentive pay.

"Managers, and people in general, have inertia where they tend to do what they feel comfortable doing. The thought is that if companies provide managers with incentive pay, which is closely related to firm performance, then managers will be willing to take more risks," she said. "We asked ourselves, 'Does this always work? Do all managers always take more risks when offered incentive compensation?'"

Wang, who is studying international management studies in the Naveen Jindal School of Management, began the research more than two years ago while working at China Europe International Business School with co-author Dr. Daniel Han Ming Chng.

The researchers created a model and tested it using a computer-based simulation with part-time MBA students who work as managers in companies. The students were presented with a business scenario and had to make strategic decisions.

"We found that managers with higher career ambition will be more responsive to incentive pay by taking more risks," Wang said. "We found that task attention more consistently affects managers' response to incentive pay. When managers are offered incentive pay, if they are very

attentive to tasks, they will take more risks. They tend to invest more strategically, and they also are more likely to change strategies."

The study also found that when a company's performance grows, incentive pay does not work as well as when a firm's performance declines.

Wang said the paper has several implications for organizational leaders.

"Company leaders need to design the compensation package according to the managers in their company, and not blindly just give them uniform incentive pay," she said. "Leaders really need to know the manager and design the package accordingly. If the manager is ambitious and attentive to tasks, then it's appropriate to give them performance-based pay to incentivize them to take more risks."

In companies with established compensation policies, leaders need to recruit someone who better fits the business's practices, Wang said.

Leaders also need to address the context of the organization. If the company is experiencing growth, it's better for leaders to know their [managers](#) well and think about other ways to motivate them.

"Incentive compensation is not one-size-fits-all," Wang said.

"Companies need to provide this kind of compensation package according to individual characteristics and also according to context."

More information: Daniel Han Ming Chng et al. An experimental study of the interaction effects of incentive compensation, career ambition, and task attention on Chinese managers' strategic risk behaviors, *Journal of Organizational Behavior* (2015). [DOI: 10.1002/job.2062](#)

Provided by University of Texas at Dallas

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