

## The influence of Leadership and Payment for Performance on Individual Performance

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### Summary

Research Questions:	Are the effects of productive leadership on individual working performance higher than the effects of pay-for-performance programs?
Methods:	Empirical study using survey to evaluate the correlation between individual working performance of employees, pay-for-performance schemes and productive leadership.
Results:	Productive leadership influences individual performance of employees more than pay-for-performance schemes.
Structure of the Article:	1. Introduction; 2. Literature Review; 3. Research Questions & Methods; 4. Empirical Results; 5. Conclusions; 6. About the author; 7. Bibliography

### Introduction

When it comes to achieving business success, many factors are relevant, yet people performance has been seen as a critical issue. In order to increase the performance of employees, there is a trend, nowadays, in Brazil to implement “pay-for-performance” programs in private companies and governmental institutions. These programs are seen as management system based on performance measured and achievement of goals, targets and tasks, where the worker who delivers the required results has more opportunities to develop her/his career and, very frequently, earns more money (through bonus, awards, compensations, commissions, promotions, for example). Because organizational performance (for instance, profitability, productivity, employee retention, safety, etc.) is directly affected by employee performance, this topic has attracted crescent interest from managers and organizational leaders. In order to increase the individual working performance, three main factors are generally considered: leadership, pay-for-performance programs and motivational factors. Leadership and pay-for-performance programs are elements that influence the motivation level of the work force and consequentially, the individual performance. For this reason, correlation between those variables are the focus of this study. The objective is to identify and offer a solution - based on scientific evidences - for companies that want to increase the productivity of their teams, focusing on leadership tasks, motivation and key factors of pay-for-performance schemes.

### Literature Review

### Motivation

Motivation is the number one problem facing business in order to attain to high levels of performance, employers depend on their employees to perform at levels that positively affect the bottom line (Wiley, 1997). Once the focus is the performance improvement, more attention had to be given to the process through which an employee might be motivated to improve his or her performance. (DeNisi & Sonesh, 2011).

According to Ryan & Deci (2000), to be motivated means to be moved to do something. They complement saying that orientation of motivation concerns the attitudes and goals that give rise to action - that is, it concerns the reason of action; in addition, people have not only different amounts, but also different kinds of motivation. Those authors distinguished between different types of motivation based on the different reasons or goals that give rise to an action. Basically, distinction is between intrinsic motivation, which refers to doing something because it is inherently interesting or enjoyable, and extrinsic motivation, which refers to doing something because it leads to a separable outcome.

### Intrinsic motivation.

Intrinsic motivation, according to Ryan & Deci (2000), is defined as the doing of an activity for its inherent satisfaction rather than for some separable consequence. Further, intrinsic motivation exists within individuals and it is in the relation between individuals and activities. They complement saying that people are intrinsically motivated for some activities and not others, and not everyone is intrinsically motivated for any particular task.

Intrinsic rewards are based on employees getting a positively valued experience from doing their work (Spreitzer

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et al., 1997). When people experience meaningfulness, choice, progress, and competence in their work, they report that work is intrinsically motivating, express more work satisfaction, and are less likely to leave (Stumpf et al., 2013).

According to the studies realized by Bande et al (2016), intrinsic motivation is seen as an important predictor of task performance.

According to Thomas (2009), our intrinsic rewards drive employee engagement: “sense of choice”, “sense of competence”, “sense of meaningfulness” and “sense of progress”. The sense of meaningfulness and the sense of progress have to do with purpose - the degree to which the work purpose is important or worthy and the degree to which it is actually being accomplished, respectively. In contrast, he complements saying that the sense of choice and the sense of competence come from work activities - from being able to choose the activities that make sense and from performing those activities well.

Some research also supports that high levels of intrinsic rewards may lessen the demand for more extrinsic rewards, reducing the organization’s need to always be adjusting salaries and benefits upwards to retain a quality workforce (Deci & Ryan, 1985, cited by Stumpf et al., 2013).

### Extrinsic motivation.

Extrinsic motivation is a construct that pertains whenever an activity is done in order to attain some separable outcome. Extrinsic motivation thus contrasts with intrinsic motivation, which refers to doing an activity simply for the enjoyment of the activity itself, rather than its instrumental value. (Ryan & Deci, 2000). As stated by Stumpf et al. (2013), extrinsic rewards are typically administered by the organization and are not under the direct control of the employee, ranging from pay and benefits, to work location, working conditions, and advancements. Furthermore extrinsic factors such as salary, job security, and working conditions are still important to professionals, however, these elements do not always create the day-to-day excitement and energy necessary to maintain high levels of engagement (Stumpf et al., 2013).

### Leadership

A particular interest for researchers on leadership is the question how a leader is able to influence subordinates to effectively accomplish the goals assigned to them (Jost, 2012).

According to Reid & Hubbell (2005), leaders should be able to communicate well, engage their team and learn the strengths and preferences of the people who work in their group.

Parry (2002) presents leadership as a competitive advantage. In relation to his findings, effective leadership

consistently has a positive impact on a number of financial and other measures of organizational performance.

Mackenzie & Podsakoff (2001) presented a research that compares transactional and transformational leadership behavior impact on the performance of sales people. One of the most important differences between transformational and transactional behavior is the process through which of them influences followers. Transactional leader behaviors involve an exchange between the leader and follower, such that the leader provides rewards in return for the subordinate's effort. Two main forms of transactional leadership were analyzed. One of those is the “contingent reward behavior”. These leaders are focused on providing positive feedbacks as recognition for the good performance of the salesperson or team. The second form of transactional leadership, according to them, is called “management by exception” and characterizes leaders who provides more negative feedbacks (e.g., correction, criticism, and/or other forms of punishment) for performances below expectations. To summarize, transactional leadership behavior involves, basically, administration of rewards and punishments.

Transformational leaders are able to articulate a vision, providing individual support and intellectual stimulation, fomenting the acceptance of group goals. Those behaviors stimulate the team to perform better – through more effort -, since they are consistent with the values and aspirations of the team. Transformational leader behaviors affect followers to perform above and beyond their obligations. Contingent reward behavior had positive effect on sales team performance, mediated by trust between leader and followers. In line with the result, the study also suggests that punishment has beneficial effects, when it is practiced on inappropriate or dysfunctional behavior; however, it has harmful effects, when it is arbitrarily administered (Mackenzie & Podsakoff, 2001).

Another study, done by Flanigan et al (2013), investigates how leadership style affect the sales and margin levels of industrial sales organizations. Their research focuses on supply chain business and presents a relationship between leadership style and average change in year-over-year sales and profit margin using a multiple regression analysis. The results show that a self-reported transformational leadership was positively associated with sales and profit margin performance at the local level of an industrial distributor, while followers’ ratings of a leader’s transactional leadership style was negatively associated with sales performance. In other words, their findings reveal that transformational leadership, as assessed by the leaders, is positively correlated to both sales and margin performance. Another important result provided by them also revealed a negative relationship between sales and leadership when the employees perceive their leader with transactional behaviors.

In Brazil, there are just a couple researches able to analyse the impact of the leadership in the team performance. Bruno (2008) analysed 400 executives from Brazil (366) and Latin America (34) from 48 companies. According

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to his findings, the research presented a high positive relationship between personal values of the leader and leadership effectiveness. Those variables were also highly positive related to some organizational indexes as, for example operational Margin, Net Profit, Capital Turns, EBITDA and EVA - Economic Value Added or CVA - Cash Value Added.

In 2012, Desjardins came up with the Leadership Productivity Model (LPM). According to his theory, Leadership Productivity means that a leader has the responsibility for the work productivity of his/her team and changes of this productivity can be done through the leaders' performance. It is about relatively simple tasks that can be executed by all leaders regardless of leadership style, experience or other personal skills. In addition, this list of activities makes it possible to evaluate a leader's performance in a clear and precise way.

### Leadership Productivity Model (LPM).<sup>1</sup>

Faced with several leadership concepts, definitions and theories, the model which better correlates leadership, motivation and performance is the Leadership Productivity Model. First of all, the LPM focuses on tasks and not only behaviors or styles. It means that leadership can be measured and evaluated, and even better learned and improved. Secondly, this model relates the leadership tasks to performance, considering motivational impacts. According to Desjardins (2012), the tasks presented in the Leadership Productivity Model are able to generate two simultaneous effects on the team: increases the productivity and fulfils motivational needs of the team which increases work effort and consequently, productivity.

These tasks presented at Leadership Productivity Model are part of a more complex theory: the Leadership Task Model. It contains three levels of leader's behavior and tasks. The first one is the ME-LEVEL, which comprises the analysis of the individual characteristics and behavior. This consciousness level of leadership is the foundation for the behaviors of Moral Values, Inclusive Decisions, Self Transparency and Relationship Transparency (Desjardins & Baker, 2013). The second and intermediary level is called US-LEVEL. It corresponds to the leadership tasks related to the organizational level. It means: Strategy Definition, Interface and Conflict Management, Culture creation and Change Management. The third level is the YOU-LEVEL. As stated by these authors, the third level corresponds to the interactions between leaders and followers in order to achieve the goals of the organization. The leadership tasks of the You-level correspond to Goal Orientation, Support and Time Optimization and are presented in the Leadership Productivity Model. This level (You-Level) will be used as operationalization for leadership for the empirical part of this study.

### Payment for Performance

The relationship between performance and compensation of the employees is a controversial theme: some authors have presented positive correlations between performance and pay-for-performance programs in their studies; at the same time, other researchers found no significant relationship between these two variables.

According to Murphy (1998), the history of executive compensation is an interdisciplinary topic, including "accounting, economics, finance, industrial relations, law, organizational behavior, and strategy".

There is evidence that PRP (Performance Related Pay) schemes are associated with higher productivity, the most common argument for productivity increase being heightened employee motivation and effort (Kauhanen & Piekkola, 2006). Eijkenaar (2013) says that pay-for-performance is now widely being applied in the United States and the United Kingdom and increasingly being implemented in many other countries; however, in contrast to what its popularity in practice suggests, P4P effectiveness has not been convincingly confirmed in UK done by Osterloh & Frey (2002) refers to pay for performance - based only in monetary compensation - as an incentive system insufficient to bring forth the performance of employees. Murphy (1998) led an empirical study in order to find the relation between CEOs (Chief Executive Officers) compensation and firm performance with little support of the hypothesis that higher pay-performance lead to higher stock price performance.

Edwards et. al. (2009), investigate whether two distinctive features of the German corporate governance system - concentrated ownership structure and representation of employees on firm supervisory boards - influence the sensitivity of managerial pay to firm profitability. The authors used information from 1,145 observations on 271 listed non-financial German firms combined from several sources. They found that there is very little effect of ownership structure on the sensitivity of pay to profitability in listed German firms and the data related to the second governance structure were inconclusive.

A 40-year-meta-analysis done by Cerasoli et. al (2014) shows the importance of intrinsic motivation to performance remained in place whether incentives were also presented. According to those authors, intrinsic motivation is related to quality of performance while incentives were better related of quantity of performance; furthermore, they are best used if considered simultaneously. This is supported by a study of Lazear (1996), who conducted a research about the productivity of the production employees in an autoglass company in USA. He found a rise of the productivity by 36% when the compensation method of its work force changed from hourly wages to piece rate pay. Another study from the Netherlands says that the that PRP increases productivity substantially

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(Gielen et al, 2010). It investigated the effect of performance related pay (PRP) on the productivity and employment of Dutch firms.

Fang & Gerhart (2012) studied how Pay for Individual Performance (PFIP) influences intrinsic interest in the workplace in Taiwan. They focused on the Cognitive Evaluation Theory (CET) presented by Ryan & Deci as theoretical background. They found that PFIP was associated with higher perception of autonomy, competence and intrinsic interest. In cases where the intrinsic component was negatively affected by the PFIP, the extrinsic reward could equilibrate it.

Gneezy & Rustichini (2000) analyzed the impact of different types of monetary incentives on the performance to execute many given tasks, through experiments done with 340 students in total. In treatments in which a monetary compensation was given, the greater the incentive, the greater the performance. Comparing the treatment which monetary compensation was not even mentioned with the one in which it was, the second promoted lower performance.

Unfortunately, there are only a few studies on this subject in Brazil, largely due to the lack of data availability (Silva & Chien, 2013). Camargos & Helal (2007) analyzed 29 Brazilian companies and a significant statistic correlation was found between executive compensation and financial company's performance.

Another study done by Silva & Chien (2013) with 420 Brazilian publicly trade companies shows that there are no significant correlation between executive payment, value and performance of those companies.

A research carried out by the consultancy Pricewaterhouse Coopers – PWC and Getulio Vargas Foundation – FGV in 2015 shows relevant facts about executive (leadership positions) compensation in Brazil. An important fact found in this research is the moderate correlation ( $r = .46$ ) between Net Revenue and variable payments (Malvessi & Filho, 2016).

### **Key factors of P4P Programs as motivational factor.**

Although checked the idea underlying P4P is simple, designing a fair and effective program is a complex undertaking involving many different aspects to consider, once the design of P4P programs is important since it determines the way in which the behavior of providers is influenced (Eijkenaar, 2013). Similarly, as argued by several authors, the fact that pay-for-performance has not been very successful has partly been a consequence of flaws in program design. Further, because employees overall expressed the importance of pay as a motivator, an effective compensation program is critical (Wiley, 1997). Once the objective of performance-related pay program is to increase the performance of the employees through motivation, an effective program should be able

to rise intrinsic motivation as well as extrinsic motivation. Therefore, the main question is: How can a P4P program be designed to reach this goal?

As common sense presented in the literature (to be detailed below), the following five elements must be considered when a Pay for performance program is designed: perception of recognition and perception of fairness by the employee; low complexity and high transparency of the measurements; clear and well defined frequencies of payments and value of payments (prize amount).

### ***Factor 1: payment as recognition.***

The primary motivating factor that an effective compensation program provides is the psychological effect on the individual; further, praise for a job well done is probably the most powerful, yet least costly and most underused, motivation tool (Wiley, 1997). In general, intrinsic rewards were found to contribute substantially more to job satisfaction and performance than did the extrinsic rewards (Mullins, 1985).

### ***Factor 2: Fairness.***

According to the research done by PWC and London School of Economics (PWC, 2012), executives prefer getting paid more than their peers as compared to getting paid more in absolute terms and they are satisfied as long as they are paid what they consider to be 'fair' considering the hierarchy of the company they work for.

### ***Factor 3: Low Complexity and High Transparency.***

According to Eijkenaar (2013), if a program only includes one or a few measures pertaining to one specific performance aspect this could result in a disproportionate focus on a specific behavior; if, on the other hand, many different measures pertaining to many performance dimensions and aspects are included, the program may be too complex and providers may have difficulties in processing the incentives. The international study done by PWC (2012) identified that more than fifty percent of the executives prefer a clearer payment package in comparison to a higher value. (Kauhanen & Piekkola, 2006). Complementary, according to them, if the features of the scheme are unclear, the decisions on the level of effort and on the allocation of effort between tasks should lead to low effort in all the tasks, besides the ones that provide private benefits to the employee. The intention in using performance measures is to influence managerial behavior, so that managers have the knowledge and motivation to act in the organization's best interests (Otley, 1999). As stated by Merchant (2006), managers must understand what the measure reflects, how the measure is calculated and what they must do to influence the measure, at least in broad terms. In addition, the author continues saying that for motivational purposes a measure should go up

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when good actions are taken and, hence, the organization's objectives are most likely to be served, and go down when bad actions are taken. Furthermore, he affirms that an incongruent measure can be counterproductive, actually motivating managers to do the wrong things, for example, when managers are held accountable only for short-term profits, which is an incongruent measure of long-term value maximization, they are prone to engage in excessively short-term oriented (myopic) behaviors.

### *Factor 4: Timing (frequencies of payments).*

According to Merchant (2006), "timeliness" refers to the lag between the managers' actions and the measurement/feedback of results (and provision of incentives) and it is a critical element in all motivational theories that include an element of feedback. In addition, timely feedback and reward provide greater short-term performance pressure and stronger motivational reinforcement.

More frequent payments make the relationship between effort provision and outcomes clearer and, thus, according to the expectancy theory it should have positive effects on motivation (Kauhanen & Piekkola, 2006). According to those authors, monthly payments are the best for inducing effort, however, the frequency of payments must correspond to the natural pace of performance review. These reviews may not always be possible on a monthly basis, but it seems that irregular payments, 7–11 times a year, decrease the perceived motivational effect.

In addition, people will tend to choose more certain but less generous amounts over less certain but more generous outcomes (PWC, 2012).

### *Factor 5: Value of the payment (prize amount)*

The monetary value of the bonus is an important topic, although there is no definitive answer about the best amount that should be paid as reward compensation.

Most people have an implicit perception about the level of rewards they should receive commensurate with the requirements and demands of the job, and the contribution expected of them (Mullins, 1985). Some of the bonuses, involving larger sums of money, may create extrinsic satisfaction for employees perhaps for a while but would be unable to motivate them over the long run, not to mention that some of the financial awards involve only very small amounts of money (Law, 2016). However,

some of these awards and bonuses may still be considered useful, at least for their short-term effects because there is merit for the recognition given to the recipients, in accordance with the same author. Furthermore, it is interesting to consider that most executives would choose to be paid less in absolute terms but more than their peers (PWC, 2012). In the end, information collected from market searches and internal surveys could help companies to understand the expectations of employees concerning the P4P rewards. Paying in incentives rather than salary is an investment and like any investment, companies need to be clear about the payback (PWC, 2012). It means that the return on investment must be known and the company should be able to calculate how much the payback of the implementation of a P4P program is. Firms should know exactly the costs of this investment and, obviously, how much the performance should increase to make this compensation program feasible.

To summarize, the literature review shows that payment for performance programs can have some impact in the employee working performance if these variables are taken into account: perception of recognition, fairness, low complexity and high transparency of the measurements and goals; clear time definition (long run or short run compensations); and clear definition of monetary values of the compensation. If those variables are not available in the P4P scheme, the impact of these programs on the individual working performance of employees is probably not relevant.

## Research Questions & Methods

According to the findings presented at the literature review, leadership seems to influence individuals much more than pay for performance programs due to the fact that leaders can generate a positive impact on intrinsic motivation of people. In contrast, performance pay schemes appear to provide a less consistent impact on individual motivation basically because of the limitation of extrinsic incentives, and moreover, owing to the fact that an effective and consistent program able to generate a relevant impact on performance is complex to design.

To validate the theoretical assumptions of the influence of Leadership and Pay for Performance programs on individual performance, three hypotheses (one main hypothesis and two sub hypothesis) have been formulated. They are presented in the Figure 1 as well.

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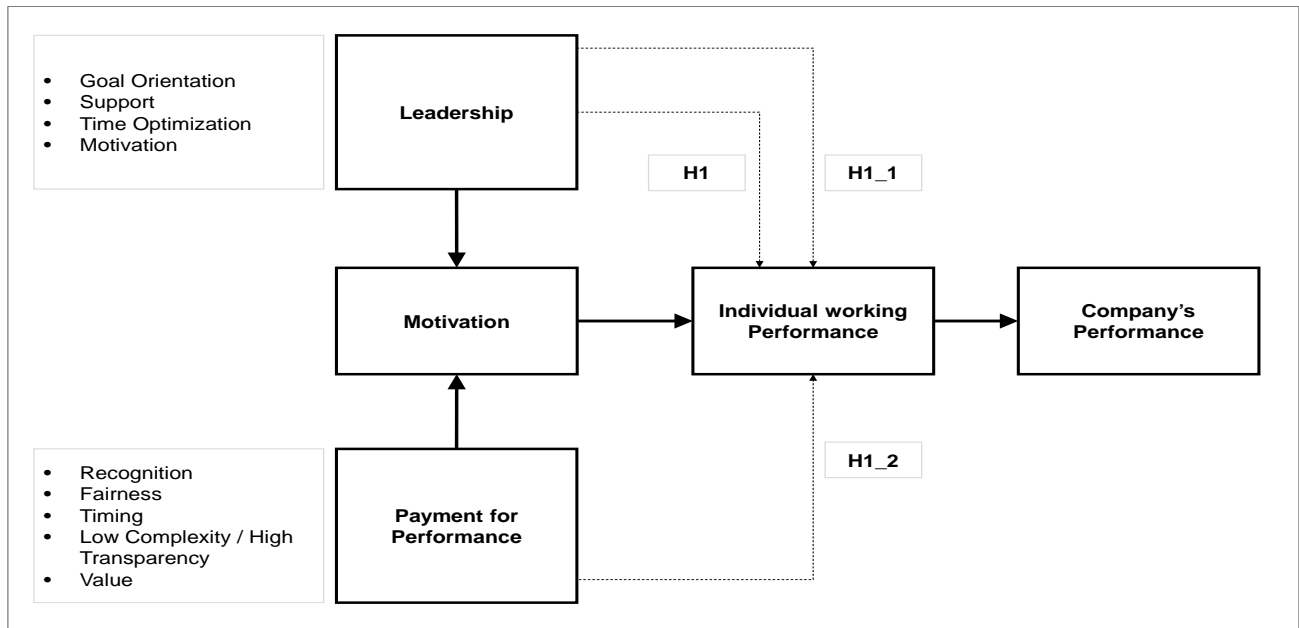


Figure 1:

Suggested model: the influence of Leadership and Pay for Performance Programs on individual working performance.

### Main Hypothesis – H1:

*The effects of productive leadership on individual working performance of followers are higher than the effects of pay for performance programs.*

### Sub Hypothesis 1 – H1\_1:

*Productive leadership has a medium to strong impact on the individual work performance of followers.*

### Sub Hypothesis 2 – H1\_2

*There is only a weak impact of pay-for-performance program on the individual work performance of employees.*

For this current article, a fully standardized questionnaire was developed. The survey contains only closed-ended questions, with only one answer possible. A total of 112 Brazilian participants from different companies answered the survey. To apply the questionnaire, an online platform was used and the link of the survey was spread on Social Medias. The goal was to reach as many people as possible inside the Brazilian market. The questionnaire was available during two and half weeks on the internet. Most of the people were between 36 and 45 years old, with 8 to 18 years of work experience and a university degree. Around 30% have a master, MBA or doctorate degree. The majority hold positions of supervision or coordination in their companies.

The questionnaire begins by asking the respondent whether or not she/he works in the sales department (or

performs sales-related tasks). After that, the survey is organized into three sections: evaluation of the leadership performance, evaluation of the payment for performance program and, finally, the individual working performance (self-evaluation). The leadership evaluation utilizes the Leadership Productivity Survey (LPS) (Desjardins, 2017) to evaluate the level of leaders. This survey consists of 20 questions, which utilizes a 5-point Likert scale (Scale values: 1 = never; 2 = seldom; 3 = sometimes; 4 = often; 5 = always) in order to evaluate the frequency which leaders execute those tasks. The LPS operationalizes the four dimensions of leadership tasks of the You-Level of the Leadership Task Model (Desjardins, 2012 & 2013). The second part of the questionnaire evaluates the Payment for Performance program which the respondents submitted. The interviewed people evaluate their perception about all the features (key factors) that the performance pay scheme should consider (payment as recognition, perception of fairness, low complexity and high transparency, frequency of payments and value of payments). Another question identifies what is the most common type of performance payment: money, company shares, trips, scholarship or others. Two additional questions were designed to identify how much money people are able to give up for their dream job and how much more they should receive in order to ensure the achievement of their performance goal. and the perception of the P4P program as a motivational factor. Two questions were developed to evaluate the working performance of the interviewed people. They utilized a scale from 0 to 10 in order to measure quantitatively their individual current working performance and their performance in comparison to peers.

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### Empirical Results

#### Leadership

The Leadership Productivity Survey (Desjardins, 2017) was utilized to evaluate the performance of leaders based on all dimensions (Goal Orientation, Support, Time Optimization and Motivation). All the 20 questions presented in the questionnaire have the same weight and the interviewed people should evaluate how often their leader is able to perform that tasks. The Table 1 presents the means (M) and standard deviations (SD) of the leadership Productivity performance items, organized by tasks and their correspondent dimensions without any differentiation between groups. It is possible to affirm, that the leadership performance of leaders has a substantial development potential, shown by means below a scale of 4. Only the item related to Result acceptance has score that is clearly above a scale value of 4.

In addition, the Table 2 shows the means and standard deviations (SD) of the Leadership performance items separated by groups (Sales and Other functions). Looking at the results of the Sales group, there is no leadership performance above a scale value of 4. Considering the group "Other functions", the only task that presents a mean above 4 is the Result acceptance. This result confirms that there is a development potential of leadership performance in both groups. In order to evaluate whether

there is a statistically significant difference between the means of the leadership performance of two groups ("sales" and "other functions"), an independent t-test was used. The performance of the leaders of people who work in the "sales" department ( $M = 3.20$ ,  $SD = 0.54$ ) and the performance of leaders of people who work in "other positions" ( $M = 3.41$ ,  $SD = 0.64$ ) did not differ significantly,  $t(46) = -1.55$ ,  $p = .13$ .

After getting an overview about the Leadership performance, considering the means of each task and groups, it is necessary to check the real influence of the leadership on individual performance. In order to confirm it, a correlation analysis between the single leadership tasks of the LPS and the reported individual work performance was conducted. The correlation of the two variables is positive weak-moderate,  $r = .34$ ,  $p < .05$ . It means that as leadership productivity increases, individual working performance (or individual performance of subordinates) also increases.

According to the results presented in the Table 3, the most relevant leadership task is related to "interaction – support", represented by a moderate to strong correlation ( $r = .45$ ). Following that, "autonomy - motivation" presents a weak to moderate correlation ( $r = .37$ ),  $p > 0.05$ .

Tasks and Subtasks - LPS	Mean ( <i>M</i> )	Standard Deviation ( <i>SD</i> )
Goal Definition - Goal Orientation	3,64	1,00
Goal Motivation - Goal Orientation	3,63	0,91
Goal Clarification - Goal Orientation	3,23	0,93
Result Acceptance - Goal Orientation	4,09	0,61
Interaction - Support	3,49	0,85
Information - Support	3,47	0,84
Feedback (mistakes) - Support	3,23	1,03
Feedback (success) - Support	3,44	0,94
Coaching - Support	2,64	1,09
Scheduling - Time Optimization	2,84	1,10
Work load optimization - Time Optimization	2,84	1,30
Meeting optimization - Time Optimization	3,12	1,11
Affiliation - Motivation	3,07	0,99
Acknowledgement (job performance) - Motivation	3,71	0,84
Acknowledgement (personally) - Motivation	3,56	0,98
Growth (skills) - Motivation	3,48	1,19
Growth (career) - Motivation	3,19	1,15
Purpose/Sense - Motivation	3,42	1,17
Autonomy - Motivation	3,55	1,00
Performance/Goals - Motivation	3,51	0,88

Table 1:

Means (M) and Standard Deviations (SD) of the Leadership Productivity performance tasks based on the results of the survey ( $n = 86$ )

Scale values: 1 = never; 2 = seldom; 3 = sometimes; 4 = often; 5 = always.

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Tasks and Subtasks - LPS	Sales (n = 23)		Other Functions (n = 63)	
	Mean	SD	Mean	SD
Goal Definition - Goal Orientation	3,39	1,37	3,73	0,83
Goal Motivation - Goal Orientation	3,39	1,12	3,71	0,81
Goal Clarification - Goal Orientation	3,39	0,89	3,17	0,94
Result Acceptance - Goal Orientation	3,83	0,72	4,19	0,53
Interaction - Support	3,35	0,88	3,54	0,84
Information - Support	3,17	0,72	3,57	0,86
Feedback (mistakes) - Support	3,09	1,16	3,29	0,97
Feedback (success) - Support	3,57	0,84	3,4	0,98
Coaching - Support	2,83	1,07	2,57	1,1
Scheduling - Time Optimization	2,7	1,06	2,89	1,12
Work load optimization - Time Optimization	2,65	1,3	2,9	1,3
Meeting optimization - Time Optimization	2,7	0,97	3,27	1,12
Affiliation - Motivation	2,91	0,95	3,13	1,01
Acknowledgement (job performance) - Motivation	3,55	0,86	3,76	0,84
Acknowledgement (personally) - Motivation	3,43	0,84	3,6	1,02
Growth (skills) - Motivation	3,52	1,16	3,46	1,2
Growth (career) - Motivation	2,91	1,28	3,29	1,1
Purpose/Sense - Motivation	3,09	1,12	3,54	1,18
Autonomy - Motivation	3,3	1,02	3,63	0,99
Performance/Goals - Motivation	3,22	0,95	3,62	0,83

Table 2:

Means (M) and Standard Deviations (SD) of the Leadership Productivity performance tasks based on the results of the survey, separated by groups.

Scale values: 1 = never; 2 = seldom; 3 = sometimes; 4 = often; 5 = always.



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	Individual Working Performance
Tasks and Subtasks - LPS	<i>r</i>
Goal Definition - Goal Orientation	.19 *
Goal Motivation - Goal Orientation	.16 *
Goal Clarification - Goal Orientation	.18 *
Result Acceptance - Goal Orientation	.30 *
Interaction - Support	.45 *
Information - Support	.24 *
Feedback (mistakes) - Support	.15 *
Feedback (success) - Support	.05
Coaching - Support	.15 *
Scheduling - Time Optimization	.02
Work load optimization - Time Optimization	.14 *
Meeting optimization - Time Optimization	.27 *
Affiliation - Motivation	.27 *
Acknowledgement (job performance) - Motivation	.20 *
Acknowledgement (personally) - Motivation	.20 *
Growth (skills) - Motivation	.22 *
Growth (career) - Motivation	.24 *
Purpose/Sense - Motivation	.30 *
Autonomy - Motivation	.37 *
Performance/Goals - Motivation	.33 *
LPS total	.34 *

Table 3:

Correlation coefficient (Persons' *r*) between Leadership Productivity performance tasks and Individual Working performance of followers based on the results of the survey ( $n = 86$ )

$p > 0.05^*$

**Payment for Performance**

An overview about the types of performance - pay received by the participants showed that 25.3% of the sample do not receive any payment related to their performance. 72.0% of the group are submitted to a pay for performance program, which offers "money" as reward. "Company shares" and "scholarship" are much less relevant, representing 1.33% of the population each. Other types of rewards were even not mentioned in the results. After that, P4P programs were evaluated considering the

"key factors". The Table 4 presents the means and standard deviations of each criteria. It is possible to verify that there is no mean above 7.00 for any item, that is, there is a substantial development potential considering Payment for Performance Programs. In other words, these P4P schemes are quite different in comparison to the "ideal" model. The item "clear performance measurements" had the lowest mean, showing that the measurements used to evaluate the performance of the employees are not clear enough for them. The same analysis is done considering two different groups: "sales" and "other functions", the Table 5 shows the results.

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After getting an overview about the Payment for Performance, considering the means of each item and groups, it is necessary to check the real influence of the P4P schemes on individual performance. To achieve this goal, the second sub hypothesis (H1\_2) was defined: “*There is only a weak impact of pay-for-performance program on the individual work performance of employees*”. In order to confirm it, a correlation analysis was prepared. The bivariate correlation analysis (Table 6) gives a measure of the relationship between two variables; in this case, the

variables are the score of the Payment for Performance scheme and Individual Working performance (of employees).

The two groups “sales” and “other functions” are separated. The Table 6 shows the results. It is not possible to consider the influence of P4P on the individual performance of those groups.

Items of P4P Programs	Mean ( <i>M</i> )	<i>SD</i>
Perception of Fairness - Fairness*	5,48	2,52
Perception of Recognition - Recognition*	6,41	2,99
Clear performance compensation - Low Complexity/ High Transparency*	5,65	3,05
Clear performance measurements - Low Complexity/ High Transparency*	3,63	2,79
Influence of actions on the result - Low Complexity/ High Transparency*	6,56	2,89
Frequency of Payments - Timing**	2,00	0,64

Table 4:

Means and Standard Deviations of the Payment for Performance items, based on the results of the study ( $n = 54$ )

Note: \*Scale (0 = lowest score and 10 = best score). \*\* Scale from 1 to 4 (1= more than 1 year after reaching the goal; 2 = between 2 months and 12 months after reaching the goal; 3 = 1 month after reaching the goal; 4 = immediately after reaching the goal).

Items of P4P Programs	Sales ( $n = 17$ )		Other Functions ( $n = 37$ )	
	Mean ( <i>M</i> )	<i>SD</i>	Mean ( <i>M</i> )	<i>SD</i>
Perception of Fairness - Fairness*	6,24	2,91	5,14	2,29
Perception of Recognition - Recognition*	7,29	3,12	6,00	2,88
Clear performance compensation - Low Complexity/ High Transparency*	6,29	3,33	5,35	2,92
Clear performance measurements - Low Complexity/ High Transparency*	3,41	2,96	3,73	2,75
Influence of actions on the result - Low Complexity/ High Transparency*	6,82	2,63	6,43	3,03
Frequency of Payments - Timing**	2,41	0,62	1,81	0,57

Table 5:

Means and Standard Deviations of the Payment for Performance items, separated by groups, based on the results of the study.

Note: \*Scale (0 = lowest score and 10 = best score). \*\* Scale from 1 to 4 (1= more than 1 year after reaching the goal; 2 = between 2 months and 12 months after reaching the goal; 3 = 1 month after reaching the goal; 4 = immediately after reaching the goal).

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	Individual Working Performance			
	Consolidated (n = 54)		Sales (n = 17)	Other Functions (n = 37)
	<i>r</i>	P-Value	<i>r</i>	<i>r</i>
Fairness	.13	.36	.11	.15
Recognition	.16	.24	.06	.23
Low Complexity/ High Transparency*	.21	.12	.19	.24
Timing	-.16	.25	-.64	.08

Table 6:

Correlation coefficient (Persons' *r*) between Pay for Performance items and Individual Working Performance of employees, organized by groups, based on the results of the survey ( $n = 54$ )

### Additional information

In order to get some additional information, other extra questions were included in the survey. The objective was to confirm some statements proposed by other authors (presented in the theoretical part of this current study), considering now a Brazilian sample. One of these topics is related to the value of the bonus. The value of the payment is an important key factor of P4P programs. The effect of monetary incentives can be, for small amounts, detrimental to performance, or a certain amount of monetary compensation may be perceived as too small when compared with the other relevant factors, even if it is not too small in itself. (Gneezy & Rustichini, 2000). Moreover, the monetary value in absolute amount is not the most important thing; what makes the difference, as a motivational factor, is the perception of the employees about it. For this reason, the further question was created: "How much more money should your company offer you in order to ensure that your goals will be met?". The participant should consider the percentage increase of the present payment value (wages + bonus). A total of 53 people who receive P4P answered this question and the

result is presented on the Table 7. Those responses presented in the Table 7 are quite disturbing. On one hand, 18.87% of the participants say that the goals are not achievable. On the other hand, other 18.87% of the group say that the value of the bonus do not influence their performance; meaning that probably the effort of the companies to develop a P4P program will not guarantee an increase on team performance. Moreover, 32.08% of the people in this sample are not satisfied with the value of the payment that they are receiving nowadays; showing that the P4P program is not motivating in their point of view. In other words, the current model of performance pay-program which this group is submitted does not seem to be motivation for them.

Another interesting data indicate how much money the participants could renounce in order to get their "dream job". The same question was presented in a research done worldwide, in order to evaluate the theory that "people work for pay and benefits (the extrinsic rewards), but also because they want to, and find it fulfilling (the intrinsic rewards), according to the study made by PWC (2012). The idea was to consider this question to evaluate the perception of Brazilian workers referring to this "ideal job discount". The Table 8 presents the results.

Estimated increment in bonus/rewards	n = 53
Nothing. Changing the value of the bonus doesn't change my individual performance.	18,87%
Nothing. My goal can not be achieved, independently of the value of the bonus.	18,87%
Between 1% and 10% more	5,66%
Between 11% and 20% more	15,09%
Between 21% and 30% more	9,43%
More than 31%	32,08%

Table 7:

Estimate increment in payment expected by participants, based on the results of the survey ( $n = 53$ )

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Estimated reduction in wages	n = 75
Nothing	24,00%
Reduction from 1% to 10%	24,00%
Reduction from 11% to 20%	26,67%
Reduction from 21% to 30%	10,67%
More than 31% of reduction	14,67%

Table 8:

Estimate reduction in payments by participants in order to get their ideal job, based on the results of the survey ( $n = 75$ )

Perception of P4P as motivational factor	n= 75
0 - Demotivated	4,00%
From 1 to 3	2,67%
From 4 to 6	18,67%
From 7 to 9	38,66%
10 - Extremely more motivated	36,00%
Mean ( $M$ )	7,64

Table 9:

Perception of P4P as motivational factor, based on the results of the survey ( $n = 75$ ).

From an overall perspective, 76.01% of the participants should accept a cut on their payments for their ideal job. It means that people do not work only for money. Furthermore, identifying what really motivates the team means that companies could pay them significantly less than usual. 25.34% of the group could accept a cut in the wages higher than 20%.

Another additional question was utilized to evaluate how the participants feel motivated by the Performance program. 36.0% of the participants said that they feel (or would feel) extremely more motivated due to the P4P program. The presented question was: "Using a scale from 0 to 10, how much do you feel (or would feel) more motivated due to the P4P program?". A total of 75 people answered this question and the results are shown in the Table 9.

It is interesting to note that P4P seems to be attractive and motivating for the interviewed group. However, the results obtained in the previous analysis do not show any relevant influence from P4P on individual performance. These results probably indicate that the program to which these people are submitted nowadays has not been attractive for them, reinforcing the theory that there is substantial improvement potential in the design of compensation programs.

## Conclusions

The challenge of this study is to provide solutions for many companies that try to identify innovative strategies that are directly linked to improving organizational performance, especially Brazilian firms or multinational companies that have business in Brazil. The objective was to provide a scientific study based on recent and relevant findings in the global literature, focused on the most important pillars of individual performance: leadership, payment systems and motivation of employees.

Based on the existing literature and on the empirical study done for this article, it can be stated that leadership productive performance has a clear influence on the work performance of leader's followers. The leadership productivity is evaluated considering the execution of tasks according to the Leadership Productivity Model, organized into four dimensions: Goal Orientation, Support, Time Optimization and Motivation. The better the performance of the leader, the better the performance of his/her team.

Reward systems, and performance-pay compensation in particular, have been described in theory and in practice. Based on studies originating from the behavioral sciences correlate to motivation, the theory and research developed until now provide some foundation for the limitation of pay for performance systems and showing that several key success factors of P4P design have not been fulfilled by organizations. According to the empirical findings of this current study, performance compensation schemes are not able to influence the individual performance of employees.

Future research could investigate the relationship between performance of workers and reward programs that meet all the requirements (related to fairness, recognition, complexity and transparency, and frequency of payments). In other words, what is still missing in order to complement this study is the answer for the following question: *Is P4P not able to influence performance at all, or is it about a design problem of those programs that does not consider the essential success factors?*

The capacity of people to perform leadership roles must be addressed by companies. Firms must be able to develop and train their directors, managers and supervisors, in a way that leaders can execute the tasks that really influence the working performance of followers. Moreover, the focus must be on execution of leadership tasks and not only styles, personal features or personal behavior of potential leaders.

About performance pay as a motivational factor, companies should broaden their concept of compensation schemes, trying to identify how best their staff could be motivated to work effectively. This can make companies gain a competitive advantage through productive employees and the employees could receive rewards that really add value for them. The answer to this question can help companies to decide if a P4P program is really useful and can generate an expected increase on individual working performance (and consequently company's performance). Still, once the company decides to implement a performance pay program, the key success elements cannot be neglected.

### About the Author

Laura Pinheiro Zebal studied Engineering and graduated with a Master of Business Administration focusing on International Business Management and Leadership at the University of Applied Science in Kempten, Germany. She has worked as Management Consultant since 2009, supporting companies in Latin America and Europe.

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