



# Performance contingent pay and autonomy: Implications for facilitating extra-role creativity



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## ABSTRACT

This paper applies self-determination theory and motivation crowding theory to identify specific conditions where performance contingent pay for in-role job performance can be used while at the same time preserving or enhancing perceived autonomy to facilitate extra-role creativity. We formulate theoretical propositions that identify several factors that positively moderate the relationship between performance contingent pay and autonomy so that perceived autonomy is increased rather than decreased. The moderating factors are (1) ex-post basis of pay, (2) generalized performance outcomes, (3) employee choice over amount and timing of pay, and (4) low intensity pay. Finally, we offer theoretical contributions for scholars and implications for managers of pay systems.

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## 1. Introduction

There is evidence reported in the behavioral science literature to show that the use of performance contingent pay (i.e., pay for individual performance) such as bonuses or merit pay can decrease intrinsic motivation which is detrimental to creativity when it is performed on a discretionary basis (Amabile, Hennessey, & Grossman, 1986; Deci, Koestner, & Ryan, 1999; Frey & Oberholzer-Gee, 1997; Kreps, 1997). Consequently, the use of performance contingent pay on a contracted-for basis, has a tendency to control behavior and limits autonomy that lets employees experience freedom to express their creativity (Frey, 1993).

Moreover, scholars critical of the use of individual performance contingent pay have argued that an unintended consequence of the use of performance contingent pay is that it can crowd out employee initiated novel and exploratory approaches to perform work that depend on autonomy, which gives rise to ideas that can improve the quality of customer service or raise the level of a product's performance (Frey & Oberholzer-Gee, 1997). This critique of performance contingent pay has been made because employee initiated novel and exploratory approaches to work are often dependent on extra-role creativity that occurs spontaneously (Dekas, Bauer, Welle, Kurkoski, & Sullivan, 2013) and these efforts are likely to be extinguished under performance contingent pay that focuses employee attention on rewards linked to outcomes that can easily be quantified and measured in advance. In addition, employees may focus their efforts on only achieving outcomes that can be measured and recognized within the parameters of performance contingent pay and consequently limit their efforts to perform extra-role creativity (Frey & Jegen, 2001; Osterloh & Frey, 2000). Thus, organizations face a challenge between balancing the use of performance contingent pay to recognize in-role job performance (which may include in-role creativity) while needing to sustain employee initiated extra-role creativity that contributes to innovations that

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allow organizations to remain agile, making it possible to respond deftly to changes in the market (Patel, Messersmith, & Lepak, 2013; Pulakos, Arad, Donovan, & Plamondon, 2000; Pulakos et al., 2002; Shafer, Dyer, Kilty, Amos, & Ericksen, 2001).

Performance contingent pay provides pay to employees based on meeting or exceeding in-role job performance outcomes. The use of performance contingent pay can narrow employees' field of vision to focus their attention exclusively on work outcomes that are linked to pay. As a consequence performance contingent pay can limit autonomy and the discretion to engage in extra-role creativity.

There is ample evidence in the research literature to show that the use of performance contingent pay is positively related to in-role job performance (Gerhart & Fang, 2014; Gerhart & Rynes, 2003; Jenkins, Mitra, Gupta, & Shaw, 1998). In one example, Locke, Ferer, McCaleb, Shaw, and Denny (1980) found a sizeable increase in productivity related to the introduction of pay for individual performance plans. Furthermore, employee sales efforts and performance can be positively affected with individual bonuses linked to attaining a sales quota, particularly in situations where the sales environment is stable and future product demand can be forecasted with precision (Steenburgh & Ahearne, 2012). In addition, there is research evidence that indicates that performance contingent pay has positive effects on in-role task performance that can include in-role creativity (Bryon & Kazanchi, 2012; Eisenberger & Rhodes, 2001; Eisenberger, Rhodes, & Cameron, 1999). Moreover, many organizations use performance contingent pay for cultural reasons to signal to employees that high performance matters and it will be rewarded on a monetary basis (Gerhart & Rynes, 2003).

However, despite this evidence in support of performance contingent pay for in-role performance, scholars have also recognized that performance contingent pay can infringe on employees' feelings of autonomy which limits their intrinsic motivation to perform extra-role creativity (Deci et al., 1999; Frey & Oberholzer-Gee, 1997; Ryan & Deci, 2000). Extra-role creativity often occurs from the result of experiments performed by employees in their free time. Discoveries from these experiments can lead to improvements in a product, service or work method that can reduce costs or add new sources of revenues. Extra-role creativity benefits organizations in situations that deviate from standard work procedures that arise spontaneously, and that cannot be known in advance, relying on employees' skill and adaptability to provide unique solutions to problems that can contribute to organization performance (Unsworth, 2001).

We will show that by taking into account extra-role creativity which depends on maintaining employee perceptions of autonomy, the application of theory can contribute to our knowledge of how to apply performance contingent pay in appropriate contexts. In this paper, we apply theoretical perspectives taken from self-determination theory (Ryan & Deci, 2000) and motivation crowding theory (Frey & Jegen, 2001) to identify specific conditions where the use of performance contingent pay can coexist with autonomy so that intrinsic motivation and perceived autonomy can be sustained or increased (Gagné & Deci, 2005). The two aforementioned theories provide logic that lets us identify factors that positively moderate the relationship between performance contingent pay and perceived autonomy. The analysis of the relationship between performance contingent pay and autonomy moderated by the theoretically derived factors discussed in this paper should stimulate scholarly interest on research targeted at performance contingent pay and its effects on employee behavior and outcomes that include extra-role creativity.

Developing effective pay systems that recognize a full set of employee contributions to organizations is important, because organizations depend on having employees provide both expected and unexpected results that contribute to firm performance (Gratton, 2011; Lawler, 2011). Unexpected results stem from doing more or different work than the job requires which includes extra-role creativity. Further, the scarcity of talented employees and the competition to attract and retain the best ones gives organizations a motive to apply performance contingent pay to compensate individuals with rewards proportional to the value of their contributions. In this paper, we focus on contexts where employees perform jobs where they can be creative spontaneously and on an extra-role basis (Unsworth, 2001). We limit the context of our discussion of the relationship between performance contingent pay, autonomy and extra-role creativity to employees holding ordinary jobs in organizations as individual contributors that have the potential to make unexpected novel and useful contributions to their organization (O'Reilly & Pfeffer, 2000). Employees who experience autonomy and intrinsic motivation are more likely to engage in extra-role creativity (Deci et al., 1999). We limit the level of our discussion on creativity and performance contingent pay to the individual level of task performance, which is the source of a large amount of extra-role creativity (Montag, Maertz, & Baer, 2012).

We contribute to the literature of human resource management by applying theory to identify specific conditions where it is possible to use performance contingent pay *and* preserve (or enhance) perceived autonomy to facilitate extra-role creativity. We show that performance contingent pay is more useful to firms when applied with careful foresight in ways that avoid undermining employee perceptions of autonomy so that extra-role creativity can take root (Amabile et al., 1986; Amabile, 1998). Specifically, we identify four conditions expected to moderate the effects of performance contingent pay to have a positive rather than negative effect on perceived autonomy and subsequent extra-role creativity: (1) ex-post basis of pay, (2) generalized performance outcomes, (3) employee choice provided on amount and timing of pay, and (4) low intensity pay. Each of these four factors that have moderating effects on the relationship between performance contingent pay and autonomy (and subsequent extra-role creativity) will be examined in detail in the paper.

The first part of this paper builds on self-determination theory (SDT) and motivation crowding theory (MDT) to explain how the application of performance contingent pay can stimulate in individuals a sense of being controlled, which is linked to reductions in feelings of autonomy, and ultimately reduce the likelihood that extra-role creative efforts will take place. Next, we explain how these two aforementioned theories offer insights to apply performance contingent pay while sustaining autonomy, and supporting autonomous motivation (Ryan & Deci, 2000) and intrinsic motivation (Frey & Jegen, 2001; Deci et al., 1999). Subsequently, we provide several theoretical propositions inspired by SDT and MCT to identify specific conditions where performance contingent pay preserves or enhances perceived autonomy rather than dilutes it. We conclude by discussing the theoretical contributions to scholars and implications to managers of pay systems.

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