McKinsey&Company

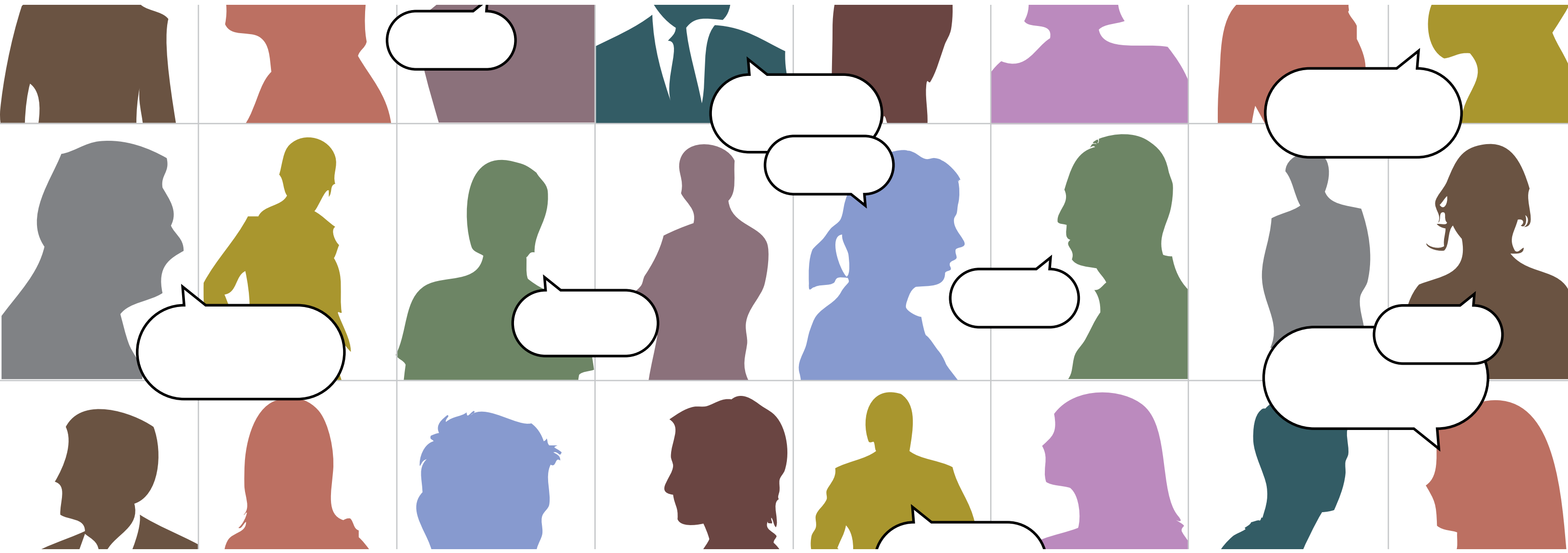
NOVEMBER 2009

McKinsey Quarterly

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.

Martin Dewhurst, Matthew Guthridge, and Elizabeth Mohr



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[1] 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.

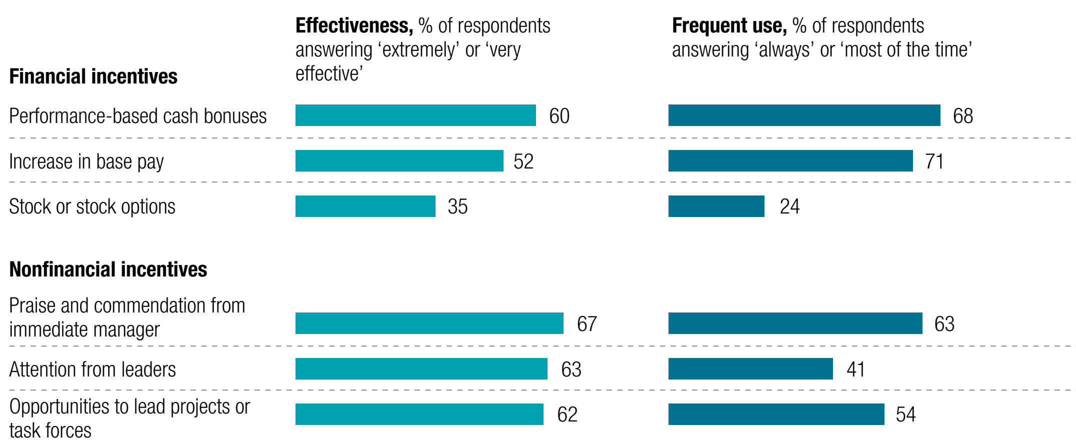
A recent *McKinsey Quarterly* survey[2] underscores the opportunity. The respondents view three noncash motivators—praise from immediate managers, leadership attention (for example, one-on-one conversations), and a chance to lead projects or task forces—as no less or even more effective motivators than 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.

[1] John Gibbons, *Employee Engagement: A Review of Current Research and Its Implications*, Conference Board, 2006.

[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.

Exhibit

It's not about the money



Source: June 2009 McKinsey global survey of 1,047 executives, managers, and employees from a range of sectors

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[3]—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.

[3] "Economic Conditions Snapshot, June 2009: McKinsey Global Survey Results," mckinseyquarterly.com, June 2009.

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.

Related articles

"Leaders in the crisis: McKinsey Global Survey Results"

"Upgrading talent"

"Good boss, bad times"

"Making talent a strategic priority"

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.

Martin Dewhurst is a director in McKinsey's London office, where **Matthew Guthridge** is an associate principal and **Elizabeth Mohr** is a consultant.