

## **CHAPTER 2**

### **LITERATURE REVIEW**

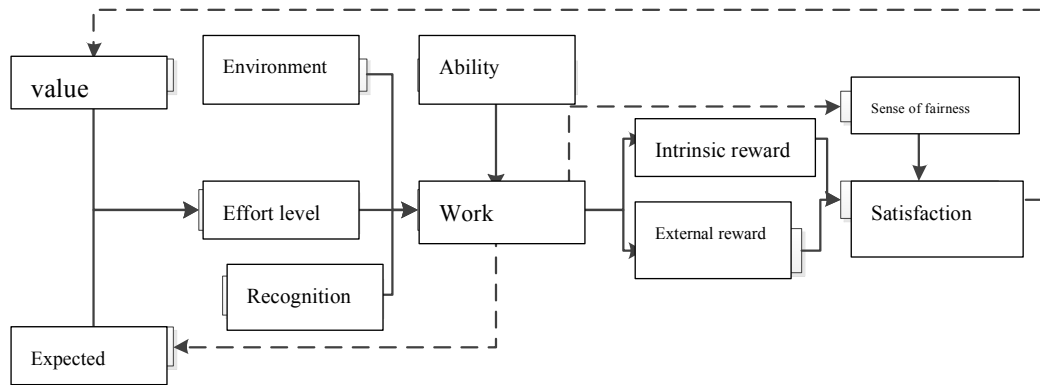
#### **2.1 Management Motivation Theory**

##### **2.1.1 Contingency theory**

The basic meaning of contingency theory refers that the employees shall be motivated based on the situation so as to suit various teaching stages, locations and the employees. The representatives in the west are emergency contingency model of Feidler, Objective-method theory of Winehouse and so on. They discuss how to match the leadership behavior with the actual situation through the analysis of the situation caused by the main influencing factors.

##### **2.1.2 Synthesizing Theory Model**

The "Synthesizing Theory Model" of Robert J House integrates the above incentive theories together through a model, which emphasizes the intrinsic motivation of the task itself and takes the motivation due to the extrinsic reward obtained because of the completion of the task and so on. The integrated motivation theory proposed through the research on the factors triggering the motivation and the psychological process is the integration of the content type and process type motivation. The typical is the synthesizing theory model proposed in 1986 with the Porter and Lawler as the representatives and it is divided into two parts as the internal and external. The external stimulus includes wages, working conditions and corporate policies while the internal motivation contains social, psychological factors, such as peer relationships, and recognition etc,. They think the motivation is external stimulus, such as the personal internal conditions, behavior and interaction process. The motivation contains the external and internal two parts. Wages due to the motivation lead to compensation which then leads to satisfaction and the improvement of incentive mechanism has provided the managers with a clear, systematic thinking path.



**Figure 2-1 Synthesizing Theory Model of Porter and Raul**

## 2.2 Economic Motivation Theory

Since 1970s, a great improvement in the economic development was the economic theory which formed the Western economics, information economics genre together with the game theory, asymmetric information theory and the human capital theory. The motivation of economic theory is mainly seen from the transaction costs theory, equity theory and agency theory and the motivation issue of a enterprise focuses on how to design a effective mechanism to motivate agents or contract execution enthusiasm, which can be summarized as team production theory (Alchian and Demsetz, 1972), agency theory (Jensen and Macklin, 1976) and tournament theory (Lazir Rosen, 1986). The team production theory and principal-agent theory consist a profit sharing and stock ownership incentive and other incentive measures realize the yield-risk based incentive. They believe that the remuneration of human capital owners must include risk income, otherwise the agent is prone to lazy, resulting in moral hazard for other behavior and the team interest of the principal or interest can not be maximized. Team production theory mainly emphasizes obtaining residual claim and providing to the supervisor and the principal-agent theory is the incentive to the agency which chooses the most favorable action and decision of the principal with the incentive of the agency. The tournament theory takes the promotion as the incentive chance for the human capital design, which mainly focuses on the economic research of the three perspectives and the issue of incentives and constraints for senior managers but ignores the compensation for other levels and the overall pay

system design for the enterprises.

#### Principal - agent theory

In the past 20 years, for the analysis of incentive issues, the most effective and most common economic analysis tool is the principal-agent theory which offers the economic framework of incentive research. The agency relationship refers to a contract in which a person or more person (ie a principal) employs another person (ie an agent) to represent them to implement the specific service, including some decision-making powers to be entrusted to an agent. This theory is mainly used to explain the relationship between the business owner and the operator from the economic theory. If the first inner level of the agent relationship between the owner and operator is called the principal-agent relation then the principal-agent relation for the owner, managers or the knowledge-based employee within the employees is the principal-agent relation of the second level. As the agent, high-tech employees mainly engage in brainwork so it is hard for the enterprise to master their effort level. The existence of the principal-agent relationship requires that the client and the operator, as the principal, must design an effective incentive contract to allow the knowledge worker enjoy a certain residual value claim and take part in the distribution of the enterprise's value so as to stimulate and encourage them to choose the most favorable action for the enterprises.

#### Team production theory

The team production theory was first put forward by Alchian and Demsetz, the American economists and so on and the main view of this theory is that the input of the production factor is not a simple product mix. The attribution of production factors can not be arranged through the simple addition of the production factors, instead, it belongs to a team rather than a member of the individual teams. Specifically, the enterprise can be taken as the "team production" method and the team's production methods must meet three conditions: First, the production activities must be carried out in the way of the team. Secondly, the input production of various resources must have the "team specialty". Thirdly, the yield of a team is a economic indicator, referring as the collective product so it is hard to be distributed to the

members accurately. Under the condition of the absence of oversight and incentives, team members tend to consume more time for relax rather than working hard. They choose lazy and free ride but the performance appraisal, salary design, distribution of surplus value of the each team member seems to be extremely important. Armen Albert Alchian, in his research, put forward to achieve the purpose of the improvement of the working efficiency through the supervision and reward.

#### Tournament theory

Tournament theory is proposed by Razier and Rosen and it points out that the salary increase and promotion will affect the enthusiasm of the employees on the job positions. The employees will be motivated by chances for promotion and salary increase and make efforts to be promoted if the promotion results are not clear. Therefore, the theory advocates the employee motivation through promoting and salary increase.

This theory puts the competitor in the game and take the relative performance as a determinant of their performance rankings rather than objective performance itself through putting the manager on the game. In other words, the salary received by the manager not depends on the absolute level but on the relative level compared with other managers. If we win we will get high salary. Hence, high wage is for the manager who won in the competition. Although the winner does not necessarily have a significantly higher productivity than the loser, it is certain that who won the competition. It is impossible for the competition not focus on the difference in productivity between them. Why we have this design? The theory points out that to pay the manager who won(of course, the CEO is the winner of the game) with higher salary can make them make the greatest effort under the temptation of high wages. But on the other hand, the more important points is that this will inspire the level under manager to make efforts for the winning to get higher salary. That is, higher salary for the senior executive not mainly motivate themselves but their subordinates.

#### Human capital theory

The human capital theory is a representative and important theory put

forward by Schultz and Becker. Schultz led the team to break through the traditional theory which is just limited by the physical capital. He divided the capital into human capital and material capital and points out that the human capital is the capital embodies the human. The main contents contain: Human resources are the most important resources in all resources and the human capital theory is the core issue of the economic. During economic growth, the effect of human capital is greater than it of the material capital. Due to the diversity for the formation of human capital and property ownership right, so it can get the surplus of the enterprise. To improve the development and economy application of human capital is almost the only effective way to meet the salary requirements of human capital. A a long-term institutional arrangement with the remaining claims, the human capital has the right to take part in the distribution of human capital value for the appropriate reward system.

### **2.3 Related theories**

#### Hierarchy of needs theory

Maslow proposed the hierarchy of needs theory as early as the 1950s for the first time. American psychologist, Maslow believes that the human needs can be divided into five levels, namely, Physiological needs, Safety needs, Social needs, Esteem and Self-actualization needs from low to high. Every is equal for these five levels. Although every one has the needs of the five levels, one of the needs becomes the main need for the incentive action in the same time. Only the lower basic needs are met the next higher needs can be the dominant need. When the people achieve the highest level of Self-actualization they will obtain infinite action motivation. Therefore, for Maslow, no one can achieve the Self-actualization fully. Based on this theory, if you want to motivate others, you shall try to understand the needs of which level of him and then try to meet the needs of this level and higher level.

#### Clayton Paul Alderfer's ERG theory

For the shortcomings of empirical research of hierarchy of needs theory, the Yale University professor, Clay Alderfer proposed the ERG theory through the improvement of hierarchy of needs theory of Maslow and believed that the human has three core needs: existence needs, interaction needs and grow-up needs. The existence

needs involve the basic physical existence needs of the public, including Physiological needs, Safety needs of Maslow and the second is the interaction needs that is the needs to maintain the important interaction, which correspond to the Social needs, Esteem of Maslow and is one of the important strongpoint for the social needs. The third need is the grow-up needs, that is the internal personal development needs, including intrinsic components of some of the features of Maslow's Esteem and Self-actualization needs. Alderfer inherits the concept of Maslow containing the rising and hierarchy theory but he also puts forward two important revision: one is to accompany the above Maslow needs law with new frustration mechanism, that is, if there is no setbacks for the grow-up need of the highest level, the need of the next level will reappear and become the dominant relationship between the needs. The interaction also has the same relationship, namely, needs have the similar relation with the lower existence needs between them. Different from the hierarchy of needs theory of Maslow, ERG theory has confirmed the needs of more people. If the needs of higher levels can not be met through the efforts then meeting the needs and desires of lower levels will be more intense and replace the needs of high-level to become the leading factor in the behavior of people. Decades of research have shown that ERG theory is more realistic and is a more effective view of the need.

#### David McClelland's achievement need theory

On the basis of absorption of Maslow's theory, David McClelland put forward the "achievement need theory" which divides the needs related to the work into achievements, affiliation need and power needs and point out the needs theory that the achievements has close relation with working results and performance. Achievements and affiliation equal to the social needs and Self-actualization needs of Maslow and the latter rights represent the needs affecting and controlling others. The research of McClelland shown that the achievements has close relation with working performance and achieved a series of results. He has proposed the method to inspire the employee's needs and also pointed out that the power and rights of friendship have a very close relation in obtaining success of the managers.

### Expectation theory

Vroom's expectation theory believes that, the positive rating of a behavior intention is determined by the consequences may lead by the behavior and at the same is determined by the attraction of the consequences for the actor, that is, the work can achieve good performance assessment through the employee's efforts. He will be motivated and make greater effort and show excellent organizational performance and the performance evaluation will bring incentives such as bonuses, salary increase or promotion. The organization reward will meet the individual goals of the employees. With the conclusion of the contents in salary, the expectation theory thinks that the improvement of the employee's salary through the improvement of the performance will promote their working enthusiasm and enhance their job performance motivation. In a word, once the employees get the corresponding pay compensation to meet certain needs, the incentive role can be given played to.

Adams' "fair theory" holds that a person is satisfied with his reward not just depends on the absolute value but the relative value from the social comparison or historical comparison. That is, the employees will compare the contribution and remuneration with the known person with the similar contribution. If the ratio between the two is equal then it is considered fair and reasonable and satisfied. The fair theory has important significance. The incentive effect we can achieve not only depends on the absolute value of the incentive effect that affects the salary but also relies on reward of relative value heavily. Secondly, the incentive shall be fair to make the incentive calculation method. Although there is error which is hard to remove, it will not cause serious sense of injustice.

### Two-factor theory

The two-factor theory of Herzberg points out that part of the work environment factors and health factors or conditions and other factors can only remove the dissatisfaction of the employees but can not motivate their enthusiasm. But other factors which can inspire the enthusiasm of the employees and meet the requirements of connecting the other part with the working contents together closely are called incentive mechanism. It also points out a theory has important guiding

significance to pay incentive, which mainly shows in pay structure, basic salary and welfare which are basically healthy factors. They are relatively stable, and only rise in principle. Or the employees will feel dissatisfied and their work enthusiasm will be affected. The proportion of the total remuneration of payment performance awards and other areas shall be assessed to improve the working satisfaction of the employees, so as to improve the work efficiency and make the pay incentive play a role actually.