

## **MOTIVATING PURCHASING PROFESSIONALS EXTRINSICALLY: LITERATURE OVERVIEW AND PRELIMINARY RESEARCH FINDINGS**

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**Abstract:** *Companies apply reward systems to extrinsically motivate employees. Yet, in literature performance-based incentives for purchasing professionals have been widely neglected so far. Consequently, little is known about the impact of incentives on the behavior of purchasing professionals. This paper addresses this research gap by (a) presenting a brief literature overview on reward systems, motivation and self-determination theory in the context of purchasing departments and (b) highlighting preliminary results of interviews with purchasing professionals.*

**Key words:** *incentives, purchasing professionals, motivation factors, reward system*

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### **1. INTRODUCTION**

The purchasing process has a great potential for companies to generate profit and thus pursue important business objectives [1]. In practice, reward systems are a trustworthy tool to enhance the motivation of employees and to focus on business objectives. It is considered proven that incentives improve the employees' performance especially in finance, accounting and sales. Although the relevance of reward systems or pay dispersion for organizational performance is known [2], little attention has been paid to reward or compensation systems for purchasing professionals. Indeed, the discussion of reward systems for purchasing departments has been neglected both in theory [3] and practice. According to Pagell et al. [4], this is due to the difficult measurement of the performance of purchasing professionals. Nevertheless, there are hints in recent scientific literature that incentives through rewarding systems could be a possibility to further foster motivation and to increase personal benefits for employers as well as employees [5]. This work-in-progress paper aims at developing a deeper understanding of the motivation of purchasing professionals taking into account considerations from theory and corporate practice in purchasing departments of Austrian technology companies. Section 1 and 2 provide an introduction as well as a short description of the problem situation. Section 3 includes a brief literature overview. Section 4 highlights the applied research method and section 5 presents the preliminary findings. Section 6 concludes this paper by discussing the findings and providing an outlook on the future work.

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## 2. PROBLEM SITUATION

Both the buyer-supplier relationship and purchasing itself are largely determined by purchasing professionals [6]. Previous research has already shown that the success of a company depends on the motivation of these employees and helps organizations to survive and prosper [7]. As noted by Schiele et al. [8], companies can strengthen the position of purchasing within the company through internal marketing when counteracting the consequences of the impending shortage of skilled labor in industrialized countries. A further reaction to the upcoming "war for talent" is the introduction of career promotional offers for "high potentials" such as the support of master's and doctoral programs [9].

Previous research has examined the interpersonal attraction in buyer-supplier relationships and the intrapersonal motivation and compensation systems for salespeople [10] [11] [12] [13]. Only few researchers have addressed the crucial areas of intrapersonal motivation of industrial purchasing professionals and compensation systems for purchasing professionals. Hence, there is still a need for research on the influence these compensation systems have on the purchasing professionals' motivation to establish long term buyer-supplier relationships and to achieve corporate objectives [9]. For instance, compensation systems with variable components should help to achieve business goals and increase the company's success [14]. According to Wolff [15], there is a lack of measurability of success which makes it difficult to

implement e. g. a reward system based on variable compensation of purchasing professionals. The purpose of compensation systems with a variable component is to motivate employees to perform work beyond the limits of the contract, either individually or in groups. If they do so, their salary should be increased. Companies that use performance-based compensation systems expect that the motivation of their employees increases significantly. Further they intend to promote job satisfaction and thus bind qualified and committed employees to the company.



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## 3. LITERATURE OVERVIEW

### *Reward systems and performance-based compensation*

In addition to the contractually guaranteed base salary, an increasing number of companies offer their employees the option to increase their income significantly. The implementation of

such reward systems and performance-based compensation are challenges for companies. On the one hand, it is important to choose the right incentives and to encourage the employees. On the other hand, companies should promote the right activities without putting too much pressure on the employees. The real purpose of compensation systems is to motivate employees to achieve more than has contractually been agreed on. Furthermore, employees should be motivated to pursue the specified company objectives [16]. Performance-based compensation systems motivate employees by providing them either with a material reward (e. g. money) or an intangible reward (e. g. travels or trainings) [14]. In addition to improving the performance of the company's employees and, consequently, the success of the company, reward systems aim at attracting qualified potential future employees [17].

A survey study focused on the production and sales departments which integrated a performance-based compensation system in 318 German companies [15]. The results show that more than 80% of the management and 40% of the employees are paid by performance. The reason for the prevalence of pay by performance in these departments is the good measurability of targets. On the other hand, purchasing departments apply the performance-based compensation system to 60% of the managers and 22% of the employees. In contrast to the German example above, according to Stoppel [18], less than 50% of the companies in Austria and Switzerland use a performance-based compensation system. The reasons for the relatively low acceptance in purchasing departments are the difficult decision regarding appropriate goals and, therefore, the problematic assessment base.



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#### *Motivation itself and the self-determination theory of motivation*

Motives are the reason why a person or an individual in general displays a certain behavior. They are determined by the desire of people who want to meet their own needs. Motives are responsible that people, who have different needs, work target-oriented [14] [19]. Furthermore people try to reach a desirable and satisfying situation. Conversely, this also means that through an individual's actions conclusions can be drawn about their motives. [20]. Motives can be classified according to the cause of need satisfaction. On the one hand there are intrinsic motives. They primarily relate to the fact that human needs are satisfied by the activity carried out by oneself. On the other hand extrinsic motives are triggered by external incentives such as money [19]. The majority of reward systems and incentives refer to extrinsic motives. In order to explain motivation, the so-called self-determination theory of motivation (SDT) was developed by Ryan and Deci [21] [22]. This theory can be interpreted

as a cross-cultural, organismic-dialectical meta or macro theory of motivation. Traditionally, a distinction is made between intrinsic and extrinsic motivation. Intrinsically motivated behavior is behavior for "its own sake" (e. g. the playing child), while extrinsically motivated actions are performed in order to obtain rewards or to avoid punishment. SDT provides a framework in which six partial theories are embedded. Each of these six integrated theories reflect the results of laboratory and field research. These theories are (1) Cognitive Evaluation Theory, (2) Organismic Integration Theory, (3) Causality Orientations Theory, (4) Basic Psychological Needs Theory, (5) Goal Contents Theory and (6) Relationships Motivation Theory [23].

#### 4. RESEARCH DESIGN

The aim of this research is to address the gap in knowledge outlined in sections 1 and 2 by examining the impact of rewards on purchasing professionals in three steps. In a first step, we conducted a literature review on compensation and reward systems as well as on motivation, drawing on the self-determination theory as the theoretical framework. The aim of the literature review was to explore purchasing topics and goals, rewards, compensation systems and motivation. As far as the study of motivation is concerned, the SDT proved to be the appropriate theoretical framework for our research. Second, we conducted interviews with seven purchasing professionals. A qualitative research design was selected to obtain more information about the significance of situations, events and actions in our specific investigation and about unexpected influences. Semi-structured interviews with experts, i. e. seven purchasing managers of Austrian technology companies, were conducted and analyzed by applying the content analysis proposed by Mayring [24]. Thus, the important information of the text could be filtered. The thematic structure of the interview guide was based on the results of the literature review. Personal networks helped to find potential interviewees. The selection criterion was the operative work of the purchasers. First, the purchasing professionals were informed by phone about the content of the interview and dates for the interviews were fixed. The interviews were conducted in the respective purchasing departments and recorded using the dictating function of the mobile phone. A total of seven purchasers were interviewed. In a third step to come, we will conduct quantitative research on the basis of the qualitative interviews in order to investigate the impact of reward systems on purchasing professionals in more detail.



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## **5. PRELIMINARY RESEARCH FINDINGS**

The interviews with purchasing professionals of seven companies showed that whenever reward systems are implemented, the rewards are often based on a combination of group and individual targets. Two companies make the effort to cross-check the departments' goals and adapt the reward system accordingly. However, reward systems are only applied in four of the seven purchasing departments. Those companies that do not apply reward systems in purchasing point out the difficulty they face in terms of measuring purchasing goals or state an overall refusal to use performance-based incentives as part of their corporate culture. In particular, small and medium-sized companies are very concerned about the detrimental effects of incentives on perceived distributive justice, employer-employee relationship and the negative effects of rivalry on employee performance. Cost savings are among frequent leading goals for purchasing professionals. Furthermore, our investigation indicates that an integration of the purchasing professionals during an early stage of the product development process is very motivating. None of the purchasing professionals feels that they get enough praise, yet this does not demotivate them. Moreover, four of the purchasing professionals are in favor of a variable pay system linked to achieved cost savings.

Apart from performance measurement, in general, the opinion on incentive systems is rather negative. For two purchasers incentive systems can lead to a competition within the department. Three purchasers fear that the quality of goods purchased might suffer under an incentive system. One purchaser claims that an incentive system does not make sense at all. One of the interviewed purchasers was a group leader who has introduced a key performance model and thus a performance measurement for the department as a whole. Through the transparency of the performance – without creating a connection to financial incentives – competitive thinking was sparked and the motivation increased without triggering competition at the same time. This is comprehensible even from the perspective of basic psychological needs: a performance measurement functions as a feedback system and thus feeds success directly to the competency-perception. The autonomy-sense and the need for social relatedness are not adversely affected because of the lack of competition. With regard to salary, four purchasers indicated that they are satisfied with their monthly income. For three purchasers, earning more money would not be motivating whereas only one purchaser would be motivated by a higher salary. Four purchasers mentioned several other motivation factors: exciting projects, flexible working hours and improved workflows.

## **6. DISCUSSION AND CONCLUSION**

The literature illustrates a wide range of compensation systems, but only few concern purchasing professionals. This seems to be due to the lack of appropriate measurable objectives in purchasing departments. As companies would benefit from the implementation of compensation systems in their purchasing departments, research that addresses the difficulties concerning the implementation of compensation systems is required. Our study provides a real-world perspective on the 'how-to' of compensation systems in purchasing departments. Considerations and arguments are offered as indications whether and how a reward system in purchasing departments could be used and structured. First, based on the study's results, purchasing managers can set very specific incentives for the purchasing professionals, which assumedly lead to better results for the companies. Second, on a long-term basis, purchasing professionals will also benefit from an effective use of compensation

systems, as these improve their working conditions. As far as our further investigation is concerned, we believe that, based on the study's results, a following quantitative research with purchasing professionals would show the impact of reward systems on purchasing professionals in more detail.

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