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PERSONAL COSTS AND LABOUR ACTIVITY MOTIVATION

Nowadays we can see the domination of a certain approach to the society's economical activities that is typical of two initial statements:

- economical development is aimed in the first place at the greater benefit of the society;
- **consumer** welfare is the priority task in reaching this aim.

This point of view results in short shrift given to non-material factors of welfare and also in such a position regarding a man of labour (i.e. a man participating in production of benefits) principally functioning as a producer of benefits for "others". In other words work flows are mostly regarded first as a means of consumers needs satisfaction through benefits making and secondly, through toilers' acquisition of income. This income can be used to improve his welfare as of a consumer. What we have here now is an attempt to neatly separate objects of costs from objects of benefits that can be clearly seen in the economic theory ("we spend resources to get benefits" or "we work to gain, and we consume to get satisfaction").

It is really hard to imagine that oil or a piece of granite or a hectare of humus would bring us satisfaction by themselves that is why we neatly separate them from the ultimate benefits such as a well-built dwelling or a piece of bread. But things are not the same when it comes to using such a resource as labour. For example, by what should we count the activity level needed to carry out any given activity? On the one hand this is a recourse you cannot imagine the process of benefits making without but from the other hand, decrease in activity level is a benefit by itself. A resource and an ultimate benefit actually appear as one and the same object and its perception in a specific situation depends to a large extent on a man of labour. The same considerations may be applied to such conditions of a successful labour activity as responsibility level, initiative, labour hours, necessity of social intercourse, etc.

This issue of formation of rival and self-conditioning targets in individual's labour activity receives little attention in modern economics and labour motivation models¹.

Thus there appears a necessity to elaborate a new concept of labour activity motivation that could provide the basis for further betterment in management processes of economic agents' labour activity².

The methodological basis of the researches in labour activity motivation lies in creation of an analysis given to a motivational process as a tool harmonizing man's personal interests when limitations jointly act (fig.1). Any approach to this analysis should be regarded from a man of labour's point of view. A connecting-link between labour aims significant for the society and labour results is a man's motivational process.

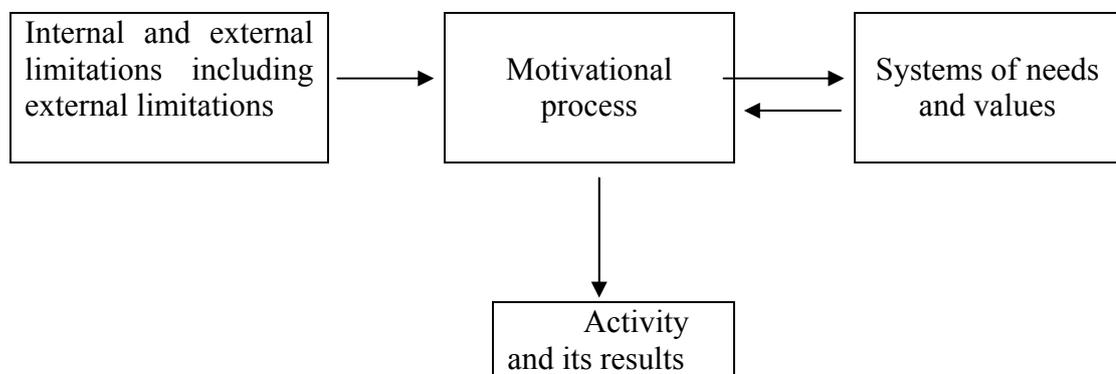


Fig.1. Main factors influencing on the motivational process

Based on this schedule when labour is regarded from a man of labour's point of view the core objective of his activity is **benefit making that raises satisfaction when limitations jointly act**. Limitations in possibilities of benefit making can be absolute and relative. In order to avoid terminological confusion let's call the absolute and relative limitations altogether the **obstacles**. **Stating this conception the author calls by personal costs any obstacles that a man comes across in pursuing his interests, i.e. limiting his attaining of satisfaction.**

The size or quantity of personal costs (Qpci) indicates how far the attainment of a man's interest is limited. The higher this quantity is the less is the achieved level of attainment of the interests behind these costs. Personal costs are of dualistic nature and they

¹ At the same time this idea is not certainly new and it originates from the theory of opportunity cost. Moreover some of its elaboration methodological fundamentals can be found in the contract theory (agency relationships) and some other researches. But in the first case the opportunity cost is mediated by the resource use process i.e. the differentiation "ultimate benefits – intermediate benefits" is kept here. And the contract theory does not place its primary emphasis upon alternativity in interests but upon the issues of information skewness without pointing out a worker's dim attitude to it the altering conditions of the environment and value system.

² The monograph "Personal costs conception and its part in regulation of social and labour relations" gives a comprehensive analysis of this motivation conception.

can be the activity objective and the means of attainment of alternative objectives at one time (fig.2).

Personal costs may be classified as follows:

1. Personal material costs (PMC) presenting an individual's loss in income in all of its forms (moneyed and in kind forms);
2. Costs of discomfort (CDi) presenting an obstacle in pursuing man's non-material interests.

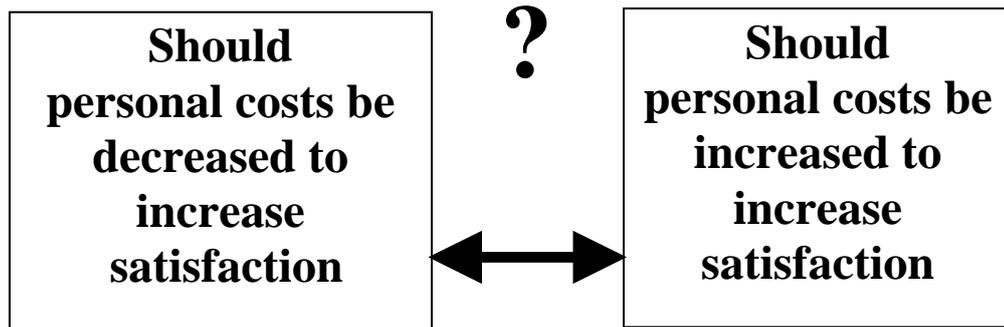


Fig.2 Personal costs dualism

It is worthwhile marking out the following discomfort costs:

- **Costs of result attainment** (initiative costs, performance costs, costs of energies spent on knowledge and skills use).
- **Instability costs** (responsibility costs; costs of risks and uncertainty, costs due to work unsettled state).
- **Social costs** (costs of communication limitations, decline in solidarity and mutual understanding in personnels, social status detraction).
- **Self-appraisal costs** (costs of control, impossibility of self-actualization, limitations in aspiration for leadership, hurting his self-esteem).
- **Leisure costs** (limitations in spare time, lower possibilities for communication with relatives and taking care of them).

Satisfaction that a man gets while attaining his interest (U_{pci}) represents a function of personal costs:

$$U_{pci} = f(Q_{pci}) \quad (1)$$

The conditions for building up this function are as follows:

1. A man's total utility (U) may be expressed as a sum of utilities taken from a man's implementation of each of his interests:

$$U = \sum U_{pci} \quad (2)$$

2. The continuity of a satisfaction function is supposed;
3. At $Q_{pci}=0$, $U_{pci}=\max$;
4. At $Q_{pci}=\max$, $U_{pci}=0$;
5. A satisfaction function is monotone and decreasing;
6. The maximum satisfaction (utility) is negative and it increases its negative meaning as the level of personal costs is increasing;
7. If the opposite is not declared the independence of particular functions $U_{pci}=f(Q_{pci})$ from each other is supposed and it is assumed that no other factors influencing on a man are changing.

Basing on the presented conditions we can graphically show the correspondence of satisfaction level to the quantity of personal costs (fig.3):

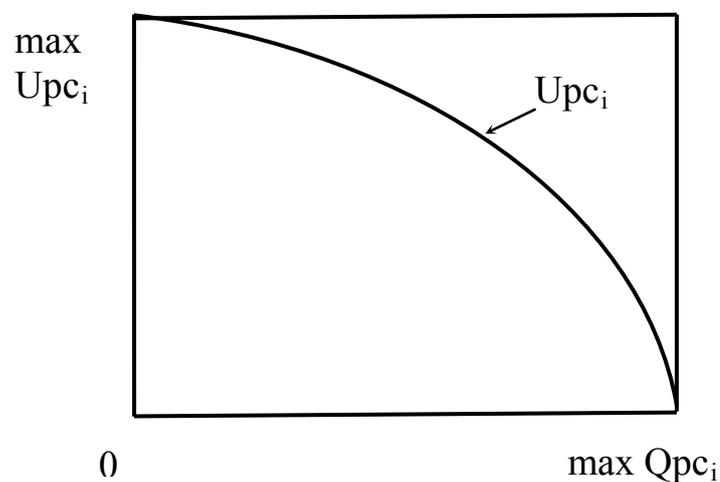


Fig.3. Utility function from the level of personal costs

The most significant personal cost characteristic is the level of their importance to an individual. The importance (concernment) of personal costs (I_{pc}) shall be understood to mean man's priority to his given personal costs. The importance of personal costs presents **increase in satisfaction that a man can get if his personal costs would shrink by one conventional unit.**

$$I_{pc} = \Delta U / \Delta Q_{pc}, \quad (3)$$

I_{pc} is equivalent to the concept of maximum utility but taken with the opposite sign:

$$I_{pc} = - MU_{pc} \quad (4)$$

We can graphically display this correspondence as it is shown in fig.4:

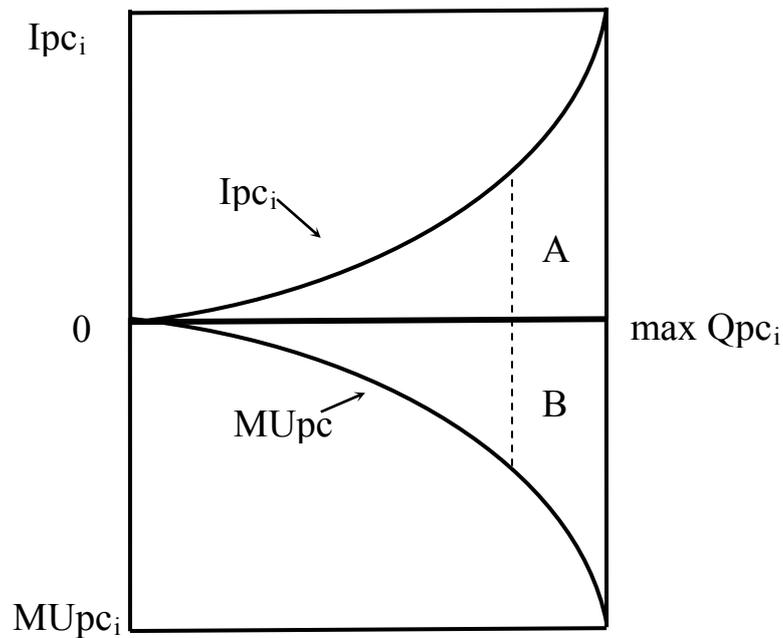


Fig.4. Correlation of personal costs levels and maximum utility

The main groups of factors influencing on the importance of personal costs are as follows:

- a) Personal costs quantity.
- b) Individual value system.
- c) Transition of personal costs from a means to a subgoal
- d) Role functions played by an individual³.

The described model of the changes in the personal costs functions allows us analyzing of a process that a working man is undergoing while choosing his activity objectives. If a limitation system permits a man will strive to make this kind of actions that will lead to a correlative decrease in his significant personal costs at the expense of increase in less significant ones.

If this action presumes decrease in PCb and increase in PCa then it is possible when:

$$\Delta \text{UPC}_b > |\Delta \text{UPC}_a| \quad \text{или} \quad \Delta \text{UPC}_b + \Delta \text{UPC}_a > 0 \quad (5)$$

If we regard this criteria from the point view of the desirable correlation of PCb change to PCa then it will be like this:

³ For more details see in the monograph by O.Chekmarev.

$$|\Delta QPCb / \Delta QPCa| > |IPC_a / IPC_b|, \quad (6)$$

where $|\Delta QPCb / \Delta QPCa|$ defines a replacement rate of PC_b to PC_a (k) in accordance with the external limitations influencing on a man.

If this action goes with the change in a large amount of personal costs (PC) then the criterion for the choice of actions taken by an economic agent can be shown in the form of the following inequality:

$$\sum_{j=1}^e \Delta U_{pcj} > \sum_{i \neq j} |\Delta U_{pci}|, \quad (7)$$

where ΔU_{pcj} is a predictable or actual increase in satisfaction as a result of decrease in PC of J-type;

E is an amount of PC types which level has decreased ($e < n$)

ΔU_{pci} is a predictable or actual decrease in satisfaction as a result of increase in PC of i-type.

When sanctions for economic agent's inactivity are introduced into the analysis we should additionally check the solution (7) to see the correlation of losses in satisfaction in response to an action and when sanctions are applied (8):

$$\sum_{z=1}^x |\Delta U_{pcz}| > \sum_{i \neq j} |\Delta U_{pci}| \quad (8)$$

Where ΔU_{pcz} is a predictable or actual decrease in satisfaction as a result of increase in PC of z-type as a consequence of the sanctions applied in case of inactivity.

There exist several major factors related to a change in activity objectives:

- A change in correlation between several personal costs in course of individual activity;
- A change in internal time limits;
- A blockage of personal costs levels through external limitations;
- Activity routinization;
- A change in a value system;

- Higher labour efficiency due to labour management.

Proceeding from the given reasonings we can distinguish two mechanisms for coordinating interests of ordering and performing parties in labour activity:

- A) A compensatory mechanism based on the idea of creating a balance between expenses as increase in some personal costs and benefits as decrease in some other personal costs. It could be the most efficient mechanism to motivate an employee whose labour efficiency depends on the depicted in fig.5 conditions that enable achievement motivation in an employee (fig.5);
- B) A mechanism for threat of sanctions applied in the frames of a compulsion mechanism aimed at making an employee act in a way desirable for an ordering party. It is applied when a compensatory mechanism is impossible to observe.

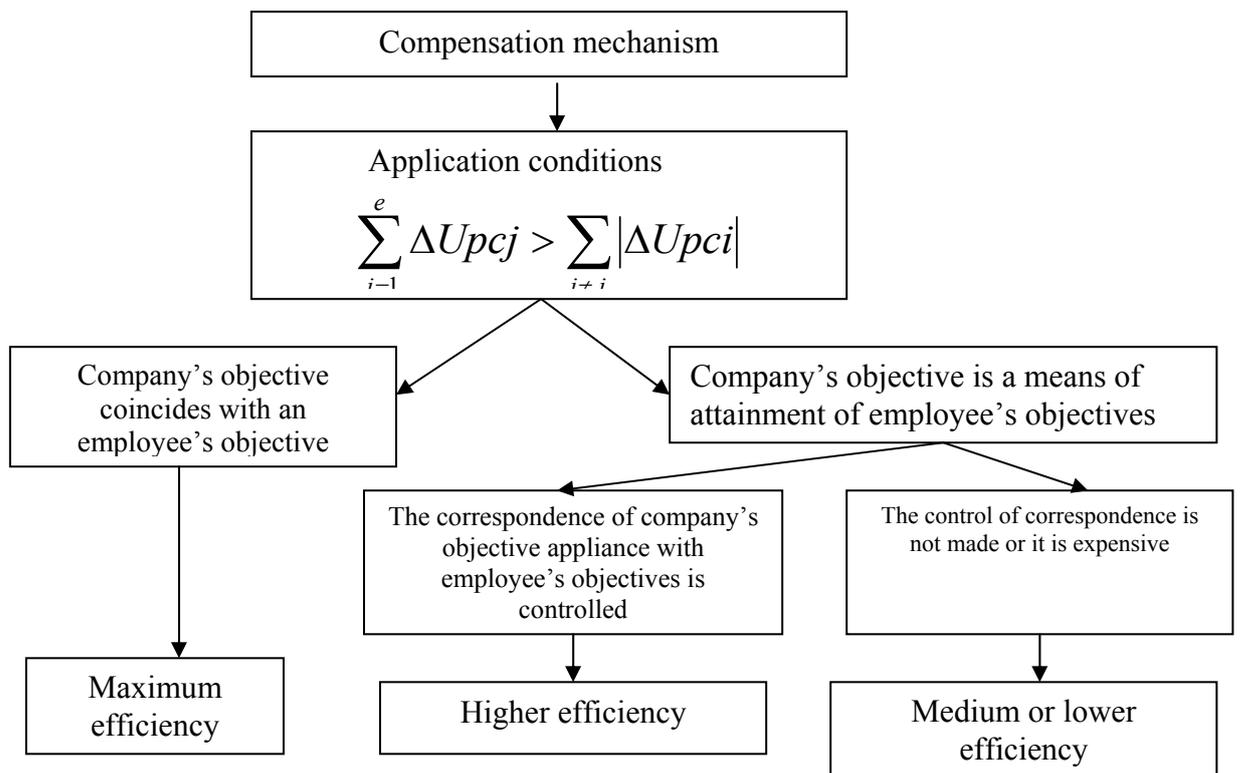


Fig.5. Compensation mechanism efficiency

We may propose the following methodic for elaboration of an individual motivation scheme for company's direct reports:

- Determination of company's and/or branch's objectives and the main functions for an individual working place;

- Analysis to an individual working place and its potential flexibility. An appraisal to permissible variations in personal costs levels;
- Analysis to employee's personal costs to appraise significance of certain labour conditions;
- Appraisal to an employee's experience level;
- Comparison of an individual working place with employee's potential and demands in terms of his experience and personal costs level and revealing potential application of compensation mechanisms.
- Determination of the necessity in an employee's off-the-job training, skills training, etc. and its elaboration.
- Check of a chosen labour conditions structure to see if it corresponds with other employees' labour conditions.
- Monitoring of the results of motivation scheme appliance.
- Revision of a motivation scheme made at least every six months keeping in mind dynamic environment of economical activity and the structure of personal costs importance.

To sum up the main ideas set forth in this article we can conclude as follows:

- This personal costs concept substantially allows to advance this labour motivation analysis based on the synthesis of the fundamental ideas of psychology and economics.
- This concept does not contradict the majority of the existing labour motivation models and at the same time includes the grounds of economic analysis.
- It gives an opportunity to introduce issues of target meeting of endogenous nature with reference to an employee into the motivation models. It allows analyzing the situations when man's attainment of some of his interests presents an end in itself and a means of attaining some other objectives at one and the same time.

Thus personal costs conception can serve as the base for betterment of different methodics in the field of human recourse management.

List of sources:

1. O.Chekmarev. Personal costs conception and its part in regulation of social and labour relations. – Saint-Petersburg: Aterion, 2009.- 265 p.