

The opinions, recommendations, and conclusions of the grantee are her own and do not necessarily reflect the views or policies of IREX or the US Department of State.

Susan J. Linz
Professor of Economics
Michigan State University
STG 2005-2006
Armenia

Factors Influencing Employee Performance in Armenia

Topic of Research and Countries Visited

IREX STG funds were utilized to defray expenses associated with setting up a survey project in Armenia. The survey project, using funds provided by IREX, Michigan State University, and the William Davidson Institute of the University of Michigan, is being conducted in summer/fall 2005 in three countries: Armenia, Russia, and Kazakhstan. An important component of setting up the project in Armenia involves training individuals who will administer the questionnaire; thus, the trip to Yerevan. In addition, understanding obstacles to successful completion of the project and interpretation of survey results required first-hand observation of the business and economic conditions in Yerevan and the surrounding communities, where the project will be conducted.

The primary research focus involves analyzing the factors that influence worker motivation, and determining the relative importance of monetary and non-monetary rewards, in both the short term and long term. A secondary research focus is to ascertain the extent to which women in these three countries face a “glass ceiling” or “sticky floor” with regard to promotion.

Relevance and Contribution to the Field

Understanding what motivates workers in the long- and short-term in these former socialist economies will allow managers, both domestic and foreign, to design effective reward structures to sustain and improve employee performance. Improved employee performance translates into financial conditions which promote investment in productive capacity, which in turn enhances the competitive position of the firm, and ultimately strengthens the economy’s development progress. Understanding what motivates workers will also enable domestic and U.S. funds specifically targeted toward business and economic development in transition economies to be more effectively spent. Finally, such information can be included in management training programs, both within country, as well as in internationally-oriented programs in other countries.

In the existing literature, answers to the question – what motivates employees to work harder or better – typically focus on short term factors that influence job performance: intrinsic and extrinsic rewards that workers associate with their job, which may or may not be part of a routine/annual performance evaluation process. Numerous studies document worker and workplace characteristics associated with high levels of motivation among U.S., European, and Asian employees. Recent studies evaluate the extent to which these same characteristics influence worker motivation and worker morale in Russia. This study is the first of its kind conducted in Armenia.

A related question, incorporating a longer-term perspective, involves whether all workers confront equal opportunities in achieving their career goals. Incentive structures appropriate to stimulating current work effort may be undermined, for example, if promotion or other opportunities for career advance are restricted for particular groups of workers. A number of studies evaluate promotion opportunities by gender and race in the U.S. and U.K. Preliminary fieldwork in Ekaterinburg,

Rostov and Ufa has been completed for a study of perceived and actual promotion opportunities among Russian workers. This study is the first of its kind conducted in Armenia.

The proposed study makes use of a simple conceptual framework: employee performance is a function of actual and expected rewards, and perceived and actual promotion opportunities. Employee performance in the short term is assumed to be governed by work-related reward structures. If employees receive, or have a high expectation of receiving, the rewards they desire most in response to doing their job well, their performance is likely to be significantly higher than if they do not.

This study explores the extent to which employee performance is conditioned by attitudes toward work, by degree of job satisfaction, and by the extent of organizational commitment. In the long term, employee performance is assumed to be governed by the extent to which career goals are met. Perceptions of restricted promotion opportunities, for example, are likely to reduce the overall quality and quantity of work effort

By design, the proposed project is an exercise in behavioral economics – combining both economics and psychology – to investigate factors that influence employee performance. As such, it will contribute to several literatures.

Approach and Research Methodology

The core component of the project involves a survey of workers. After gaining permission from top-level managers to conduct the survey among employees at their organization, a questionnaire will be administered to individuals who agree to participate in the project. Anonymity and confidentiality will be maintained. Participating workplaces will include both private and state-owned organizations. Participating organizations will include manufacturing, retail and wholesale trade, and other service sector organizations (education, health care, transportation, communications, and so forth).

During my visit to Armenia, it was possible to put together, with the assistance of my local project coordinator, a listing of 65 organizations to contact regarding participation in the project. Moreover, it was possible to train two students from Yerevan State University who have agreed to assist with the questionnaire administration. The training ended with a practice session in one organization, where twenty questionnaires were completed. Minor revisions in the questionnaire were completed, based on the feedback associated with this training process.

The short term grant provided funds to set up the survey project in Armenia. Data collection and data entry is scheduled for completion by late October.

The short term grant gave me an opportunity to meet with government officials and business leaders in Yerevan in order to discuss current economic and business conditions. In addition, I was able to obtain printed materials that characterize recent changes in the economic and business environment. It was also possible to participate in a number of activities that broadened my understanding of the historical and cultural factors that may be influencing current economic and business conditions. These opportunities will be invaluable when it comes time to interpreting the results of the survey project.

Summary of Research Findings and Preliminary Conclusions

Preliminary findings related to economic and business conditions in Yerevan / Armenia suggest that business, economic, and political leaders in Armenia are actively and successfully targeting investment funding. Most impressive is the magnitude of construction / renovation in the center of Yerevan. Local leaders attribute the rapid pace of construction / renovation, and the general

improved economic/business conditions, to the simplified tax codes, more effective business legislation (especially registration), and to funding provided by a few large-scale investors. Large-scale manufacturing plants, most working at less than 25% capacity, contribute to double-digit unemployment and continue to impose a drag on the economic/business environment. The possibility of developing tourism as a major revenue generator, while potentially great in terms of the historical, cultural, geographical and climatic conditions, is limited by the landlocked / closed borders condition of the country. Similarly, opportunities to engage in student-faculty-professional exchange programs is restricted by the high cost of travel to-from Armenia.

Suggestions for Future Research

The data collected in the proposed project will also make it possible to examine a number of related questions: How do attitudes affect performance? How do managers maintain or improve worker morale? Does personality affect earnings? If so, are there gender differences in personality that explain part of the gender wage gap?

For comparative purposes, it would be useful to conduct this project in both rural and urban regions, as well as across more locations within a particular country, and across more countries.

Recommendations for the US Policy Community

Business and economic conditions would be greatly facilitated by additional infrastructure investment, especially in the energy sector. Conversations with local leaders suggest that finding ways to finance the upgrading of existing nuclear facilities, as well as to explore alternative energy options, such as wind or solar, would be very beneficial in terms of country-wide development.

Creating “incubators” for the development of small-scale business, especially female-owned, would mobilize a greater fraction of the population, which at the present time is considered to be “economically inactive” because of limited employment options. In fact, the unemployment situation is worse than official figures indicated because of the large number of “discouraged workers” who are not included in the official rate. The strong commitment to higher education is not met by sufficient employment opportunities, and while business legislation is improving, opportunities (including financing) for establishing a new business are still quite limited, especially for women.