Compensation strategies, employee well-being and work intensification

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Research objectives

- Compensation strategies are workplace arrangements in which some or all of employees’ remuneration depend on some measure of performance
  - Increase employees’ motivation to perform well and more productively
  - Increase employees’ job satisfaction, commitment and well-being
  - *BUT*…there are indications that they may intensify work and detract from any positive effects on employee well-being

- This study examines how the application of three compensation strategies (performance-related pay, profit-related pay and employee share-ownership) correlates with employee well-being

- The study shows that particular compensation strategies may also intensify work, and through this, undermine employee well-being
Compensation strategies may be *individual-based incentives* – determined by individual employees’ performance and contribution to organizational performance, or *organization-wide incentives* – determined by organizational profit.

- *Performance-related pay* is an individual-based incentive offered based on assessment of individual employees’ work effort in relation to their contribution to organizational goals.

- *Profit-related pay* is an organization-wide incentive concerned with earnings accruable from a measure of organizational profitability.

- *Employee share-ownership* is an organization-wide incentive through which employers offer shares at reduced rates to employees.

  Profit-related pay and employee share-ownership are often grouped under the generic heading of ‘financial participation schemes’, but they differ in terms of rules for eligibility and distribution of profit.
Contingent pay and employee well-being

Expectations about a positive relationship between compensation strategies and employee well-being depend on the mutual gains perspective in HRM:

- Workplace practices promote organizational performance through their positive impact on employee well-being.
- Employee well-being are determinants of the quality of employees’ functioning at work – including measures of employees’ job satisfaction, contentment, commitment, trust in management, etc.
- Compensation strategies improve employee well-being because they convey positive signals about the extent to which employees’ job performance is appreciated by management.
- Compensation strategies are a type of ‘gift’ exchange that oblige employees to reciprocate through greater commitment and loyalty to the organization.
- They enhance employees’ confidence that management will recognize and deliver on its financial obligations towards the workforce.
In line with the mutual gains perspective, scholars have reported a positive relationship between performance-related pay and a range of employee well-being measures (Cox et al., 2011; Macky and Boxall, 2008; Heywood and Wei, 2006).

- Heywood and Wei (2006), for example, noted that the use of performance-related pay enhances employees’ job satisfaction.
- Performance-related pay optimizes employees’ work efficiency in ways that earnings from periodic salaries or hourly wages do not.

Because performance-related pay is offered to boost employees’ motivation and reward them for good job performance, it may induce employees to feel that their work effort is being appreciated, thereby improving their job satisfaction and well-being.
Studies have also reported positive links between profit-related pay and employee well-being (Kruse, 1996; Bauer, 2004; Heywood and Wei, 2006)

- Bauer (2004) in his study of European Union member states showed positive links between an incentive-index measure (comprising profit-sharing schemes and income received from workplace bonuses) and job satisfaction.

- Profit-related pay schemes are well-received by employees because they increase employees’ financial stake in the organization, strengthen employees’ sense of organizational identification and align employees’ interests more closely with organizational goals.

- This in turn may reinforce employees’ job satisfaction, due to an increased sense of job security and enhance employees’ long-term commitment to the organization.
Employee share-ownership may have similar effects on employee well-being as profit-sharing (Kruse, 1996; Caramelli and Briole, 2007; Kruse, Blasi and Freeman, 2012)

- It fosters employees’ financial stake in the organization and aligns employees’ interests more closely with organizational values
- According to Klein (1987), employee share-ownership promotes job satisfaction by three pathways
  - Intrinsic satisfaction model – increasing employees’ sense of organizational identification
  - Instrumental satisfaction model – increasing employees’ influence in workplace decisions
  - Extrinsic satisfaction model – being financially rewarding for employees
- Employees who partake in share-ownership plans may experience improved well-being due to greater identification with the organization and comparably higher wages than their counterparts
Unlike individual-based incentives, organization-wide incentives may be influenced by ‘coverage’ and ‘eligibility’ for participation:

- ‘Coverage’ means the extent to which incentives are accessible and spread across organizational levels.
- ‘Eligibility’ concerns the extent to which individual employees are allowed to benefit from membership in organization-wide incentive plans.

Profit-related pay and employee share-ownership positively influence employee well-being if they are accessible by many employees, regardless of employment status.

- The reverse may apply if such plans are accessible only to a few employees. Thus, we expect U-shaped curvilinear relationships for profit-related pay and employee share-ownership with employee well-being.
Hypothesis 1, 2 and 3

- **Hypothesis 1**: Performance-related pay is positively related to employees’ job satisfaction, commitment and trust in management, respectively.

- **Hypothesis 2**: Profit-related pay has U-shaped curvilinear relationships with employees’ job satisfaction, commitment and trust in management, respectively.

- **Hypothesis 3**: Employee share-ownership has U-shaped curvilinear relationships with employees’ job satisfaction, commitment and trust in management, respectively.
The critical perspective associates compensation strategies with increased work intensification, or the feeling that work is more intense.

- Work intensification is a measure of the amount of work effort expended in relation to one’s experience of high work demands and pressure.

The critical perspective follows a tradition of research in the labour process critique.

- Management practices, such as pay compensations, aimed at maximizing labour input may elicit greater work effort from employees at the expense of employee well-being.

- Based on this perspective, compensation strategies are perceived as exploitative, or a management tool designed to control employees in order to drive organizational performance.
Performance-related pay may increase work intensification by conveying signals about management’s intentions to reward extra work effort with more pay.

- Employees receive these signals as an obligation to work harder in exchange for more pay.

Profit-related pay and employee share-ownership, as organization-wide incentives, may increase work intensification due to greater work responsibilities associated with increased worker engagement.

- For example, employees in organizational-wide incentive schemes are likely to be actively involved in workplace decision-making, usually without adjustments to their other routine job tasks.

Organization-wide incentives may also increase perceptions of work intensification due to exogenous factors such as economic uncertainties and a large number of people with financial stakes in the organization.

- These factors may drive employees into competitive behaviours and thus increase the experience of work intensification.
If pay compensations increase work intensification, then work intensification arising from such pay might offset any positive effects on employee well-being.

The counteracting effects theory

- Workplace practices that encourage greater employee productivity do not only improve organizational performance, but also experiences of work-related stress and pressure.

- Perceptions of work-related stress and pressure may in turn offset any positive impact on employee attitudes and well-being.

- Because compensation strategies are adopted primarily to promote employees’ productivity and work efficiency, the counteracting effects model may apply.

- Thus, the processes associated with compensation strategies can increase work intensification, and the latter may cancel out their positive impact on employee well-being.
Hypothesis 4: (a) Performance-related pay, (b) profit-related pay, and (c) employee share-ownership are positively related to employees’ experience of work intensification.

Hypothesis 5: Work intensification mediates a negative relationship between (a) performance-related pay, (b) profit-related pay, and (c) employee share-ownership and job satisfaction, employee commitment and trust in management, respectively.
The study was undertaken using data from the management and employee surveys of the 2011 Workplace Employment Relations Study (2011 WERS).

- **Management data** were gathered through an interview with the most senior manager with responsibility for employment relations, human resources or personnel management.
  - A total of 2,680 face-to-face structured interviews with managers were undertaken.

- **Employee data** were collected through a self-completion questionnaire distributed to all employees in workplaces with fewer than 25 employees, and to a random sample of 25 employees in larger workplaces.
  - A total of 21,981 employees completed the survey.

- Public sector workplaces (e.g., government-owned limited company) were excluded from the study as they are more constrained in terms of their use of compensation strategies.

- Final sample size – 13,657 employees nested within 1,293 workplaces.
Measures

- **Employee well-being**
  - *Job satisfaction* was derived by four items – e.g., ‘how satisfied are you with the work itself’. The five-point response scale for these items ranged from ‘very dissatisfied’ to ‘very satisfied’.
  - *Organizational Commitment* was derived by three items – e.g., ‘I share many of the values of my organization’. The five-point response scale for these items ranged from ‘strongly disagree’ to ‘strongly agree’.
  - *Employee trust in management* was derived by three items – e.g., ‘managers here deal with employees honestly’, measured on a five-point Likert scale from ‘strongly disagree’ to ‘strongly agree’.
  - *Work intensification* was derived by two items – e.g., ‘My job requires that I work very hard’, measured on a five-point Likert scale items ranging from ‘strongly disagree’ to ‘strongly agree’.

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- **Work intensification** was derived by two items – e.g., ‘My job requires that I work very hard’, measured on a five-point Likert scale items ranging from ‘strongly disagree’ to ‘strongly agree’.
Measures

- **Compensation strategies**
  - *Performance-related pay* was measured by two items – ‘do any of the employees in the workplace get paid by merit and results’ and ‘proportion of employees paid by merit and results’.
  - *Profit-related pay* was measured by two items – ‘do any employees receive profit-related pay or bonuses’ and ‘proportion of employees who had received such payments in the past 12 months’.
  - *Employee share-ownership* was measured by two items – ‘type of employee share-ownership schemes operated in the workplace’ and ‘proportion of employees eligible for such schemes’.

- **Control variables** – workplace size, employees’ tenure at the workplace, contract type, gender and age.
Hypothesized relationships were examined by two sets of structural equation models with latent variables.

- The first model corresponds to Hypotheses 1 to 4 (see Figure 1).
- Work intensification and the three employee well-being variables were regressed on the three compensation strategies, the quadratic terms of profit-related pay and employee share-ownership, and the control variables.
- The second model corresponds to Hypothesis 5 (see Figure 2).
- It is as the first model but also includes work intensification regressed on the three employee well-being variables.
Figure 1: Contingent pay $\rightarrow$ employee attitudes (Model 1)

- **Contingent pay**
  - Performance-related pay
  - Profit-related pay
  - Employee share-ownership (ESOP)

- **Quadratic terms**
  - Profit-related pay $\times$ Profit-related pay
  - ESOP $\times$ ESOP

- **Employee attitudes**
  - Job satisfaction
  - Organizational commitment
  - Employees’ trust in management

- **Control variables**
  - Workplace size
  - Tenure
  - Contract type
  - Gender
  - Age

- **Work intensification**
Figure 2: Contingent pay $\rightarrow$ work intensification $\rightarrow$ employee attitudes (Model 2)
## Results

### Table 1 – Results of Model 1

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<thead>
<tr>
<th>Variables</th>
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*All regression coefficients and residuals are standardized scores*

*Significance levels: *** = p < .001, ** = p < .01, * = p < .05*

*Model fit: Chi-square (X²) = 1712.428; df = 185; p-value < 0.001; RMSEA = 0.026; CFI = 0.956; TLI = 0.943.*
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**Contingent pay on employee well-being and work intensification**

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Results

Figure 3: U-shaped curvilinear relationship between profit-related pay and job satisfaction

Figure 4: U-shaped curvilinear relationship between profit-related pay and organizational commitment

Figure 5: U-shaped curvilinear relationship between profit-related pay and employees’ trust in management
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Table 2 – Results of Model 2

95% Confidence intervals for mediated effects via work intensification

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95% Confidence Interval (CI) derived from Distribution of product method (DOPM) and Monte Carlo Method (MCM)
## Results

### Table 2 – Results of Model 2

95% Confidence intervals for mediated effects via work intensification

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<tr>
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95% Confidence Interval (CI) derived from Distribution of product method (DOPM) and Monte Carlo Method (MCM)
Practical Implications

- Performance-related pay is directly and positively related with all employee well-being measures
  - Performance-related pay enhances employees’ motivation to perform their job well and the extra pay induces them to feel that their work effort is appreciated – this can improve their well-being

- Profit-related pay is negatively related with employee well-being, but a U-shaped curvilinear relationship was found.
  - Profit-related pay initially had downward sloping relationships with well-being, but subsequent increases indicated upward sloping effects.
  - Thus, at higher levels of employees’ uptake or participation, profit-related pay had a positive rather than a negative impact on employee attitudes.

- Employee share-ownership is negatively associated with job satisfaction. No curvilinear relationship was found.
  - This could be due to ‘free rider problem’
  - Limited opportunities for group-based incentives to generate earnings employees (e.g., if organizational shares are down)
Performance-related pay is also associated with the feeling that work is too demanding or that one has insufficient time to get work done.

- Performance-related pay may be perceived as a burden of responsibility that provides extra pay for workers, but the ultimate benefits (e.g., higher labour productivity) are skewed towards the employer.

A related concern for performance-related pay is that the feeling of work intensification associated with it may detract from its positive impact on employee well-being.

- For example, if the signals conveyed to employees indicate higher performance for more pay,
- performance-related pay might undermine employees’ positive workplace attitudes where employees perceive that the mechanisms for evaluating their performance (e.g., performance appraisals) are overly subjective or implemented unjustly,
- Performance-related pay might miss providing salient rewards to deserving employees despite subjecting them to high work demands and pressure, thereby leading to poor well-being.
Thank you…