Incentive pay schemes can affect employee well-being

January 12 2017

Incentive-related pay schemes can stress rather than motivate employees, according to new research by the University of East Anglia (UEA).

The study explored the relationship between three types of 'contingent pay' - performance-related, profit-related, and employee share-ownership - and positive employee attitudes such as job satisfaction, employee commitment and trust in management.

Researchers found that only performance-related pay had a positive impact on all three employee attitudes. Surprisingly, and in contrast to previous studies, profit-related pay and employee share-ownership had a mix of negative and no significant effects on attitudes.

However the results, published in *Human Resource Management Journal*, confirm that performance-related pay is also associated with more intense working. This could mean employees are encouraged to work too hard and too much, leading to work-related stress or poor well-being, and offsetting some of its positive impact on staff.

Contingent pay, also called incentive and variable pay, are arrangements where some or all of employees' earnings are dependent on some measure of performance. It may be determined by individual employees' performance in relation to their level of contribution to organisational performance (individual-based incentive), or profit gained by the organisation in which the employee works (organisation-wide incentive).

Such pay has become increasingly important for motivating employees to perform productively at work and is seen as a way to encourage positive employee attitudes. It represents one of the key elements of HR management systems aimed at achieving sustainable, competitive success for an organisation.

Despite research to suggest a positive relationship between contingent pay and employee attitudes, it has been also claimed that different pay arrangements may in fact intensify work. Until now though there has been little first-hand evidence on whether this is the case and how this might impact on employees' views. This new study, by UEA's Norwich Business School, involved 1,293 managers and 13,657 employees at 1,293 workplaces in the UK.

Lead researcher Dr Chidiebere Ogbonnaya said: "Our study is the first to show empirical support for claims that the productivity gains of these pay schemes might be associated with employees' experience of more intense working. Performance-related pay in particular is associated with the feeling that work might be too demanding or that there is insufficient time to get work done.

"By tying employees' performance to financial incentives, employers send signals to employees about their intention to reward extra work effort with more pay. Employees in turn receive these signals and feel obliged to work harder in exchange for more pay.

"Even though employees may value these earnings as a 'good thing', the ultimate beneficiary of their extra effort is the organisation. As a consequence, performance-related pay may be considered exploitative, or a management strategy that increases both earnings and work intensification."

Dr Ogbonnaya added: "The key thing for managers is to ensure some balance between employee job demands and measurement of rewards offered. Therefore, the nature of the relationships between performance-related pay and employee attitudes may depend on whether there is a perceived imbalance between intensive work effort and the availability of appropriate rewards."

In the UEA study, profit-related pay only had positive relationships with job satisfaction, employee commitment and trust in management if profit-related pay was distributed widely across the organisation. Profit-related pay was associated with lower job satisfaction, lower employee commitment and lower trust in management in those organisations that distributed profit-related pay only to a small proportion of the workforce. Another surprising finding was that employee share-ownership had a negative relationship with job satisfaction, and no significant relationships with employee commitment and trust in management, respectively.

Commenting on profit-related pay co-author Kevin Daniels, professor of organisational behaviour at Norwich Business School, said there was a need to encourage fairness and adequate employee uptake of profit-sharing arrangements.

"Employers should ensure that mechanisms for distributing organisational profits are administered efficiently so that deserving employees are not missed out, said Prof Daniels. "If profit-related pay is spread across the workplace, employees may show greater acceptance and respond with positive attitudes."

The study used data from the management and employee surveys of the 2011 Workplace Employment Relations Study, which is representative of around 35 per cent of all British workplaces including those in the private and public sectors, most industries, and firms consisting of at least five employees.

Organisational-level data was also gathered through interviews with senior managers responsible for employment relations, human resources or personnel management. Employee-level data was collected through a questionnaire distributed to all employees in workplaces with fewer than 25 employees, and to a random sample of 25 employees in larger workplaces with more than 25 employees.

The publication of the study comes on the day UEA hosts a conference as part of its Work, Learning and Wellbeing research programme, which is led by Prof Daniels. The programme focuses on protecting and enhancing the wellbeing of workers, adult learners and those seeking work. The conference brings together leading academics, policy makers and senior practitioners to find out about the latest research and discuss new areas of work.

'Does contingent pay encourage positive employee attitudes and intensify work?', Chidiebere Ogbonnaya, Kevin Daniels and Karina Nielsen, is published in *Human Resource Management Journal*.

More information: *Human Resource Management Journal*, DOI: 10.1111/1748-8583.12130

Provided by University of East Anglia