PAY AS A MOTIVATOR: AN OVERVIEW

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The primary function of management is the achievement of organizational objectives. The modern philosophy of management is to achieve this goal through employees' voluntary cooperation. To obtain such cooperation management must create conditions under which employees can achieve their own personal goals best by working toward the achievement of organizational objectives.[1] Hence, incentives, job satisfaction, motivation, and employee-management relations have become primary concerns of management.

Employee motivation is a broad and complicated field in itself. Therefore, most studies have been concentrated in finding certain relationships between motivation and some contributing factors such as age, sex, level in the organizational hierarchy, education, needs fulfillment, intrinsic factors, hygiene factors, etc. Although pay has been the most important motivator in this society from the beginning of industrial development, surprisingly enough, there has been very little study in the area of psychological aspects of pay.[2] Amazingly little is known about how money affects job behavior and/or how

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(1) Douglas McGregor, *Leadership and Motivation: Essays of Douglas McGreogor* (Cambridge, Mass.: Massachusetts Institute of Technology Press, 1966), pp. 38-39.

(2) See Mason Haire, Edwin E. Ghiselli, and Lyman Porter, "Psychological Research on Pay: An Overview," *Industrial Relations*, III, 1. 1963, p.3.

it interacts with other job factors. Although a number of studies have been made recently in this area, especially in employee's reactions, attitudes, and behavior toward the pay they receive, the questions are many and the answers few. In fact, much of the literature in this area is mere speculation, and research studies designed to answer fundamental questions about the role of money in human motivation are all too rare.

The major research problem in industrial compensation is to understand, with more precision, how money can be used to induce employees to perform at high levels. This problem raises many intrinsic questions to be considered. For example, when is pay an incentive? How is the employee's satis faction with pay affected by wage and salary administration policies of the organization? What determines the employee's perception of equitable pay?

Relevant researches in this area center around two major groupings: studies related to the effects of certain policies and practices of the compensation package for any given job, and studies related to the effects of the employee's perceived pay equity to job behavior. The purpose of this paper is to identify and summarize important studies in the area of psychological aspects of pay in an attempt to pin-point the role of pay in job motivation.

Studies in Psychological Aspects of Pay

Since the emergence of Herzberg's "dual-factor theory," many behavioral scientists have concluded that money has lost its power to motivate. In fact, even Maslow's "hierarchy of human needs" theory has led some industrial psychologists to conclude that money can no longer motivate american workers since they are striving to satisfy needs far above the basic needs.(3) According to Herzberg's theory, salary has more potency as a job dissatisfier than as a satisfier. Herzberg writes that improvements in pay may decrease job dissatisfaction but do not actually generate job satisfaction. Thus, the main value of money, according to Herzberg, is that it simply leads to the avoidance of economic deprivation and feelings of being treated unfairly.(4)

(3) David W. Belcher, "Ominous Trends in Wage and Salary Administration," *Personnel* (September-October, 1964), pp. 42-43.

(4) Frederick Herzberg, *Work and the Nature of Man* (Cleveland: World Publishing Company, 1966), pp. 75-76.

There have since been a great number of studies which prove and disprove this theory.

The influence of Herzberg's theory is definitely evident in industry today, yet few would disagree that money has been and continues to be the primary means of rewarding and modifying human behavior in industry. In fact, to regard Herzberg's theory as disproving pay as a motivator is not only contradictory to findings of a number of studies but also a misinterpretation of the theory itself. Salary is a dissatisfier in the theory, but it may also represent achievement and recognition which are satisfiers. The findings of many studies have shown that pay is a motivator which can satisfy both low order needs as well as high order human needs such as esteem and recognition.(5) For example, results of a study showed that managers put more importance on pay than on needs such as esteem, social, and self-actualization, thus demonstrating the power of money to satisfy managers who have supposedly satisfied their basic lower order needs. A further investigation revealed that although top management attached slightly less importance to the pay they received than did lower level managers, the difference was slight and both groups rated pay as very important.(6) In other words, even though the degree of importance of pay may vary among different people with various reasons depending upon their needs, it is evident that pay is a significant motivator of behavior.(7)

Variables Affecting the Role of Pay

An important area in psychological study of pay has been the identification of variables which affect the effectiveness of pay as a motivator. According to a study by Opsahl and Dunnette, job behavior is affected by compensation policies of the organization-pay schedule, the degree of secrecy involved in pay treatments, the determination methods used for pay levels, and the individual's pay history, etc.(8) Also, there have been numerous works

(5) E.E. Lawler and L.W. Porter, "Perceptions Regarding Management Compensation," *Industrial Relations*, III, 1963, pp. 41–49.

(6) *Ibid.*

(7) L.W. Porter and E.E. Lawler, *Managerial Attitudes and Performance* (Homewood, Ill.: Richard D. Irwin, Inc., 1968), p. 60.

(8) Robert L. Opsahl and Marvin D. Dunnette, "The Role of Financial Compensation in Industrial Motivation," *Psychological Bulletin*, LXVI, No. 2. 1966, pp. 94–118.

which explored the relationship of education, sex, group pressures, nature of the task, etc. with the role of pay in job motivation.

In reference to pay schedules, it was found that incentive systems usually result in higher productivity and wages than straight payment systems. However, incentive pay systems often cause certain negative consequences. For example, group pressures defeat the purpose of the system by inducing workers to conform to the group standards and thus results in performance that is below the potential of the employee.[9] The results of studies in this area have proven that an incentive plan should be instituted after a thorough investigation of possible consequences.

Studies have shown that secrecy surrounding the pay treatment has some motivational implications. A recent study by Lawler indicated that secret pay policies usually result in employee dissatisfaction with pay as well as lower job performance. Lawler concluded that until pay is determined more rationally and pay is generally accepted as a way of rewarding superior performance, public disclosure of pay treatments may not produce desirable results.[10] Based upon the findings of his study, Lawler pointed out the need for an explicit specification of the relationship between certain desired job behavior and attainment of the pay incentive. Nevertheless, according to Haire's study of employee pay curves,[11] industry has ignored the foregoing stipulation. In the companies where he conducted his study, Haire found no consistent policies in regard to the incentive use of pay increases. From the extremely low correlation observed between present pay levels and pay increments, he concluded that pay increases might just as well be distributed by chance rather than determined by discretionary decisions.

In an effort to improve the effectiveness of pay as a motivator, many studies have been made in the area of employees' benefit preferences. Nealey's study indicated that there are large differences in perceived value of a particular benefit from group to group, depending upon age, sex, marital

(9) See A. A. Rath, "The Case For Individual Incentives," *Personnel Journal*, XXXIX. 1960, pp. 172-175; J. Dale, "Increase Productivity 50% in One Year with Wage Incentives," *Management Methods*, XVI. 1959, pp. 38-42.

(10) E.E. Lawler, "Managerial Perceptions of Compensation," Paper read at Midwestern Psychological Association Convention, Chicago, April, 1965.

(11) M. Haire, "The Incentive Character of Pay," in R. Andrews' *Managerial Compensation* (Ann Arbor: Foundation for Research on Human Behavior, 1965), pp. 13-17.

status, number of children, type of job held, and yearly income, etc.[12] However, the Mahoney study, which was confined to managers, did not agree with Nealey's findings. Managers seemed to prefer straight payment over various types of incentive plans.[13]

Klein and Maher explored the relationship between education and satisfaction with pay.[14] Their findings indicated that higher education is usually associated with relative dissatisfaction with pay. The major predictor of satisfaction with pay, according to Klein and Maher, is believed to be an individual's expectations of what pay he feels he can get internally or externally. The expectation of external pay opportunities is a negative predictor to satisfaction with pay. The college educated employees tend to be more optimistic about their external pay opportunities than non-college educated employees, and consequently they demonstrate relatively lower satisfaction with pay.

Perceived Pay Equity

As a motivator, pay becomes a psychological problem. In order for pay to become a motivator it should be accepted as fair by employees. Therefore, it has long been recognized that the primary objective of wage and salary administration is the determination of equitable payment. Despite the fact that perceived pay equity serves as the fundamental foundation of any compensation program, there have been only a few studies made in the area of perceived pay equity and its relationship to motivation. Most of these studies are limited primarily to the theoretical definition and determination of perceived pay equity and / or the effects of pay inequity on productivity.

The basic theory of perceived pay equity should be credited to Festinger and Homans, although there are many other scholars who made significant contributions such as Jaques, Patchen, and Belcher. Festinger's theory of cognitive dissonance is based upon a broad and philosophic social and psychological behavior of man that "the individual strives toward consistency

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(12) S.M. Nealey, "Pay and Benefit Preference," *Industrial Relations*, III, No.1 1963, pp. 17–28.

(13) T.A. Mahoney, "Compensation Preferences of Managers," *Industrial Relations*, III, 1. 1964, pp. 135–144.

(14) S.M. Klein and J.R. Maher, "Education Level and Satisfaction with Pay," *Personnel Psychology*, XIX, 2. 1966, pp. 195–208.

within himself.[15] In other words, according to Festinger, people try to achieve and maintain equity among cognitions. Cognition is defined as knowledge one has about himself, his behavior, and his surroundings. Inequity or cognitive dissonance exists when a person's cognitive elements are in obverse relation. Festinger funther hypothesizes that always there exists some form and degree of cognitive dissonance. This is the result of the fact, according to Festinger, that there is always at least one cognitive element dissonant with the person's behavioral elements. The magnitude of dissonance is based upon the importance a person puts on elements that are dissonant. This magnitude of dissonance determines the degree of pressure to reduce inequity and establish consonance.[16] Festinger established the conceptual framework of equity and inequity. However, his theory did not attempt to define cognitive elements, especially in regard to the perceived equity of pay.

Homans' concept of equity is based upon Aristotle's theory of distributive justice which is concerned with the allocation of rewards and penalties according to merit. According to Homans, distributive justice can be achieved when an individual's "investments" are in line with "profits" of the job.[17] Investments include such factors as age, seniority, skill, responsibility, etc. Profits are rewards minus costs. Rewards may include pay, job interest, status, autonomy, etc., while cost represents the negative aspects of the job such as boredom, danger, discomfort, etc. Then, according to Homans, equity is achieved when the ratio of profits to investment of employee A is proportional to the ratio of profits to investment of employee B.

Adams deals with inequity rather than equity since this is easier to measure. His theory of inequity, which is based upon Festinger's theory of cognitive dissonance as well as the exchange theory of Homans and Blau,[18] is that there exists inequity when "inputs" are not in the expected balance with "outcomes." Inputs represent what Homans called investments and his outcomes refer to what Homans labeled rewards such as pay, job status, etc. Adams states that:

(15) Leon Festinger, *A Theory of Cognitive Dissonance* (Stanford, Calif.: University Press, 1957), p.1.
(16) *Ibid.*, p. 16.
(17) George C. Homans, *Social Behavior: Its Elementary Form* (New York: Harcourt, Brace & World, Inc., 1961), Chapter 12.
(18) P.M. Blau, *Exchange and Power in Social Life* (New York: John Wiley & Sons, Inc., 1964).

> Inequity exists for Person whenver he perceives that the ratio of his outcomes to inputs and the ratio of Other's outcomes to Other's inputs are unequal, either (a) when he and Other are in a direct exchange or (b) when both are in an exchange relationship with a third party and Person compares himself to Other.(19)

According to Adams, inequity exists for Person not only when he is relatively underpaid, but also when he is relatively overpaid. Person will, for example, feel that inequity exists not only when his efforts are high and his pay low while Other's efforts and pay are high, but also when his efforts are low and his pay high while Other's effort and pay are low. Adams' studies in equity and inequity are of significant value to the extent that he departed from the pure theory of equity and explored the effects of perceived pay equity to job behavior.

In order for equity to be a useful criterion, changes in perceved equity should bring changes in eimproyee's attitudes and behavior, either favorably or unfavorably. Based upon philosophic inference, Aristotle, Homans, Mc Gregor and many other scholars have concluded that when there exists inequity some form of defensive behavior results. Festinger hypothesized that people tend to "avoid situations which are likely to increase dissonance when they feel there exists a dissonant situation and take some form of positive action to reduce dissonance and achieve consonance."(20) Based upon this hypothesis, Adams conducted a series of experimental studies focusing on the effects of inequity due to overpayment or underpayment on the quality and quantity of work. The findings of his studies, as well as studies by others using the same approach,(21) have consistently supported equity theory. When people feel they are overpaid they tend to try to improve their work

(19) J.S. Adams, "Toward an Understanding of Inequity," *Journal of Abnormal and Social Psychology*, LXVII. 1963, pp. 422–436.

(20) Festinger, *Cognitive Dissonance*.

(21) See J. Stacy Adams and William B. Rosenbaum, "The Relationship of Worker Productivity to Cognitive Dissonance About Wage Inequities", *Journal of Applied Psychology*, IVL. 1963, pp. 161–164; Adams, "Wage Inequities, Productivity and Work Quality", *Industrial Relations*, III 1963, pp. 9–16; Adams and P.R. Jacobsen, "Effects of Wage Inquities on Work Quality", *Journal of Abnormal and Social Psychology*, LXIX. 1964, pp. 19–25; I.R. Andrews, "Wage Inequity and Job Performance: An Experimental Study", *Journal of Applied Psychology*, LI. 1967, pp. 39–45; E.E. Lawler and P.W. O'Gara, "Effects of Inequity Produced by Underpayment on Work Output, Work Quality and Attitudes Toward the Work", *Journal of Applied Psychology*, LI. 1967, pp. 403–410.

quality and/or quantity so that an equitable balance can be achieved between their inputs and outcomes. On the other hand, when they feel they are underpaid, people try to increase their outcomes while decreasing their inputs.

Most of the experimental studies cited above used college students as subjects over a very short time period and focused on the effects of perceived pay inequity to productivity and work quality. Lawler and O'Gara, however, also studied the differences in attitudes between equitably paid and underpaid groups. Although the only items studied were limited to "boring-interesting" reactions and attitudes toward job inputs, the findings indicate that the underpaid group tends to reduce cognitive dissonance by seeing the job as interesting, relatively unimportant, and unchallenging. The findings of the study are somewhat contradictory. For example, it seems highly unlikely that an individual perceives a job as being interesting when he thinks that the work is unimportant, doesn't require high qualifications, and is unchallenging.

Although experimental studies discussed above are of significant importance, their findings have very limited implications to the practical everyday work situation. Perceived pay equity of an employee in an actual work environment is the result of his accumulated knowledge and feeling about his pay-job inputs relationship as compared with that of others. Therefore, perceived inequity created by underpayment or overpayment in an experimental study lasting one or two hours can not possibly simulate the actual work environment. Furthermore, there is a great deal at stake in a normal work situation where people work to provide necessities for the family as well as to fulfill important human needs. In the experimental studies, college students were put to work for a very short time period. Hence, reactions of these students to perceived pay inequity can hardly be treated as the typical worker's reactions toward inequity.

A recent study by this author concerning the relationship of salary perception to job attitudes and motivation, however, supported the basic theory of cognitive dissonance.[22] This study explores the determination of salary perception and its relationship to job attitudes and motivation among 170

(22) Sang M. Lee, *Salary Equity: Its Determination, Analysis and Correlates*, An Unpublished Ph.D. Dissertation, University of Georgia, 1968.

research scientists in a government agency. As hypothesized in previous studies, salary perception is found to be basically determined by (1) the employee's perceived salary-job inputs relationship, (2) the choice of reference group, and (3) salary-job inputs relationship of the reference group. In addition to these three factors, it was also found that the employee's perceived fairness of the supervisor in evaluating the employee's important personal and job variables for the purpose of salary administration is an important contributing factor to salary perception. The study also found that employees who perceive their pay as equitable demonstrated significantly more favorable job attitudes, higher motivational level, and lower propensity to leave the organization than those who consider their present pay as not equitable. The results of this study present conclusive evidence that perceived pay equity is of cardinal importance for the motivation of employees.

Conclusion

While recognizing the important contributions of many industrial psychologists such as Herzberg and Maslow to the study of employee motivation, it should be reiterated that pay is certainly one of the mainsprings of work motivation. Everyone assumes that people mostly work for money, and most behavioral scientists accept the importance of money as a motivator while insisting that other factors are also important. However, as Devid Belcher points out, the unfortunate fact is that wage and salary administration practitioners seem to adhere to pay determination methods presently in use merely because that is how things have been done for so long.[23] In fact, most of the underlying assumptions of policies and practices currently in use have never been tested or even questioned. What is more serious, wage and salary administrators have not shown any awareness of such problem. But fortunately, the findings of studies made to date suggest there is a definite need for a re-examination of current practice.

A review of the literature clearly indicates that pay, when administered properly, is still one of the most important motivators in this society. However, there are many questions yet to be answered. The principal research of

(23) Belcher, "Ominous Trends......"

the future should be directed toward discovering in what way money motivates people and how this, in turn, affects their behavior. This requires a great deal of further research concerning the motives of people, needs, cognitive dissonance, and the magnitude of factors that are perceived as inequitable. Perhaps future research will answer these questions and thoroughly convince wage and salary administrators that some of the current practices and policies are in definite need of alteration.