compensation and employee motivation
Introduction

If your employees report that they are unhappy with their pay, should you pay them more? If they say that total compensation is important to them, what should your organization do? Do you know how your employees feel about their total compensation? You should.

According to a Modern Survey study, organizations need to pay more attention to total compensation and how their employees are engaged. The study, conducted last September with responses from 1,000 U.S. workers, found that the percentage of people dissatisfied with total compensation is on the rise, from 21 percent in 2010 to 25 percent today.

As total compensation becomes more important, the workforce is less satisfied with it. It can be a recipe for disaster. This white paper will look at the relationship between compensation and motivation and how organizations can use other drivers to boost engagement and mitigate disengagement -- and what’s at stake if they don’t.

The NUMB3RS

According to Modern Survey research, dissatisfaction with total compensation is rising. Only 52 percent of all employees say they are paid fairly for the work they do. “Pay is a score we can keep to evaluate how we are doing,” says Modern Survey President and co-founder Don MacPherson. Unlike pay, the stronger drivers of engagement -- such as the opportunity to grow and develop at a company, confidence in its future, and values guiding employee behavior -- may be more difficult for employees to articulate and quantify unless they are asked about them directly.

According to Modern Survey research, 55 percent of Baby Boomers feel their total compensation packages are competitive for their industry, while only 48 percent of Millennials say the same. MacPherson says that older workers are likely more satisfied as a result of accumulating more benefits throughout a career.

The survey found that 47 percent of women say they are paid fairly for the work they do, while 60 percent of men report the same. Pay inequality is still an issue in many circumstances even though the differences have been closing over the years.

Another notable gap is found within industry-specific perceptions of being paid fairly for the work employees do. While 60 percent of employees in Heavy Manufacturing and Finance say they are paid fairly, only 41 percent of Education industry professionals say the same.
“Focus on other drivers”

With all of this dissatisfaction about compensation, organizations may find it easiest to address the obvious when trying to re-engage employees: look at pay with the thought of boosting it somehow. Unless pay is an obvious source of disengagement, companies should consider that option very carefully.

Different motivators may be more important for employees in other positions, says Drew Fesler, HR business partner at Ameriprise Financial. “For sales, money can be a large motivating force for people’s achievement, but if an employee’s job focuses more on customer service or product development or other things, you have to adjust your philosophy on how to motivate them,” he says.

Keep the other drivers of engagement in mind, Fesler says. “There is a balance overall. You could do a lot of work finding the optimal balance of pay and benefits, but if other engagement areas are under- or overvalued, then the whole mechanism goes off balance.”

Paul Hebert, vice president of solution design at Symbolist, a recognition and rewards provider, also warns organizations about relying only on pay for motivation. “There is a word for people who work for money, and it’s called a mercenary. If you pay more, they’ll fight for you, but the question is, do you want mercenaries?”

Keep the other drivers of engagement in mind, Fesler says. “There is a balance overall. You could do a lot of work finding the optimal balance of pay and benefits, but if other engagement areas are under- or overvalued, then the whole mechanism goes off balance.”

Unhappy employees could also lack a strong sense of the future of the company, or feel that senior management is disinterested in employee well-being.

“Pay is the easiest way we can articulate our satisfaction,” MacPherson says. “But organizations should also focus on other drivers. Paying more is rarely the solution. If people are feeling disrespected or don’t have opportunities, the pay will make the unhappiness go away for only a short amount of time.”

While some positions -- such as sales -- may use bonuses or commissions as part of compensation, different motivators may be more important for employees in other positions, says Drew Fesler, HR business partner at Ameriprise Financial. “For sales, money can be a large motivating force for people’s achievement, but if an employee’s job focuses more on customer service or product development or other things, you have to adjust your philosophy on how to motivate them,” he says.

Keep the other drivers of engagement in mind, Fesler says. “There is a balance overall. You could do a lot of work finding the optimal balance of pay and benefits, but if other engagement areas are under- or overvalued, then the whole mechanism goes off balance.”

Paul Hebert, vice president of solution design at Symbolist, a recognition and rewards provider, also warns organizations about relying only on pay for motivation. “There is a word for people who work for money, and it’s called a mercenary. If you pay more, they’ll fight for you, but the question is, do you want mercenaries?”

The economic realities of the past few years can influence employee perceptions of compensation as well, MacPherson says. “I think there’s a bit of resentment at companies that are just killing it in the market and not sharing it with employees,” he says. “Eventually, that is going to wear people’s patience down around compensation.”

Hebert agrees. “With real incomes down, there’s this whole mentality of catching up,” he says. “Part of the equation is that no matter what the company does, there’s a negative space that employees feel like needs to be filled to make up for the six or seven years where income didn’t grow.”
Boosting engagement without raising pay

Once an organization has examined pay levels and, if necessary, brought them back into balance, it should look at other factors of engagement to see where the organization can gain ground without simply throwing more money at the problem: being able to grow and develop at the organization, confidence in the organization’s future, a sense of personal accomplishment from work, the sense of values guiding the behavior of the organization and the sense that senior management has a sincere interest in employees’ well-being. Boosting those drivers of engagement can be difficult, but organizations can start by looking at company culture, communication and surveys.

Building Culture

“It’s really hard to paint a broad picture on nuances and complexities of culture and values,” Fesler says. “Take a nonprofit -- the altruistic aspects of doing a good job for needy people can supersede needing to be paid higher than market-competitive pay,” he says. “It often comes back to the mission and vision and values of an organization and how aligned people are with that. If the individuals are less aligned with the overall mission and vision and values, the likelihood of being dissatisfied with pay will likely increase.”

Hebert says it’s important for organizations to realize that talking about compensation can be seen as a business transaction, while talking about total compensation and engagement adds some emotion -- and that can be uncomfortable for leaders who aren’t ready for it or used to it.

“Pay is a cold, emotionless calculation,” Hebert says. But when organizations start to address things that make employees feel valued and boost their engagement, “all of a sudden, you’re outside that transaction. Now you’re in a relationship. Most companies don’t want to go there. They don’t like the idea of bringing emotion into the workplace, yet that’s what keeps people in the workplace -- how they feel about your company.”

Communication

MacPherson says organizations should consider the value proposition they can offer to employees. “Most organizations know if they’re paying competitively,” he says. “If an organization knows it is paying fairly then the problem is the communication around compensation.”
Communication about benefits and pay is a challenge for many companies. “Compensation tends to be a black box,” Fesler says. “I believe employees talk about compensation more than we think they do -- they know what their peers make and that can exacerbate dissatisfaction.” If Employees A and B are sitting next to each other and do the same job but A is making more than B, Fesler says, then A feels he is not getting competitive compensation compared with his neighbor.

“But as an HR organization, we look at both of them and may see that A and B are competitive because we have benchmarking,” Fesler says. “Both are competitively paid, but the internal equity may be more significant and can change the perception.”

One common challenge, Hebert says, is that employers may feel they are talking down to employees when they address the basic definition of compensation. “We say, ‘you know what that means, right?’ and they say ‘right,’ and we go into a discussion without knowing how we’re defining terms,” Hebert says. “Instead, just offer the definition and agree with applications so you know communication is happening.”

Fesler says it can be difficult for an organization to know how much to share about compensation in an effort to improve communication and affect perceptions. He says complete transparency -- “here’s a roster of 10 employees, and here’s what everybody makes” -- isn’t necessarily the right approach. Instead, educate employees about how they’re paid, how much they’re paid compared with the market and performance, and the things they do that provide value to the company.

**Surveys**

If your organization hasn’t surveyed employees recently, it’s time to do so. “Do the employee survey,” MacPherson says. Don’t rely on what you think or outdated numbers; find out where employees stand. “The employee survey will identify how important compensation is.” And, MacPherson says, do a salary survey.

The kinds of questions you ask depend on the information you’re looking for, but Hebert recommends “situational” questions, such as “give an example of when you lost track of time on the job because you were so involved in it,” he says. “Pull the camera back and say, ‘think about a time when ...’ and make it behavioral. It’s not as quantitative, but you can get better information.

“Cash has little to do with the drive to achieve,” Hebert says. “Take it off the table and work from there. Your culture at the company and how you manage the relationships with employees determines how much of a check you have to write to make up the balance. By doing a good job of giving employees meaning, you can look at compensation differently.”

“Your culture at the company and how you manage the relationships with employees determines how much of a check you have to write to make up the balance.”

**Conclusion**

The numbers from the Modern Survey research show that while compensation is not the strongest driver of employee engagement, it is becoming more important and dissatisfaction with it is increasing. Organizations need to be aware of the trends in attitudes toward total compensation and to ensure that a culture of engagement helps retain high performers who may look elsewhere for the compensation they desire.

“That’s the funny thing about pay -- it’s a disengager,” MacPherson says. “When you pay above market, it doesn’t give you a whole lot of benefit. Pay is simply an entry point. But when you pay at market and focus on the other drivers, you’ve got the right formula in place. If you don’t have an exceptional environment, you’re really going to have a difficult time attracting, retaining and engaging the right people regardless of what you pay.”
about us

Modern Survey measures workforce intensity — that fire in your company’s belly that makes all things possible. Our human capital measurement software combines feedback, benchmarks, and data from enterprise systems to elucidate the correlation between employee performance and company success. We analyze the stuff your talent management system can’t — so that you know what to do next.

We are Modern Survey. And we are relentless. Find us at www.modernsurvey.com.

1209 Tyler St. NE, Suite 170
Minneapolis, MN 55413
(866) 876-8242
modernsurvey.com

© 2014 Modern Survey