

Course Learning Outcomes for Unit II

Upon completion of this unit, students should be able to:

6. Analyze the impact of compensation on employee behavior.
 - 6.1 Identify how compensation affects employee behavior.
 - 6.2 Discuss the advantages and disadvantages of compensation on employee behavior.

Course/Unit Learning Outcomes	Learning Activity
6.1	Unit Lesson Chapter 3, pp. 74–95 Chapter 9, pp. 312–319, 328–334 Unit II Essay
6.2	Unit Lesson Chapter 9, pp. 312–319, 328–334 Unit II Essay

Reading Assignment

Chapter 3: Defining Internal Alignment, pp. 74–95

Chapter 9: Pay-for-Performance: The Evidence, pp. 312–319, 328–334

Unit Lesson

Introduction

Unit II focuses on defining internal alignment. Per the textbook, *internal alignment* addresses the relationships within the organization (Newman, Gerhart, & Milkovich, 2017). Also, this lesson will focus on how pay supports the organizational strategy and work flow and how pay motivates behaviors in accomplishing the organization’s objectives. This lesson will address compensation as a need, according to Maslow’s hierarchy of needs, and effective management of the behaviors as to show how compensation impacts the behaviors of the employees as well as other needs/methods.

Compensation: A Need

As identified in Unit I, compensation accounts for all forms of financial returns, tangible services, and benefits that employees receive due to the type of employment relationship per contract specifics. Compensation is made up of direct and indirect compensation forms, which play a role in accepting or denying a position offered. Compensation can oftentimes contribute to the behaviors of employees. Of course, this will depend on how the employee views and processes the demands of compensation. Compensation can be viewed in a negative or positive manner, depending on various factors considered by the employee. There can be some advantages and disadvantages to this as well, which are listed below (Antoni, Baeten, Perkins, Shaw, & Vartiainen, 2017).

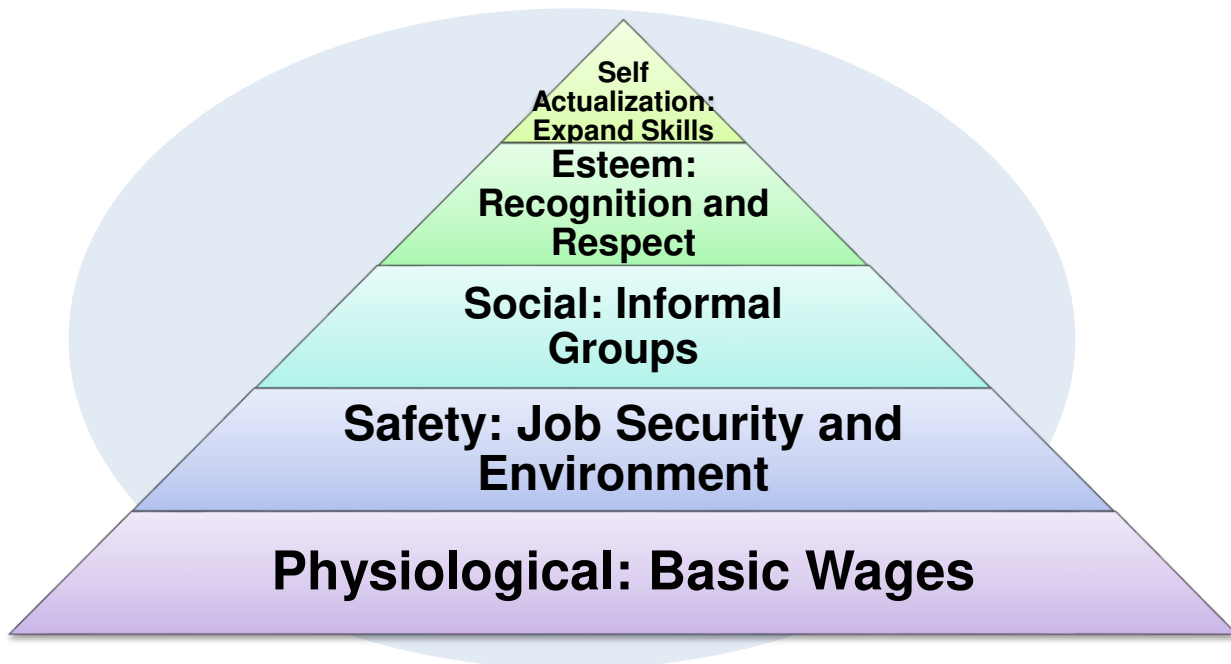
Advantages
<ul style="list-style-type: none"> • Improves employee motivation • Improves employee performance • Shapes employee health and wellness • Satisfies employees' need for autonomy and competence • Provides a sense of value and appreciation • Proves to be effective when rewards are distributed fairly • Allows for employee retention • Allows for job satisfaction • Meets employee expectations

Disadvantages
<ul style="list-style-type: none"> • Wastes money and effort • Proves to be ineffective in attracting, retaining, and motivating target personnel • Decreases cooperation • Increases deviant behavior (e.g., harming others, sabotage) • Increases competitiveness • Provides an age vs. risk taking type of attitude • Does not meet employee pay expectations • Has a high turnover rate • Allows for employee dissatisfaction

In order for pay to motivate the employees during the internal alignment process, the process must be effectively, fairly, and properly designed, and it must be aligned with the objectives of the organization in order to achieve the organizational success. Per Noe, Hollenbeck, Gerhart, and Wright (2011), the goals for creating this plan are listed below:

- measures should be linked to the organization's goals,
- performance standards should be met,
- resources need to be available to meet goals,
- employees should believe in and see value in the rewards, and
- awarded goals vs. non-awarded goals should be established.

According to Anderson and Bolt (2013), motivation comes from within, which will differ according to the individual and how the person is motivated. Motivation is an internal drive that contributes to how an individual behaves. Maslow's hierarchy of needs is an example of how individuals are motivated, according to their need level(s). Below is an illustration of the need levels.



In the case of compensation, it falls under the physiological level, which is the lowest level of the needs and is viewed as the foundation of the hierarchy. This level is viewed as the basic needs level, which we are all somewhat motivated by since money is needed for basic everyday life necessities (e.g., food, shelter, clothes, utilities, transportation). Therefore, it is safe to say compensation does play a role in the behavior of the employees. However, as viewed above, motivation can be based on other need factors as well (i.e., self-actualization, esteem, social, and safety). Consider the following comments when you are trying to identify your need(s) level, as expressed by Anderson and Bolt (2013).

- I can help; I have worked on a similar project.
- Would you like to see the award I received?
- Who wants to join me for dinner?
- I need a big raise.

Note: Each of the comments are to be matched with one of the hierarchy needs. Others ways to motivate can include but are not limited to words of appreciation, a sense of involvement, promotion, increased workload, and/or public recognition.

Management of Behaviors

When an organization conducts a job analysis, it must be considered if the compensation will attract and retain the best candidates. Depending on the pay level/rate, grade, or range of the positions, the behaviors of the employees will vary. For example, a grocery store clerk may not have a positive behavior about their direct pay, compared to a department manager of the grocery store. However, the grocery store clerk could be looking past the direct compensation and focusing more on the indirect compensation (e.g., the perks and benefits associated with the position, such as health care), 401k, stock options, tuition reimbursement, and/or paid time off. Potential employees are attracted and are retained to positions and organizations for various reasons. However, pay is considered among the top three reasons employers can attract and retain the best candidates; other reasons involve job satisfaction and sociality (Newman et al., 2017).

Within a work environment, there are so many diverse individuals, which leads to different types of behaviors and personalities. Behaviors that are reinforced by compensation are attraction, retention, development of skills, and performance. So, does one's behavior depend on personality? *Behavior* is defined as the way in which one acts or conducts oneself, especially toward others based on various external factors. *Personalities* are unique patterns of feelings, thoughts, and behaviors that we individually display. Examples are openness, conscientiousness, extraversion, agreeableness, and neuroticism. However, personal and professional behaviors do differ, which can be found within any work environment.

As a manager, it is his or her responsibility to properly understand, manage, and utilize the differences and diversity for the greater good of the organization. It has been found that a manager can start with exercising open communication, transparency, and relatable interaction. This will allow for better engagement with employees, which leads to more effective performance management. Once you are able to effectively manage a very different and diverse work environment, it can bring about greater productivity, engagement, and increased morale. As a result of performance and effective management, compensation can be better aligned with the results of the hiring process and/or performance evaluations. Of course, the behaviors of the employees can be motivated by other factors outside of compensation such as self-actualization, esteem, social, and safety (Anderson & Bolt, 2013).

It is always the responsibility of human resources (HR) to effectively identify and manage the behaviors of the employees. This can be done by conducting performance evaluations on a regular basis. During the sessions, management should assess the performance and behaviors of the employees. By doing this, it will allow the organization to successfully award the employees for basic recognitions, promotions, bonuses, and/or pay raises. In the performance evaluation sessions, it is great to specifically identify what motivates the employee to obtain direct feedback. However, other methods can be used to obtain the information on how compensation affects the behaviors of employees (e.g., surveys, comment cards, production data,

observation). Below is a list of questions to consider when attempting to identify what motivates employees and/or potential candidates (Christensen, 2014).

- What is it about your position that inspires you?
- How can you become better at it?
- What can I do as your manager to make it better?
- How do you feel about taking ownership of your work?
- Do you like making decisions? If so, what decisions are you comfortable making?
- Do you feel you have freedom in your position? If so or not, please explain.
- Do you see yourself playing a role in the organization's goals and objectives?
- How do you feel your position is linked to the goals and objectives of the organization?

The following illustration identifies what should be considered when HR must identify and address effective performance management within the work environment.



The focus of the graphic above is placed on employee behavior and perceptions in regard to awarding employees with pay. Each phase in the graphic addresses how important it is for all parts of the process to work together in retrieving the needed information.

The employee and employer play a crucial role in the behavior of employees as it relates to pay and compensation. So, what impact does compensation and pay have on the behaviors of the employees? The following can assess both perspectives:

- shared values,
- social support, and
- a valued outcome.

The objective is to work together in developing and supporting the desired behavior(s) of the employees via various methods, either via compensation, social support, esteem (recognition), and/or safety (job security). Again, pay is considered among the top three reasons for job satisfaction (Newman et al., 2017).

According to Newman et al. (2017), compensation is one of many rewards that influence employee behaviors; therefore, does compensation have an impact on employees' behaviors? The role of compensation in motivation is based around four types of behaviors:

- to join,
- to stay,
- to develop skills, and
- to perform well.

To advance compensation's impact on employees' behaviors, flexible compensation must be offered in order to give the employees the opportunity to select options more beneficial according to their own needs. Refer to Exhibit 9.4, Motivation Theories, in the textbook on pages 320–322 for more information.

References

- Anderson, L. E., & Bolt, S. B. (2013). *Professionalism: Skills for workplace success* (3rd ed.). Upper Saddle River, NJ: Pearson.
- Antoni, C. H., Baeten, X., Perkins, S. J., Shaw, J. D., & Vartiainen, M. (2017). Reward management: Linking employee motivation and organizational performance. *Journal of Personnel Psychology, 16*(2), 57–60. Retrieved from <https://libraryresources.columbiasouthern.edu/login?url=http://search.ebscohost.com/login.aspx?direct=true&db=pdh&AN=2017-28868-001&site=eds-live&scope=site>
- Christensen, T. G. (2014). 11 questions to uncover employee motivation. Retrieved from <http://leadinspire.com/11-questions-to-uncover-employee-motivation/>
- Newman, J. M., Gerhart, B., & Milkovich, G. T. (2017). *Compensation* (12th ed.). New York, NY: McGraw-Hill/Irwin.
- Noe, R., Hollenbeck, J., Gerhart, B., & Wright, P. (2011). *Fundamentals of human resource management* (4th ed.). Boston, MA: McGraw-Hill.

Learning Activities (Nongraded)

Nongraded Learning Activities are provided to aid students in their course of study. You do not have to submit them. If you have questions, contact your instructor for further guidance and information.

Refer to page 100 of the textbook, and complete the following “Review Questions” for Chapter 9.

3. Internal structures are part of the incentives offered in organizations. Look into any organization: your college, workplace, or the grocery store where you shop. Describe the flow of work. How is the job structure aligned with the organization’s business, the work flow, and its objectives? How do you believe it influences employee behaviors?
5. A typical structure within colleges is instructor, assistance professor, associate professor, full professor. Is this egalitarian or hierarchical? What added information would you need to decide? What behaviors by the faculty do you believe the structure influences? Is it aligned? Difficult to copy? Does it add value?