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A Study of Perceptions of Pay Systems

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The University of Southern Mississippi

A Study of Perceptions of Pay Systems

by

Kayla Scharfenstein Alford

A Thesis
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of the Requirements for the Degree of
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in the School of Accountancy

May 2016

A STUDY OF PERCEPTIONS OF PAY SYSTEMS

A STUDY OF PERCEPTIONS OF PAY SYSTEMS

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Abstract

This is a study which is interested in perceptions people have toward the varying forms of labor compensation. It specifically compares perceptions of hourly pay with those of performance-based pay(PBP). A survey instrument was used to gather individual perceptions of pay systems by sampling the students in the College of Business at a southern university. This study tested and confirmed that PBP is rated significantly more positive than hourly pay by its respondents. This study also tests whether workplace experience or classroom experience has a significant impact on respondents' ratings of PBP or hourly pay. Respondents rated PBP attributes more positively, as compared to hourly pay, regardless of whether or not they had been exposed to PBP in the workplace or in the classroom. An unforeseen inference resulting from this study suggests a potential growing trend among millennials of a preference for PBP.

Key Terms: Perception, Performance-Based Pay, Equity Theory, Expectancy Theory

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Dedication

This thesis is dedicated to my family. I will forever be grateful for all their love and support, to my husband for his constant love and encouragement any time I got discouraged by this research, to my parents for affording me the opportunity to be a part of the Honors College and for their encouragement to always do my best. To my grandparents for their thoughtfulness, which has gotten me through some busy days, to my sisters, whether in heaven or here with me, for always keeping me accountable to try to set a good example, and be the best that I can be, and finally to the Rock on which I stand, the Father, Son, and Holy Spirit without whom my achievements would be fruitless and without merit or worth.

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List of Abbreviations

PBP – Performance Based Pay

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Introduction

The purpose of this study is to assess and discuss current perceptions toward pay systems. Specifically, it is designed to measure and compare perceptions toward performance-based pay and hourly pay. Performance-Based Pay (PBP) is a concept in which labor compensation is directly tied to the performance of employees. It is a measurement that may seem simple and straightforward initially, but, upon further thought can become a daunting task for many employers in their respective organizations. Because of the complexities that are typically associated with the implementation of PBP, some employers cannot overlook the costs of PBP to see its benefits. An ancillary purpose of this study is to enlighten employers regarding the preferences and perceptions their employees may have of pay systems. This study is therefore relevant and necessary because many people who work hard in their respective jobs may not perceive that they are fairly compensated. This perception has the potential to negatively impact employee attitudes to the point that the employees no longer look forward to work or feel as though they are making a realized contribution to the organization.

Mamman (1997, p. 33) stated: "Performance-Based Pay systems are among the most widely advocated reward systems and are argued by many to be most effective and equitable to both employees and the organization." Kang and Yanadori (2011) closely align with this statement when they declare that paying for performance has become a key tool in workforce management. This study will examine the perceptions of individuals regarding the relationship between different types of employee compensation and how those types of compensation impact various aspects of the work environment.

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Literature Review

Performance-Based Pay

Schay & Fisher (2013, p. 366) conclude from authors of other PBP based works, “Executive Research has shown that PBP systems have been effective in many different organizational settings and can positively influence motivation to perform, affect attraction and retention, and therefore affect the caliber of employees in an organization.” Schay and Fisher (2013, p. 336) also discuss effects of PBP on federal demonstration projects stating, “Formal evaluation results of federal PBP demonstration projects have revealed improved employee attitudes and, in many cases, evidence of significantly reduced turnover of high performers and increased turnover of low performers.” These findings reinforce the potential benefits of performance-based pay systems. Because of this, it is asserted that PBP could be used to improve the work environment and attitudes of employees in many organizations today.

Perceptions

Chuck Williams defines perception in his Principles of Management textbook as, “The process by which individuals attend to, organize, interpret, and retain information from their environments” (p. 315). As such, a person’s perception of something becomes that person’s reality. Because perceptions are a person’s reality, employee perceptions about the way their employer treats them, and whether or not they are being fairly compensated for their work, can have a drastic impact on their job satisfaction and job related attitudes. For these reasons, perception is a key construct in this research.

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Equity Theory

Equity theory is based on perceptions of inputs and outputs of employees. Inputs include work experience, education, and performance; outputs include rewards such as compensation and how an employee is treated. Equity Theory suggests that employees will compare their inputs and outputs with the inputs and outputs of others within their job scope and judge whether they perceive they receive fair or unfair compensation. As a result of this comparison, the employee will act to relieve the tensions created by this perceived fairness or unfairness by adjusting their inputs or outputs, or removing themselves from the job area (Gupta, Conroy & Delery, 2011; Schay & Fisher, 2013). Essentially, equity theory is a perception-based theory that seeks to explain behaviors and attitudes among those who hold the same or similar jobs. If one finds that they are working harder, yet receiving the same compensation, they will adjust their work behavior to that of the less productive workers. This can cause problems for the organization, as the labor of the most productive workers can be lost, rather than encouraged.

One factor to consider when analyzing work based on equity theory is that employees are not necessarily comparing their actual inputs and outputs, but rather their perceived inputs and outputs (Gupta, Conroy & Delery, 2011). Bowey, Thorpe, and Heller (1986), state that conflict over payment or payment systems are often more deeply rooted in problems related to fairness and equity, not necessarily in lack of satisfaction. Because fairness and equity play a role in job satisfaction, employee perceptions will be examined in this study.

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Expectancy Theory

Expectancy theory is another theory based heavily on employee perceptions. According to Gupta, Conroy and Delery (2011), expectancy theory hinges on three factors: Valence, E to P expectancy, and P to O expectancy. Valence refers to whether or not the outcomes that are promised are desirable to the employee, “A pay-for-performance program is going to work best where pay is highly valent to the people covered by it”, (Atchison). E to P expectancy, or effort-to-performance expectancy, is the determination on the part of the employee as to whether they perceive the efforts they put in will produce the desired performance outcome. P to O expectancy, or performance-to-outcome expectancy, is the perception that the performance of the employee will lead to the desired outcome or reward initially promised. Gupta et al. (2011) explain the connection of three factors as follows, “The crux of this argument is that the behavior that leads to desired outcomes, assuming that the behavior is doable, is the behavior that employees will manifest” (page 108). Expectancy theory validates, yet again, the importance of studying the perceptions of employees. According to Jacques (1956, 1961) fair pay for any individual is that which they feel they deserve based on the tasks for which they are responsible. Because of the heavy reliance people have on perception, it is crucial to examine how employees feel about the compensation they receive for the responsibilities that they are given. These perception-based questions will be included in data collection by means of a survey.

Skepticism

When individuals come to a point where change is bound to occur, there is always a level of skepticism and resistance. Chuck Williams (2013) states that, “Resistance

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might stem from a fear that changes will result in a loss of pay, power, responsibility or even perhaps one's job" (p. 143). According to Swepston (2007), this truth also applies to the implementation of a PBP system, "Initially, the new pay system will scare people who like hourly pay. Many think it's a new program that is set up to rip them off, and they don't trust it at first." This same sentiment was expressed as far back as the 1920's, in the Harvard Business Review, where, in the article *Incentive Systems of Wage Payment*, the presence of employee hesitation in relation to the performance based pay systems of the time was found. These hesitations included fear that increased efficiency would render some workers useless, thus increasing unemployment. Non-management workers did not want management to get paid more because of the employees' hard work and increased production. Workmen were also concerned that PBP would create such a complicated system such that they could not easily compute their fair wages (*Incentive Systems of Wage Payment*, 1924). PBP often makes hourly-based employees uncomfortable because they are unfamiliar with the system.

Empowerment

Empowerment occurs when an employer gives an employee control to make decisions based on the employee's discretion. Empowerment is perception-based because not only does the employee have to be given the authority to make decisions, but they must perceive that they have been given that authority. "Empowerment is a feeling of intrinsic motivation, in which workers perceive their work to have meaning and perceive themselves to be competent, having an impact, and capable of self-determination" (Williams, 2013, p. 194). As such, empowerment gives the employee a sense of control and ownership in their work environment which has the potential to improve their job

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satisfaction (Kim, Sutton, & Gong, 2013). Kim et al. (2013) argue that empowerment invokes a team-oriented strategy for completing tasks within groups in group performance pay systems by encouraging sharing of knowledge and ideas and by giving a sense of flexibility and control to the employees. Therefore, it could be argued, for the same reasons, that empowerment is encouraging to individual performance based pay.

Equity theory suggests that individuals will act to establish fairness in inputs and outputs. Individuals recognize when certain employees work harder than others and inherently perceive that those who work harder should be paid more. Correspondingly, expectancy theory suggests that individuals need to perceive that their work behaviors will lead to their desired performance, which, in turn, will lead to the desired benefit of that performance. Empowerment suggests that individuals enjoy having perceived control over their responsibilities as well as their pay. All three theories highly correlate with PBP. With these key concepts in mind, the following hypothesis is proposed.

Hypothesis 1: Respondents will rate their perceptions of performance-based pay more positively than their perceptions of hourly pay.

It could be argued that individuals who have had experience with PBP should have some degree of familiarity with PBP. If they have become familiar with PBP, they should be less skeptical of PBP, and thus have less apprehension toward it. On the other hand, it could be argued that individuals who have not had experience with PBP should have some degree of skepticism toward PBP, and thus have a somewhat negative perception of it. Individuals who have had experience with PBP in the workplace, and are thus well-acquainted with PBP, are more likely to have positive perceptions toward PBP, as PBP will not evoke fear relative to change, unlike those who have never experienced

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PBP systems. With this and the benefits of PBP as expressed in equity and expectancy theories in mind, the following two hypotheses are proposed.

Hypothesis 2: Those respondents who have never encountered Performance-Based Pay systems in the workplace will rate their attitudes toward hourly-based pay significantly more positive than their attitudes toward performance-based pay.

Hypothesis 3: Those respondents who have encountered Performance-Based Pay systems in the workplace will rate their attitudes toward performance-based pay significantly more positive than their attitudes toward hourly-based pay.

Based on the concept of skepticism, it is expected that individuals who have knowledge of hourly pay only, will have some measure of fear/uncertainty regarding PBP. On the other hand, those individuals who have been taught or had experience discussing PBP in the classroom should have some familiarity with PBP and thus be less fearful/skeptical of PBP. Individuals who are more familiar with the concept of PBP should be less resistant to the concept and have more positive perceptions toward PBP. In business schools, most students are required to take courses at the junior and senior level that include discussions about PBP. For example, PBP is often discussed in Principles of Management classes, Human Resource Management classes, and Operations Management classes, all junior and senior level classes. With this in mind, the following hypothesis is proposed.

Hypothesis 4: College Juniors, College Seniors, and College Graduates in the College of Business will rate their attitudes toward performance-based pay significantly more positive than College Freshmen and College Sophomores in the College of Business.

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Method

Research Design

A confidential Qualtrics survey link was sent to all students in the College of Business at a southern university. While 179 respondents initially started the survey, only 140 completed all 42 questions in the survey, yielding a convenience sample size of 140, or $n=140$.

Sample

The sample consisted of 89 females and 51 males, where females comprised 63.6% of the sample and males comprised 36.4% of the sample. This sample is representative of the southern university's student population which consisted of 64% females and 36% males at the time the data was collected. Of those responding, approximately 98% were College of Business majors and the majority of respondents, 57% of them, were 20-24 years old. Respondents to the survey were asked to give their perceptions of both hourly-based pay and performance based pay, as well as provide basic demographic information. To address the research questions, summary statistics, t-tests, paired sample t-tests and ANOVA's were run.

Procedure

Paired sample t-tests were run to determine if there were differences in individual perceptions regarding PBP and hourly pay. T-tests were run to determine if perceived differences existed regarding PBP and hourly pay based on gender or education level, where education level was divided into two categories. ANOVA's were run to determine if there were differences in perceptions regarding PBP and hourly pay based on

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experience with PBP systems, as well as an individual's knowledge level of PBP pay systems.

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Results

Paired sample t-tests revealed significant differences in the perception of respondents between their perceived ability to achieve their desired income when paid based on performance, as compared to hourly pay, as $t_{0.05,139} = 8.84$, $p < .001$ (see Table 1). Specifically, there was a significant difference in the average scores of those respondents who perceived that they would achieve their desired income if they were paid based on their performance ($M=3.79$, $SD=.94$), as compared to respondents who perceived that they would achieve their desired income if paid by the hour ($M=2.84$, $SD=.89$), indicating that there was a significantly higher perceived correlation between PBP and the ability to achieve desired income in the minds of the respondents.

Paired sample t-tests revealed significant differences in the perception of respondents between their perceived pay resulting directly from their performance when paid based on performance, as compared to hourly pay, as $t_{0.05,139} = 15.55$, $p < .001$ (see Table 2). Specifically, there was a significant difference in the average scores of those respondents who perceived that their pay would be the direct result of their performance if they were paid based on their performance ($M=4.17$, $SD=.91$), as compared to respondents who perceived that their pay would be the direct result of their performance if paid by the hour ($M=2.26$, $SD=1.01$), indicating that there was a significantly higher perceived correlation between PBP and pay resulting directly from performance in the minds of the respondents.

Paired sample t-tests revealed significant differences in the perception of respondents between their perceived desire to work harder than others who earn their same pay rate when paid based on performance, as compared to hourly pay, as $t_{0.05,139}$

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=9.77, $p < .001$ (see Table 3). Specifically, there was a significant difference in the average scores of those respondents who perceived that they would work harder than others who earn their same pay rate if they were paid based on their performance ($M=3.89$, $SD=1.06$), as compared to respondents who perceived that they would work harder than others who earn their same pay rate if paid by the hour ($M=2.74$, $SD=1.13$), indicating that there was a significantly higher perceived correlation between PBP and the desire to work harder than those earning the same rate in the minds of the respondents.

Paired sample t-tests revealed significant differences in the perception of respondents between their perceived fair pay according to their level of contribution to the company when paid based on performance, as compared to hourly pay, as $t_{0.05,139} = 10.11$, $p < .001$ (see Table 4). Specifically, there was a significant difference in the average scores of those respondents who perceived that they would be fairly paid according to their level of contribution if they were paid based on their performance ($M=3.89$, $SD=.87$), as compared to respondents who perceived that they would be fairly paid according to their level of contribution if they were paid by the hour ($M=2.71$, $SD=1.04$), indicating that there was a significantly higher perceived correlation between PBP and the fairness of pay based on their level of contribution in the minds of the respondents.

Paired sample t-tests revealed significant differences in the perception of respondents between their perceived ability to achieve fair compensation according to level of performance when paid based on performance, as compared to hourly pay, as $t_{0.05,139} = 11.44$, $p < .001$ (see Table 5). Specifically, there was a significant difference in

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the average scores of those respondents who perceived that they would be fairly compensated for their level of performance if they were paid based on their performance ($M=3.96$, $SD=.81$), as compared to respondents who perceived that they would be fairly compensated for their level of performance if paid by the hour ($M=2.66$, $SD=1.05$), indicating that there was a significantly higher perceived correlation between PBP and being fairly compensated for the level of performance in the minds of the respondents.

Paired sample t-tests revealed significant differences in the perception of respondents between their perceived control over their work life when paid based on performance, as compared to hourly pay, as $t_{0.05,139} = 7.00$, $p < .001$ (see Table 6). Specifically, there was a significant difference in the average scores of those respondents who perceived that they would have control over their work life if they were paid based on their performance ($M=3.74$, $SD=.95$), as compared to respondents who perceived that they would have control over their work life if paid by the hour ($M=2.91$, $SD=1.00$), indicating that there was a significantly higher perceived correlation between PBP and having control over work life in the minds of the respondents.

Paired sample t-tests did not reveal significant differences in the perception of respondents between their perceived ability to make decisions at work based on their knowledge and experience when paid based on performance, as compared to hourly pay, as $t_{0.05,139} = 6.01$, $p < .001$ (see Table 7). Specifically, there was no significant difference in the average scores of those respondents who perceived that they would be able to make decisions at work based on their knowledge and experience if they were paid based on their performance ($M=3.83$, $SD=.86$), as compared to respondents who perceived that they would be able to make decisions at work based on their knowledge and experience if

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paid by the hour ($M=3.21$, $SD=.95$), indicating that there was a slight preference toward PBP, but no significant perceived correlation between PBP and the ability to make decisions at work based on their own knowledge and experience in the minds of the respondents.

The data analysis indicated that there were no significant statistical differences based on gender in the respondent's ratings of the statement, "If you are paid based on your performance, pay results directly from your performance", as $t_{0.05, 126} = 1.30$, $p=.20$, even though males ($M=4.29$, $SD=.76$) were in greater agreement with this statement than females ($M=4.10$, $SD=.98$).

Likewise, data analysis suggested there were no significant statistical differences based on gender in the respondents' ratings of the statement, "If you are paid based on your performance, you will achieve your desired income", as $t_{0.05, 103} = .74$, $p=.46$, even though males ($M=3.86$, $SD=.96$) were in slightly greater agreement with this statement than females ($M=3.74$, $SD=.94$).

Similarly, the data analysis suggested there were no significant statistical differences in the respondents' ratings of the statement, "If you are paid based on your performance, you will achieve your desired income" based on the current method of payment that the respondents receive in their current job (hourly pay ($M=3.89$), PBP ($M=3.71$), salary ($M=3.63$), or not employed, as $F(3, 123) = 2.68$, $p=.35$). The data analysis further indicated that there were no significant statistical differences in the respondents' ratings of the statement, "If you are paid based on your performance, pay results directly from performance" based on the current method of payment that the

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respondents receive in their current job (hourly pay ($M=4.17$), PBP ($M=4.17$), salary ($M=4.04$), or not employed, as $F(3, 122) = 2.68, p = .896$.

Similarly, the data analysis suggested there were no significant statistical differences in the respondents' ratings of the statement, "If you are paid based on your performance, pay results directly from performance" based on all types of payment that the respondent had ever received in the past as $F(4, 122) = 2.45, p = .83$. The data analysis further indicated that there were no significant statistical differences in the respondents' ratings of the statement, "If you are paid based on your performance, you will achieve your desired income" based on all types of payment methods the respondent had received in the past, as $F(4, 122) = 2.45, p = .27$.

Similarly, the data analysis suggested there were no significant statistical differences in the respondents' ratings of the statement, "If you are paid based on your performance, you will achieve your desired income" based on the number of lessons that they had been taught on PBP at the collegiate level, as $F(4, 135) = 2.44, p = .94$. The data analysis further indicated that there were no significant statistical differences in the respondents' ratings of the statement, "If you are paid based on your performance, you will achieve your desired income" based on the respondents' familiarity with PBP methods, as $F(3, 136) = 2.67, p = .38$.

Similarly, the data analysis suggested there were no significant statistical differences in the respondents' ratings of the statement, "If you are paid based on your performance, you will achieve your desired income" based on the respondents' level of education, $t_{0.05, 138} = 1.47, p = .14$. The data analysis also suggested there were no significant statistical differences in the respondents' ratings of the statement, "If you are

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paid based on your performance, pay results directly from your performance”

respondents level of education, $t_{0,05, 138} = -1.45$, $p = .15$.

Discussion

Overall Attitudes

This study tested the hypothesis that respondents will rate their perceptions of performance-based pay more positively than their perceptions of hourly pay. This hypothesis was confirmed by most of the t-test results. Positive ratings were determined in the following ways. Table 1 demonstrates a significant difference in the average scores of those respondents who perceived that they would achieve their desired income if they were paid based on their performance ($M=3.79$, $SD=.94$), as compared to respondents who perceived that they would achieve their desired income if paid by the hour ($M=2.84$, $SD=.89$). This gives PBP a significantly more positive rating when achieving desired income is considered a positive job attribute. Table 3 indicates there was a significant difference in the average scores of those respondents who perceived that they would work harder than others who earn their same pay rate if they were paid based on their performance ($M=3.89$, $SD=1.06$), as compared to respondents who perceived that they would work harder than others who earn their same pay rate if paid by the hour ($M=2.74$, $SD=1.13$). This gives PBP a significantly more positive rating when working hard is assumed to be a positive attribute. Table 6 shows a significant difference in the average scores of those respondents who perceived that they would have control over their work life if they were paid based on their performance ($M=3.74$, $SD=.95$), as compared to respondents who perceived that they would have control over their work life if paid by the hour ($M=2.91$, $SD=1.00$). This gives PBP a significantly more positive rating when having control over personal work life is assumed to be a positive job attribute. Table 7 demonstrates no significant difference in the average scores of those respondents who

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perceived that they would be able to make decisions at work based on their knowledge and experience if they were paid based on their performance ($M=3.83$, $SD=.86$), as compared to respondents who perceived that they would be able to make decisions at work based on their knowledge and experience if paid by the hour ($M=3.21$, $SD=.95$). There is a small difference in the two averages; however, it is not strong enough to be considered significant.

Workplace Performance-Based Pay

It was hypothesized that those respondents who have never encountered Performance-Based Pay systems in the workplace will rate their attitudes toward hourly-based pay significantly more positive than their attitudes toward performance-based pay. It was inversely hypothesized that those respondents who have encountered Performance-Based Pay systems in the workplace will rate their attitudes toward performance-based pay significantly more positive than their attitudes toward hourly-based pay. The data analysis suggested there were no significant statistical differences in the respondents' ratings of the statement, "If you are paid based on your performance, you will achieve your desired income" based on the current method of payment that the respondents receive in their current job (hourly pay ($M=3.89$), PBP ($M=3.71$), salary ($M=3.63$), or not employed, as $F(3, 123) = 2.68$, $p=.35$). The data analysis further indicated that there were no significant statistical differences in the respondents' ratings of the statement, "If you are paid based on your performance, you will achieve your desired income" based on the current method of payment that the respondents receive in their current job (hourly pay ($M=4.17$), PBP ($M=4.17$), salary ($M=4.04$), or not employed, as $F(3, 122) = 2.68$, $p=.896$).

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Similarly, the data analysis suggested there were no significant statistical differences in the respondents' ratings of the statement, "If you are paid based on your performance, you will achieve your desired income" based on all types of payment that the respondent had ever received in the past as $F(4, 122) = 2.46, p = .83$. The data analysis further indicated that there were no significant statistical differences in the respondents' ratings of the statement, "If you are paid based on your performance, you will achieve your desired income" based on all types of payment methods the respondent had received in the past, as $F(4, 122) = 2.45, p = .27$. This data suggests that whether or not respondents were exposed to performance based pay previously had no significant impact on their perception toward performance based pay. Rather, the data suggests that individuals perceive PBP significantly more positively than they do hourly pay regardless of whether they have previously participated in a PBP system.

Level of Education and PBP

The survey instrument tested whether college Juniors, college Seniors, and college Graduates in the College of Business would rate their attitudes toward performance-based pay significantly more positive than college Freshmen and college Sophomores in the College of Business. The data analysis suggested there were no significant statistical differences in the respondents' ratings of the statement, "If you are paid based on your performance, you will achieve your desired income" based on the number of lessons that they had been taught on PBP at the collegiate level, as $F(4, 135) = 2.44, p = .94$. The data analysis further indicated that there were no significant statistical differences in the respondents' ratings of the statement, "If you are paid based on your

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performance, you will achieve your desired income” based on the respondents familiarity with PBP methods, as $F(3, 136) = 2.67, p = .38$.

Similarly, the data analysis suggested there were no significant statistical differences in the respondents’ ratings of the statement, “If you are paid based on your performance, you will achieve your desired income” based on the respondents level of education, $t_{0,05, 138} = 1.47, p = .14$. The data analysis also suggested there were no significant statistical differences in the respondents’ ratings of the statement, “If you are paid based on your performance, pay results directly from your performance” based on the respondents level of education, $t_{0,05, 138} = -1.45, p = .15$. Therefore, the data suggests that there are no significant differences in the attitudes that undergraduates had regarding PBP when compared to upperclassmen and graduate students. Rather, the data suggests that individuals perceive PBP significantly more positively than they do hourly pay regardless of the amount of exposure to PBP in the classroom.

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Conclusion

This study sought first to gather individual perceptions of pay systems by sampling the perceptions of students in the College of Business at a southern university. As a whole, respondents rated PBP more positively than hourly pay with respect to numerous workplace behaviors. Next, this study sought to test whether workplace experience or classroom experience has a significant impact on respondents' ratings of PBP or hourly pay. No significant differences in perceptions regarding PBP and hourly pay were found relative to workplace experience or classroom experience. Respondents rated PBP attributes more positively, as compared to hourly pay, regardless of whether or not they had been exposed to PBP.

Some additional inferences can be made as a result of this study. The majority of respondents in this study were 20-24 years old. This, paired with the PBP preference indicated in this study, may identify a growing trend among millennials, that being a preference for PBP. For companies who are willing to deal with the complexities that are associated with PBP and who are willing to develop creative PBP systems, PBP systems may afford them the chance to develop a competitive advantage, as they can better account for and associate labor costs with individual workers and can, therefore, more precisely identify and solve problems with productivity processes. This could ultimately lead to lower costs, higher profit margins, and higher stockholder gains in the form of dividends.

Limitations

The convenience sample used in this study included respondents from a single college at one southern university. Therefore, it may not be generalizable to the

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population at large. Respondents were of the same basic age, which also suggests that findings may not be indicative of population at large, but as stated above, could be indicative of a growing trend in millennial generation pay preference. Future research should include respondents from all walks of life and from varying geographical regions to determine if the findings in this paper are consistent with the population at large.

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Appendices

Appendix A: IRB Approval



INSTITUTIONAL REVIEW BOARD

118 College Drive #5147 | Hattiesburg, MS 39406-0001

Phone: 601.266.5997 | Fax: 601.266.4377 | www.usm.edu/research/institutional.review.board

NOTICE OF COMMITTEE ACTION

The project has been reviewed by The University of Southern Mississippi Institutional Review Board in accordance with Federal Drug Administration regulations (21 CFR 26, 111), Department of Health and Human Services (45 CFR Part 46), and university guidelines to ensure adherence to the following criteria:

- The risks to subjects are minimized.
- The risks to subjects are reasonable in relation to the anticipated benefits.
- The selection of subjects is equitable.
- Informed consent is adequate and appropriately documented.
- Where appropriate, the research plan makes adequate provisions for monitoring the data collected to ensure the safety of the subjects.
- Where appropriate, there are adequate provisions to protect the privacy of subjects and to maintain the confidentiality of all data.
- Appropriate additional safeguards have been included to protect vulnerable subjects.
- Any unanticipated, serious, or continuing problems encountered regarding risks to subjects must be reported immediately, but not later than 10 days following the event. This should be reported to the IRB Office via the "Adverse Effect Report Form".
- If approved, the maximum period of approval is limited to twelve months.
Projects that exceed this period must submit an application for renewal or continuation.

PROTOCOL NUMBER: 16020506

PROJECT TITLE: Perceptions of Performance-Based Pay

PROJECT TYPE: New Project

RESEARCHER(S): Kayla Alford

COLLEGE/DIVISION: College of Business

DEPARTMENT: Management and Accounting

FUNDING AGENCY/SPONSOR: N/A

IRB COMMITTEE ACTION: Expedited Review Approval

PERIOD OF APPROVAL: 02/16/2016 to 02/15/2017

Lawrence A. Hosman, Ph.D.

Institutional Review Board

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Appendix B: Perceptions of Pay Systems Survey Instrument

Demographics

Participation in this 42 question survey is completely voluntary and you may withdraw without consequences at any time. Only those participants 18 year of age and older will be allowed to participate in this survey. Upon completion of this survey, you will be directed to another site to enter your information for a chance to win a \$25 Amazon.com gift card. If you do not complete this survey, you will not have a chance to receive the \$25 Amazon.com gift card incentive. The information you provide in the incentive drawing will in no way be linked to your individual responses to this survey.

Confidentiality will be maintained as you are not required to enter any log-in information to reach this survey. The purpose of this research is to gain insight as to the awareness and perceptions of performance-based pay systems. Based on these statements do you agree to release your confidential responses and consent to your willingness to participate in this survey?

- I understand these terms and agree to their conditions
- I do not agree to these terms and will now withdraw from participation in this survey

1. What is your age?

- Under 18 years
- 18 to 19 years
- 20 to 24 years
- 25 to 29 years
- 30 to 34 years
- 35 to 39 years
- 40 to 44 years
- 45 to 49 years
- 50 to 54 years
- 55 to 59 years
- 60 to 64 years
- 65 years or older

2. What is your gender?

- Male
- Female

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3. Please indicate the highest level of education completed.

- Grammar School
- High School or equivalent
- Vocational/Technical School (2 year)
- College Freshman
- College Sophomore
- College Junior
- College Senior
- College Graduate (4 year)
- Master's Degree (MS)
- Doctoral Degree (PhD)
- Professional Degree (MD, JD, etc.)
- Other

4. If you are currently enrolled at The University of Southern Mississippi, please indicate which College you are currently a part of.

- College of Arts & Letters
- College of Business
- College of Education & Psychology
- College of Health
- College of Nursing
- College of Science & Technology
- N/A

5. What is your race?

- White/Caucasian
- African American
- Hispanic
- Asian
- Native American
- Pacific Islander
- Other

6. What is your annual income range?

- Below \$20,000
- \$20,000 - \$39,999
- \$40,000 - \$59,999
- \$60,000 - \$79,999
- \$80,000 - \$99,999
- \$100,000 or more

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Work Demographics

7. How many years have you been in the work force?
 - Never Worked
 - Less than 1 year
 - 1 - 2 years
 - 2-5 years
 - 6 or more years
8. With which payment method(s) have you personally been compensated? (Check all that apply)
 - By the Hour
 - Paid according to how much you produce
 - Commission
 - Salary
 - Other
9. With which payment method(s) are you currently compensated? (Check all that apply)
 - By the Hour
 - Paid according to how much you produce
 - Commission
 - Salary
 - Other
10. How familiar are you with performance-based pay methods?
 - I am familiar with both the term AND the method in practice.
 - I am familiar with the term but not the method in practice.
 - I am familiar with the method in practice but not with the term.
 - I am familiar with NEITHER the term nor the method in practice.
11. How familiar are you with hourly pay methods?
 - I am familiar with both the term AND the method in practice.
 - I am familiar with the term, but not the method in practice.
 - I am familiar with the method in practice, but not with the term.
 - I am familiar with NEITHER the term nor the method in practice.
12. In your academic experiences, how many lessons have been taught on the subject of any performance-based pay system?
 - 0
 - 1
 - 2
 - 3-4
 - > 4
13. Would you recommend your job to a friend?
 - Yes
 - No

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Scenarios

Hourly pay

When employees receive hourly pay, employees are paid according to the number of hours they are at work.

Piece-Rate Pay

Piece-Rate pay is a type of performance-based pay system. When employees are paid using piece-rate, employees are paid according to how much they produce.

14. Suppose you are an employee for a company who gives you a choice in how your pay is determined. You can get paid by the hour, or you can get paid according to how much you produce.

Based on the above scenario, how would you prefer to be paid?

- Paid by the hour
- Paid according to how much I produce

15. Suppose you are an employee for a company who gives you a choice in how your pay is determined. You can get paid by the hour, or you can get paid according to how much you produce. If you are paid by the hour, you will earn minimum wage, or \$7.25 per hour---for a total of \$290 per week. However, you may not have to give 100% effort to earn the \$290 since your pay is based on the number of hours you are at work. On the other hand, if you are paid according to how much you produce, you will receive \$1.00 for each unit you produce. If you give 100% effort, you can produce 10 per hour. This will yield the net effect of \$10 per hour, or \$400 per week, but you will have to give 100% effort throughout the day.

Based on the above scenario, how would you prefer to be paid?

- Paid by the hour
- Paid according to how much I produce

16. Suppose you are an employee for a company who gives you a choice in how your pay is determined. You can get paid by the hour, or you can get paid according to how much you produce. If you are paid by the hour, you will earn \$12.00 per hour---for a total of \$480 per week. However, you may not have to give 100% effort since your pay is based on the number of hours you are at work. On the other hand, if you are paid according to how much you produce, you will receive \$1.30 for each unit you produce. If you give 100% effort, you can produce 10 per hour. This will yield the net effect of \$13 per hour, or \$520 per week, but you will have to give 100% effort throughout the day.

Based on the above scenario, how would you prefer to be paid?

- Paid by the hour
- Paid according to how much I produce

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Performance-Based Pay

Indicate your level of agreement with the following statements regarding performance-based pay.

17. If you are paid based on your performance, you will achieve your desired income.

- Strongly Disagree
- Disagree
- Neither Agree nor Disagree
- Agree
- Strongly Agree

18. If you are paid based on your performance, pay results directly from your performance.

- Strongly Disagree
- Disagree
- Neither Agree nor Disagree
- Agree
- Strongly Agree

19. If you are paid based on your performance, you will work harder than others who get paid the same rate as you.

- Strongly Disagree
- Disagree
- Neither Agree nor Disagree
- Agree
- Strongly Agree

20. If you are paid based on your performance, you will be fairly paid according to your level of contribution to the company.

- Strongly Disagree
- Disagree
- Neither Agree nor Disagree
- Agree
- Strongly Agree

21. If you are paid based on your performance, you will be fairly compensated for your level of performance.

- Strongly Disagree
- Disagree
- Neither Agree nor Disagree
- Agree
- Strongly Agree

22. If you are paid based on your performance, you will have control over your work life.

- Strongly Disagree
- Disagree
- Neither Agree nor Disagree
- Agree
- Strongly Agree

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23. If you are paid based on your performance, you will be able to make decisions at work based on your knowledge and experience.

- Strongly Disagree
- Disagree
- Neither Agree nor Disagree
- Agree
- Strongly Agree

Hourly Pay

Indicate your level of agreement with the following statements regarding hourly pay.

24. If you are paid by the hour, you will achieve your desired income.

- Strongly Disagree
- Disagree
- Neither Agree nor Disagree
- Agree
- Strongly Agree

25. If you are paid by the hour, compensation results directly from your performance.

- Strongly Disagree
- Disagree
- Neither Agree nor Disagree
- Agree
- Strongly Agree

26. If you are paid by the hour, you will work harder than others who get paid the same hourly rate as you.

- Strongly Disagree
- Disagree
- Neither Agree nor Disagree
- Agree
- Strongly Agree

27. If you are paid by the hour, you will be fairly paid according to your level of contribution to the company.

- Strongly Disagree
- Disagree
- Neither Agree nor Disagree
- Agree
- Strongly Agree

28. If you are paid by the hour, you will be fairly compensated for your level of performance.

- Strongly Disagree
- Disagree
- Neither Agree nor Disagree
- Agree
- Strongly Agree

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29. If you are paid by the hour, you will have control over your work life.

- Strongly Disagree
- Disagree
- Neither Agree nor Disagree
- Agree
- Strongly Agree

30. If you are paid by the hour, you will be able to make decisions at work based on your knowledge and experience.

- Strongly Disagree
- Disagree
- Neither Agree nor Disagree
- Agree
- Strongly Agree

Job Satisfaction

In this section, please indicate the degree to which being paid based on your performance would worsen or improve each scenario.

31. How would/does being paid based on your performance affect your morale at work?

- Greatly Worsen
- Worsen
- Somewhat Worsen
- About the Same
- Somewhat Improve
- Improve
- Greatly Improve
- N/A

32. How would/does being paid based on your performance affect the morale of your coworkers?

- Greatly Worsen
- Worsen
- Somewhat Worsen
- About the Same
- Somewhat Improve
- Improve
- Greatly Improve
- N/A

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33. How would/does being paid based on your performance affect the level of teamwork in your work environment?

- Greatly Worsen
- Worsen
- Somewhat Worsen
- About the Same
- Somewhat Improve
- Improve
- Greatly Improve
- N/A

34. How would/does being paid based on your performance affect the level of professionalism in your work environment?

- Greatly Worsen
- Worsen
- Somewhat Worsen
- About the Same
- Somewhat Improve
- Improve
- Greatly Improve
- N/A

35. How would/does being paid based on your performance affect your level of personal accomplishment?

- Greatly Worsen
- Worsen
- Somewhat Worsen
- About the Same
- Somewhat Improve
- Improve
- Greatly Improve
- N/A

36. How would/does being paid based on your performance affect your level of recognition by management?

- Greatly Worsen
- Worsen
- Somewhat Worsen
- About the Same
- Somewhat Improve
- Improve
- Greatly Improve
- N/A

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37. How would/does being paid based on your performance affect your level of empowerment at work?

- Greatly Worsen
- Worsen
- Somewhat Worsen
- About the Same
- Somewhat Improve
- Improve
- Greatly Improve
- N/A

38. How would/does being paid based on your performance affect the quality of your work?

- Greatly Worsen
- Worsen
- Somewhat Worsen
- About the Same
- Somewhat Improve
- Improve
- Greatly Improve
- N/A

39. How would/does being paid based on your performance affect your ability to balance your work and personal life?

- Greatly Worsen
- Worsen
- Somewhat Worsen
- About the Same
- Somewhat Improve
- Improve
- Greatly Improve
- N/A

40. How would/does being paid based on your performance affect the alignment of your compensation to your responsibilities?

- Greatly Worsen
- Worsen
- Somewhat Worsen
- About the Same
- Somewhat Improve
- Improve
- Greatly Improve
- N/A

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41. How would/does being paid based on your performance affect your level of job security?

- Greatly Worsen
- Worsen
- Somewhat Worsen
- About the Same
- Somewhat Improve
- Improve
- Greatly Improve
- N/A

42. How would/does being paid based on your performance affect your work environment?

- Greatly Worsen
- Worsen
- Somewhat Worsen
- About the Same
- Somewhat Improve
- Improve
- Greatly Improve
- N/A

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Appendix C: Tables

Table 1: Income Achieved		t-Test: Paired Two Sample for Means
Question	<i>If you are paid based on your performance, you will achieve your desired income.</i>	<i>If you are paid by the hour, you will achieve your desired income.</i>
Mean	3.785714286	2.835714286
Variance	0.889003083	0.785765673
Observations	140	140
Pearson Correlation	0.035045629	
Hypothesized Mean Difference	0	
df	139	
t Stat	8.841822899	
P(T<=t) one-tail	1.88809E-15	
t Critical one-tail	1.655889868	
P(T<=t) two-tail	3.77618E-15	

Table 2: Paid for Performance		t-Test: Paired Two Sample for Means
Question	<i>If you are paid based on your performance, pay results directly from your performance.</i>	<i>If you are paid by the hour, compensation results directly from your performance.</i>
Mean	4.171428571	2.257142857
Variance	0.819321686	1.012538541
Observations	140	140
Pearson Correlation	-0.159326806	
Hypothesized Mean Difference	0	
df	139	
t Stat	15.54848935	
P(T<=t) one-tail	1.62226E-32	
t Critical one-tail	1.655889868	
P(T<=t) two-tail	3.24452E-32	
t Critical two-tail	1.977177724	

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Table 3: Work Ethic		t-Test: Paired Two Sample for Means
Question	<i>If you are paid based on your performance, you will work harder than others who get paid the same rate as you.</i>	<i>If you are paid by the hour, you will work harder than others who get paid the same hourly rate as you.</i>
Mean	3.892857143	2.742857143
Variance	1.132322713	1.271531346
Observations	140	140
Pearson Correlation	0.192717447	
Hypothesized Mean Difference	0	
df	139	
t Stat	9.765804976	
P(T<=t) one-tail	8.92691E-18	
t Critical one-tail	1.655889868	
P(T<=t) two-tail	1.78538E-17	
t Critical two-tail	1.977177724	

Table 4: Level of Contribution		t-Test: Paired Two Sample for Means
Question	<i>If you are paid based on your performance, you will be fairly paid according to your level of contribution to the company.</i>	<i>If you are paid by the hour, you will be fairly paid according to your level of contribution to the company.</i>
Mean	3.892857143	2.714285714
Variance	0.758221994	1.083247688
Observations	140	140
Pearson Correlation	-0.034020942	
Hypothesized Mean Difference	0	
df	139	
t Stat	10.10846403	
P(T<=t) one-tail	1.19589E-18	
t Critical one-tail	1.655889868	
P(T<=t) two-tail	2.39178E-18	
t Critical two-tail	1.977177724	

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Table 5: Level of Performance		t-Test: Paired Two Sample for Means
Question	<i>If you are paid based on your performance, you will be fairly compensated for your level of performance.</i>	<i>If you are paid by the hour, you will be fairly compensated for your level of performance.</i>
Mean	3.957142857	2.657142857
Variance	0.660020555	1.104624872
Observations	140	140
Pearson Correlation	-0.025758157	
Hypothesized Mean Difference	0	
df	139	
t Stat	11.43752703	
P(T<=t) one-tail	4.60065E-22	
t Critical one-tail	1.655889868	
P(T<=t) two-tail	9.20129E-22	
t Critical two-tail	1.977177724	

Table 6: Work-life Control		t-Test: Paired Two Sample for Means
Question	<i>If you are paid based on your performance, you will have control over your work life.</i>	<i>If you are paid by the hour, you will have control over your work life.</i>
Mean	3.742857143	2.907142857
Variance	0.897430627	0.991315519
Observations	140	140
Pearson Correlation	-0.056007203	
Hypothesized Mean Difference	0	
df	139	
t Stat	7.001899057	
P(T<=t) one-tail	4.93704E-11	
t Critical one-tail	1.655889868	
P(T<=t) two-tail	9.87409E-11	
t Critical two-tail	1.977177724	

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Table 7: Empowerment		t-Test: Paired Two Sample for Means
Question	<i>If you are paid based on your performance, you will be able to make decisions at work based on your knowledge and experience.</i>	<i>If you are paid by the hour, you will be able to make decisions at work based on your knowledge and experience.</i>
Mean	3.828571429	3.214285714
Variance	0.73299075	0.903391572
Observations	140	140
Pearson Correlation	0.107354146	
Hypothesized Mean Difference	0	
df	139	
t Stat	6.01188295	
P(T<=t) one-tail	7.65497E-09	
t Critical one-tail	1.655889868	
P(T<=t) two-tail	1.53099E-08	
t Critical two-tail	1.977177724	

Table 8: Gender Performance		t-Test: Two-Sample Assuming Unequal Variances
	<i>Male</i>	<i>Female</i>
Mean	4.294117647	4.101123596
Variance	0.571764706	0.955566905
Observations	51	89
Hypothesized Mean Difference	0	
df	126	
t Stat	1.302712648	
P(T<=t) one-tail	0.097524397	
t Critical one-tail	1.657036982	
P(T<=t) two-tail	0.195048795	
t Critical two-tail	1.978970602	

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Table 9: Gender Income		t-Test: Two-Sample Assuming Unequal Variances	
	<i>Male</i>	<i>Female</i>	
Mean	3.862745098	3.738636364	
Variance	0.920784314	0.884926855	
Observations	51	88	
Hypothesized Mean Difference	0		
df	103		
t Stat	0.74023128		
P(T<=t) one-tail	0.230421836		
t Critical one-tail	1.659782273		
P(T<=t) two-tail	0.460843672		
t Critical two-tail	1.983264145		

Table 10: Current Pay/Desired Income					ANOVA: Single Factor	
SUMMARY						
<i>Groups</i>	<i>Count</i>	<i>Sum</i>	<i>Average</i>	<i>Variance</i>		
Hourly	76	296	3.894736842	0.815438596		
PBP	17	63	3.705882353	0.845588235		
Salary	24	87	3.625	1.027173913		
Not Employed	10	34	3.4	1.822222222		
ANOVA						
<i>Source of Variation</i>	<i>SS</i>	<i>df</i>	<i>MS</i>	<i>F</i>	<i>P-value</i>	<i>F crit</i>
Between Groups	3.114465152	3	1.038155051	1.113159304	0.346493644	2.678300858
Within Groups	114.7123065	123	0.932620378			
Total	117.8267717	126				

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Table 11: Pay results from Performance/Current Pay					ANOVA: Single Factor	
SUMMARY						
<i>Groups</i>		<i>Count</i>	<i>Sum</i>	<i>Average</i>	<i>Variance</i>	
Hourly	76	317	4.171052632	0.677017544		
PBP/Combo	17	71	4.176470588	0.904411765		
Salary	23	93	4.043478261	1.407114625		
Not Employed	10	43	4.3	1.122222222		
ANOVA						
<i>Source of Variation</i>	<i>SS</i>	<i>df</i>	<i>MS</i>	<i>F</i>	<i>P-value</i>	<i>F crit</i>
Between Groups	0.521971061	3	0.173990354	0.199681459	0.896428202	2.678912721
Within Groups	106.3034258	122	0.871339555			
Total	106.8253968	125				

Table 12: PBP Familiarity/Desired Income					ANOVA: Single Factor	
SUMMARY						
<i>Groups</i>		<i>Count</i>	<i>Sum</i>	<i>Average</i>	<i>Variance</i>	
Both	71	269	3.788732394	0.85472837		
Term	48	180	3.75	0.829787234		
Method	3	9	3	3		
Neither	18	72	4	0.941176471		
ANOVA						
<i>Source of Variation</i>	<i>SS</i>	<i>df</i>	<i>MS</i>	<i>F</i>	<i>P-value</i>	<i>F crit</i>
Between Groups	2.740442656	3	0.913480885	1.02815846	0.382288935	2.671177951
Within Groups	120.8309859	136	0.888463132			
Total	123.5714286	139				

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Table 13: All Prior Pay Methods/Desired Income					ANOVA: Single Factor	
SUMMARY						
<i>Groups</i>	<i>Count</i>	<i>Sum</i>	<i>Average</i>	<i>Variance</i>		
Hourly Only	71	272	3.830985915	0.799597586		
PBP	2	5	2.5	0.5		
Salary/Other	8	33	4.125	0.696428571		
Combo incl PBP	26	95	3.653846154	1.355384615		
Hourly/Salary	20	75	3.75	0.934210526		
ANOVA						
<i>Source of Variation</i>	<i>SS</i>	<i>df</i>	<i>MS</i>	<i>F</i>	<i>P-value</i>	<i>F crit</i>
Between Groups	4.845325283	4	1.211331321	1.308023803	0.270813265	2.44598074
Within Groups	112.9814464	122	0.926077429			
Total	117.8267717	126				

Table 14: Pay Results from Performance/All Prior Pay Methods					ANOVA: Single Factor	
SUMMARY						
<i>Groups</i>	<i>Count</i>	<i>Sum</i>	<i>Average</i>	<i>Variance</i>		
Hourly	71	298	4.197183099	0.646277666		
PBP	2	7	3.5	0.5		
Salary/Other	8	32	4	0.857142857		
Combo inc PBP	26	109	4.192307692	1.121538462		
Hourly/Salary	20	82	4.1	1.357894737		
ANOVA						
<i>Source of Variation</i>	<i>SS</i>	<i>df</i>	<i>MS</i>	<i>F</i>	<i>P-value</i>	<i>F crit</i>
Between Groups	1.272495543	4	0.318123886	0.367606428	0.831315324	2.44598074
Within Groups	105.5778982	122	0.865392608			
Total	106.8503937	126				

A STUDY OF PERCEPTIONS OF PAY SYSTEMS

Table 15: # of PBP Lessons in the Classroom/Desired Income					ANOVA: Single Factor	
SUMMARY						
<i>Groups</i>	<i>Count</i>	<i>Sum</i>	<i>Average</i>	<i>Variance</i>		
Hourly	71	298	4.197183099	0.646277666		
PBP	2	7	3.5	0.5		
Salary/Other	8	32	4	0.857142857		
Combo inc PBP	26	109	4.192307692	1.121538462		
Hourly/Salary	20	82	4.1	1.357894737		
ANOVA						
<i>Source of Variation</i>	<i>SS</i>	<i>df</i>	<i>MS</i>	<i>F</i>	<i>P-value</i>	<i>F crit</i>
Between Groups	1.272495543	4	0.318123886	0.367606428	0.831315324	2.44598074
Within Groups	105.5778982	122	0.865392608			
Total	106.8503937	126				

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Appendix D: Cover Letter

My name is Kayla Alford and I am a senior Accounting Major currently in the process of completing my Honors Keystone research project. I am researching various pay method perceptions, and your participation in this research would help tremendously. I have created a forty-two question survey, which averages under ten minutes to take. All of the answers you provide will be kept confidential, and the results can in no way be linked back to any individual. You are not required to finish the survey; thus you may choose to discontinue participation at any time. However, when the dates to take the survey close, there will be an incentive drawing for one \$25 Amazon.com gift card, in which only those who complete the survey will be able to participate. To begin the survey, click on the following link. [Pay Method Perceptions Survey](#)

Thank you for your time and consideration,

Kayla Alford