



# Umbrella Summary

## Compensation

A Summary of Workforce Research Evidence Relevant to the Child Welfare Field

### What is compensation?

For the purposes of this review, compensation is defined in two primary ways: a) pay and b) pay satisfaction. Pay refers to “the amount of money an individual receives for their job” (Rubenstein et al., 2017, p. 6). It is sometimes measured as the exact amount or in terms of pay levels (Judge et al., 2010). Pay satisfaction is about an employee’s feelings about their pay, either in general or in terms of more specific aspects. Depending on how it is measured, pay satisfaction often also includes feelings about benefits, which might be more appropriately called compensation satisfaction. The role of actual benefits (e.g., number, type, value) has not been explored through meta-analysis and is therefore not covered here.

Pay satisfaction is measured with a large variety of scales, often embedded within a broader job satisfaction scale. One of the most comprehensive and more commonly used measures is the *Pay Satisfaction Questionnaire*, which includes 18 items that tap four satisfaction dimensions: pay level, benefits, pay raises, and pay structure and administration (Heneman & Schwab, 1985). Respondents rate their satisfaction with items such as “my current salary” (level), “the number of benefits I receive” (benefits), “my most recent raise,” (raises), and “differences in pay among jobs in the company” (pay structure and administration; Heneman & Schwab, 1985).

### Why is compensation important?

Compensation is obviously a necessary part of the employee-employer exchange, and it gets a lot of attention as a key factor in recruitment and retention. However, the bulk of the research does not align with common perceptions about its value. Actual pay is only modestly connected to job satisfaction (Judge et al., 2010), organizational commitment (Cohen & Lowenberg, 1990; Mathieu & Zajac, 1990), and turnover (Rubenstein et al., 2017). Even its connection with pay satisfaction, which one might expect to be high, is only slightly better (Judge et al., 2010).

The findings for overall pay satisfaction (which may also include perceptions of benefits) are somewhat better than for pay itself. It is moderately connected to job satisfaction (Williams et al., 2007) and organizational commitment (Mathieu & Zajac, 1990). Of the three types of organizational commitment, the connection is strongest for affective commitment, which refers to emotional attachment to the organization, followed by normative commitment (obligation to stay; Meyer et al., 2002). Continuance commitment, which is about the perceived costs of leaving, is not associated with pay satisfaction (Meyer et al., 2002). In general, pay satisfaction is only very weakly connected to job performance, unless pay is performance based (e.g.,

commissions; Williams et al., 2006). Though the connection with turnover intentions is moderate, pay satisfaction is only modestly related to actual turnover—no different than for pay itself (Williams et al., 2006).

Looking more closely at the different types of pay satisfaction (pay level, benefits, pay raises, and pay structure and administration), some of the connections are stronger, though there is less research to draw on. Again, connections with overall organizational commitment are moderate for all types, except for pay structure and administration, which is strongly associated with organizational commitment. In other words, commitment is higher for those who perceive the pay structure as fair and are happy with the policies and communication around pay (Williams et al., 2006). Satisfaction with benefits level is moderately related to intentions to leave, such that those who are satisfied with the number and value of their benefits are less likely to plan to leave; the connection between other types of satisfaction and turnover intentions is unknown.

## What contributes to pay and compensation satisfaction?

Meta-analytic research on pay and benefits satisfaction thus far has focused on assessing factors that are merely associated with compensation satisfaction, not on causal relationships. Given the modest connection between pay and pay satisfaction, however, it is clear that pay itself is not the determining factor. Of the hypothesized contributors, the following are strong predictors of pay satisfaction (Williams et al., 2006):

- ▷ Employees' perceptions of how their pay compares to that of other employees doing similar work within the organization (i.e., internal equity)
- ▷ Employees' perceptions of how their pay compares to that of other employees doing similar work in another organization (i.e., external equity)
- ▷ The alignment (or discrepancy) between what employees think they should be paid and what they are paid
- ▷ Extent to which employees feel that their pay is connected to their performance
- ▷ Both distributive and procedural justice, which are indicators of the perceived fairness of employee outcomes and the processes for determining them

Many other variables have been examined as potential contributors of pay satisfaction, but after controlling for actual pay differences, the associations tend to be quite modest. These include, for example, job characteristics; job level; and individual differences like age, gender, ethnicity, marital status, tenure, and education (Williams et al., 2006). Overall, the primary theme for pay satisfaction is one of fairness—the extent to which pay is fair relative to employees' inputs, employees' expectations, and the pay and work of others, as well as the fairness of pay-related policies, processes, and communication.

## Are there compensation-related interventions agencies should implement?

There is no meta-analytic research on strategies for improving pay and compensation satisfaction because primary research has lagged far behind the needs and interests of practitioners (e.g., Deadrick & Gibson, 2007; Gupta & Shaw, 2014). Thus, agencies are best advised to test strategies of their own and consider how existing research could inform those strategies.

- ▷ Knowing employee perceptions around compensation—both pay and benefits—can provide insights into employee expectations, attitudes, and beliefs. These can be used to both inform compensation decisions and evaluate their effectiveness if changes are made.
- ▷ Given the critical role of equity perceptions, agencies should conduct compensation analyses to optimize internal and external equity, keeping in mind that the two can sometimes be hard to balance; achieving one can compromise the other.
- ▷ To ensure that employees' perceptions are founded on facts, compensation information (including amounts, types, and how they were decided) should not only be fair but also transparent.
- ▷ Employees are often uninformed about their benefits, in part because they are typically complex and also because employees usually don't learn about them until they need them, which may be infrequent. Benefits communication can be an elaborate process, but as an aspect of benefits satisfaction and a form of informational justice, it is an important factor that should not be overlooked (Gilliland & Paddock, 2005).
- ▷ One simple strategy to consider is routinely providing employees with an overall compensation statement, which includes estimates of the dollar value of their entire compensation package—both salary and benefits. For employees considering alternative job opportunities, this is a reminder of what they have and a means of assessing the relative value of jobs they are exploring.
- ▷ A similar strategy could be used during the recruiting process, to make benefits more tangible and clear to candidates. In general, government agencies typically have more to offer in terms of benefits, and there may be opportunities to better leverage this through better communication with candidates.
- ▷ There is much to learn about the role of pay and benefits in recruitment, but agencies are best positioned to test the effectiveness of new strategies. Common recruitment measures include number and type of applicants, applicants' persistence in the hiring process, their response to job offers, and their perceptions about the process or specific aspects of pay and benefits. It is recommended that agencies test strategies with a representative sample of applicants and compare the results with applicants who experienced the standard process.

## QIC-WD Takeaways

- ▶ Actual pay is only modestly connected to job satisfaction, organizational commitment, and turnover. The connection with pay satisfaction is only slightly better.
- ▶ Pay satisfaction is moderately connected to job satisfaction and organizational commitment, mostly as a result of its association with affective commitment.
- ▶ Pay satisfaction is only very weakly connected to job performance, unless pay is performance based.
- ▶ Though the connection with turnover intentions is moderate, pay satisfaction is only modestly related to actual turnover—no different than for pay itself.
- ▶ Considering the different types of pay satisfaction, organizational commitment is higher for those who perceive the pay structure as fair and are happy with the policies and communication around pay.
- ▶ Satisfaction with benefits level is moderately related to intentions to leave, such that those who are satisfied with the number and value of their benefits are less likely to plan to leave.
- ▶ Considering potential contributors to pay satisfaction, the primary theme is one of perceived fairness—the extent to which pay is fair relative to employees' inputs, employees' expectations, and the pay and work of others, as well as the fairness of pay-related policies, processes, and communication.
- ▶ There is no meta-analytic research on strategies for improving pay and compensation satisfaction, so agencies are best advised to test strategies of their own and consider how existing research could inform those strategies.
- ▶ Potential strategies involve ways to enhance perceived fairness, by assessing employees' compensation perceptions, taking steps to enhance internal and external equity, and making sure compensation and compensation processes are fair and transparent for employees and applicants.
- ▶ Practitioners or researchers that would like to assess compensation satisfaction should consider the 18-item [Pay Satisfaction Questionnaire](#) by Heneman & Schwab, (1985).

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