

5.2: Compensation and Motivation

Learning Outcomes

- Discuss the connection between compensation and motivation

Although some dispute the link between compensation and motivation, it repeatedly shows up in surveys as one of the primary determinants of human behavior.

Before we take a look at the current research on the topic, answer the following question.

Practice Question

<https://assessments.lumenlearning.co...essments/18175>



In their 2019 Compensation Best Practices Report, PayScale notes that “some survey results show that money is the biggest motivator driving employees to seek other jobs, while others show career growth to be the primary incentive. Secondary reasons overall include issues related to benefits, fit with the organization or the job, and relationship problems with direct supervisor or managers.”^[1]

Gallup found that when employees are evaluating opportunities outside their current organization, they consider the following five factors most important:^[2]

1. the ability to do what they do best
2. greater work-life balance and better personal well-being
3. greater stability and job security
4. a significant increase in income
5. the opportunity to work for a company with a great brand or reputation

In a national survey, 54% of employees rated direct financial compensation as “very important” or “extremely important” to motivation. When stratified by age group there was statistically insignificant difference between Baby Boomer, Gen X and Gen Y on this point.^[3]

In an article titled “Compensation Doesn’t Drive Motivation,” author Kevin Howell titles one of the sections “Compensation Isn’t Enough.”^[4] And that’s a key point. Equitable compensation isn’t enough to drive high levels of motivation, it’s a minimum expectation. Forbes writer Ken Sundheim puts the compensation question in perspective, noting that research has shown that for employees to be motivated, basic minimums need to be met, including pay, working conditions and job security. Sundheim notes that “low compensation can not only hinder motivation and performance, but can actually create vengeful employees. When human beings feel they are being inadequately paid, they will tend to shift the majority of their focus on the unfairness of the situation.”^[5]



The reality is that our desire to reduce complex questions to simple answers—for example, to identify the one factor or most important determinant of behavior—belies the complexity of human experience. For example, Maslow's Hierarchy of Needs illustrates that we are motivated by different things at different stages of our development. Given that there are five generations in the workforce, it's likely that employees will be at different levels of development. Economic and health factors can also determine where a person is in their development and what they value and therefore what motivates them. Finally, changes in the employee-employer relationship and the nature of work may affect employee expectations and what significance the work has to an employee. For example, if a business is engaging in transactional relationships with its alternate workforce, it is likely to find those relationships (motivation) is driven more by compensation than other factors. Finally, generational changes in attitudes toward work may also impact what one wants from an employer. For some, "work" is not their life's work, but a side hustle, so non-financial rewards may have less value. Finally, a reductionist view fails to account for income inequality. There are many people who don't need to work. Someone like Alphabet CEO Larry Page, who was paid a dollar in 2018 (but is worth over 54 billion)—and, indeed, many Google employees—are not going to be motivated by compensation. However, the common refrain that compensation doesn't drive motivation is simply not consistent with the financial realities of many Americans. In a specialized economy where we must purchase rather than provide for our own basic needs, we are all motivated by money to meet those basic needs.

A more accurate answer is that what motivates a person depends on their specific situation. As is true of benefits, understanding a compensation requires what drives human motivation requires an understanding of where each person is in terms of their financial well-being and professional career development. Just as employees expect a personalized approach to benefits, employers who recognize that employees have different preferences for different types of rewards—from cash to recognition to autonomy—will have a better chance of not only getting an employee's initial commitment but keeping that person onboard and motivated. Keeping employees "Hungry" should refer to a person's drive for achievement, curiosity, not a physical state of need. If Employers want to tap higher-level capabilities, they should ensure that employees aren't distracted by lower-level needs. Pay is an important general motivator, but it is not the end of the story.

1. "[Will They Stay or Will They Go?: Employee Retention in an Uncertain Economy](#)." PayScale. 2019. Accessed August 22, 2019. ↵
2. Mann, Annamarie and Amy Adkins. "[The Dream Job](#)." Gallup. March 1, 2017. Accessed August 22, 2019. ↵
3. "[Compensation and Employee Motivation](#)." whatishumanresource.com. Accessed August 22, 2019. ↵
4. Howell, Kevin. "[Why Compensation Doesn't Drive Motivation](#)." Reflektive. Accessed August 22, 2019. ↵
5. Sundheim, Ken. "[What Really Motivates Employees?](#)" Forbes. November 26, 2013. Accessed August 22, 2019. ↵

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