

Confronting objections to performance pay: An analysis of the incentives-job satisfaction relationship after controlling for endogeneity

K.Pouliakasi and I. Theodossioui

Centre for European Labour Market Research (CELMR),

University of Aberdeen Business School, Aberdeen, Scotland, UK AB24 3QY

University of Aberdeen Business School, Edward Wright Building, Dunbar Street, Old Aberdeen AB24 3QY – Tel.

01224 272183, Fax. 01224 272181, email: theod@abdn.ac.uk

The increasing interest in the provision of incentive compensation schemes has recently raised concerns regarding their potential corrosive effect on intrinsic job satisfaction, or the security of employment. This study confronts these fears by arguing that previous research has failed to correct for the endogeneity in the relationship between performance-related pay (PRP) and job satisfaction. By using an overall measure of job satisfaction as the dependent variable, earlier research has also masked the inherent heterogeneity that is associated with such a multi-faceted concept. This paper therefore embarks on an analysis of the endogenous impact of PRP on various components of job satisfaction, namely total pay, job security, and the actual work itself. Using three waves from the British Household Panel Survey (BHPS), ordered logit job satisfaction regressions show that contingent reward contracts increase the satisfaction of workers with their pay and the work itself, without coming at the cost of greater dissatisfaction with job security. Non-economic arguments that incentive pay reduces the intrinsic satisfaction of jobs are therefore not supported, as are popular concerns regarding the adverse impact of PRP schemes on job security.
