
Psychological Context of Managerial Staff Compensation – Polish Experiences

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Abstract

The article is meant to become part of the scientific discussion concerning the psychological foundations shaping the compensation system and transparency of managerial staff's salaries. It is founded on a scientifically proven assumption that in respect to salaries the employees' assessment, including management staff, of their attractiveness is contingent on numerous factors with the most important ones being psychological in character. Through analysis the article aims to identify managerial staff's opinions regarding the psychological aspects of the remuneration system including: integrity, justice, adequacy and transparency. To achieve this goal the author used a questionnaire which was administered to 120 representatives of middle and senior managerial staff working within the corporate sector functioning in Poland. The present study should be considered to be a pilot study. It was determined that sex was one of the variables which meaningfully influenced the psychological aspects of evaluating a remuneration system. In general, most male managers gauge their salary as satisfying whereas female managers who show satisfaction with their salary constitute less than half of the study sample. Clearly, therefore, women more often than men considered their salary to be unsatisfactory or average. In contrast to their male counterpart's female study participants more often described their salary as fair if it was based on such factors as time needed for job completion and mental strain. Managers taking part in the study, regardless of gender, specified difficulty, the degree of responsibility connected with their job and results achieved by a team which they managed as having the greatest influence on their perception of their salary as fair. Majority of managers expect their salary not be dependent upon the financial success of the company as a whole. Additionally, they express acceptance for differences within salaries of managers working for the same organization and their direct correlation to individual accomplishment. Most management staff support the idea that salary amounts remain undisclosed but advocate transparency in the way salaries are structured.

Keywords: compensation, salaries, managerial staff's rewarding

Introduction

Studies concerned with the relationship between senior and middle managers' salaries and such variables as the company's effectiveness, its value or long-term sustainability make up a large part of economics [1, 2, 3]. There are also numerous scientific studies devoted to economic and legal aspects of structuring management contracts [4] and the connection between managers' salaries and financial slumps of companies which they manage [5, 6].

The psychological context of the remuneration system, a key factor in managers' involvement, motivation and loyalty, is an area which has been explored far less. Although it is oft proposed that managerial staff should possess a high level of motivation stemming from self-motivation and strong sense of mission studies indicate [7] that managers consider financial motivators to be very important and that salaries are a crucial element in their assessment whether a particular organization is an attractive employer [8].

Through analysis the article aims to identify managerial staff's opinion regarding the psychological aspects of the remuneration system including: fairness, justice, adequacy and transparency. To achieve this goal the author used a questionnaire which was administered to 120 representatives of middle and senior staff working within the corporate sector functioning in Poland.

Literature review

As far back as the 1960s it has been well-known that in assessing a salary an employee considers not only its nominal value or its purchasing power but also whether it is honest, adequate and just [9, 10]. This stems from the fact that the assessment of the attractiveness of salaries is very subjective. It is difficult to gain a measure of a salary using such descriptions as 'large', 'fair' or 'big enough' [11]. An amount of money which one employee considers as large may be seen as very small by another with those assessments changing over time. A salary that at one time may be perceived by a worker as attractive and satisfying some time later can be assessed as unattractive.

It is necessary, therefore, to consider including the psychological context of remuneration, especially the implementation of the principles put forth within the numerous works of behavioral and cognitive psychology into the process of remuneration management.

The contribution of L. Yao, L. Weihua and L. Hao [12] to the study of psychological conditioning of the assessment of compensation is significant. These authors have shown that the psychological effectiveness of compensation is contingent on the assessment of five variables: salary level, quality of the remuneration policy, the process of salary management, rules of salary distribution and variable components of remuneration (prizes and bonuses). The works of J. Colquitt [13] are similar. He, in turn, has proven that satisfaction with a salary is dependent on the sense of fairness analyzed within several planes: process fairness, allocation fairness, interaction fairness and information fairness or equal access to information regarding the principles used to structure salaries. Fairness is assessed by employees through the comparison of the results of their work and the rewards gained for them. Every situation in which an employee gauges his salary to be inadequate in respect to his results as well as when he believes that other employees' salaries are inappropriate in regard to their work results causes a reduction in the satisfaction he feels concerning his salary.

Through compensation the organization sends the employee a very important signal which communicates how valuable he is to his employer. The amount of that compensation in comparison to salaries of other people working within the same organization in positions with similar level of difficulty and responsibility is especially important. A salary taken as certain type of feedback becomes a tool through which the employee can build self-esteem. From the perspective of management this is crucial since self-esteem is one of main categories used to explain the results achieved by an employee. Employees who have a high self-esteem seek to maintain their positive self-image and one way to reach this goal is to attain good results at their work. People with high self-esteem display stronger motivation for completing their tasks, are more determined and are

less likely to become discouraged by changing circumstances. In this perspective self-esteem is a factor that has a bearing on the process in which the amount received as remuneration influences productivity and work quality. Over time employees with high earnings start to realize that they are very valuable to the organization and that becomes a part of their self-image translating into good results at work. However, it is not possible to conclude on the basis of this example that more is always better. Studies of J. Heyman and D. Ariely [14] show that wage levels that significantly exceed the average have a destructive impact on the quality of accomplishing tasks that require creativity and engagement.

Within the context of the problem addressed by this article it is justifiable to ask about the way disproportions in compensation influence the perception of their fairness and what is the correlation between disparity in compensation and the effects achieved by the organization. Research results dealing with this subject are not clear. On the one hand we receive reports which show that a lack in variation of compensation produces positive consequences. This pattern has been observed, among other examples, in a study concerning the relationship between differences in the compensation of managers and the company's value. P.A Siegel and D.C. Hambrick [15] have proven that the greater the disproportion in the salaries of top rung managers the smaller the market value of the company. A similar conclusion was drawn by M. Bloom [16] whose study concerned sport teams or organizations where cooperation is the key to success. In football the relation that the smaller the variations in compensation the greater the number of wins has been observed. It must be, however, clearly stated that in other sport disciplines, for example ice hockey or basketball, this has not been true. Players who contributed more to the success of the team expected significantly larger salaries. On the basis of the above it can be concluded that the axiological category having the greatest importance in the assessment of the amount of compensation is not equality but justice. In those companies where everyone works equally hard and has similar input into the success of the organization equal compensation is considered fair while in those companies where the input of individual members of the team to success clearly differs then disparity in compensation should be considered as fair.

Of course, the level of that variation remains a subject which remains open to discussion.

Interesting data on this matter is provided by the extensive research of S. Kiatponsan and M. Norton [17]. On the basis of a study encompassing an impressive number of respondents exceeding 55,000 from 40 countries it has been proven that, first, people understate the estimated difference between the compensation of managers and unskilled workers and second, they consider as fair a smaller disproportion in compensation than the one which is the result of their own understated estimates. For example, in the USA the actual ratio between the compensation of highest level managers and unskilled workers was 354:1, that estimated by respondents was 30:1 while the one believed to be justified and just amounted to only 7:1.

Research results obtained by Kiatponsan and Norton show also that the assessment of justice in the disproportion of compensation is culturally dependent. For example, in Denmark respondents decided that the proportion 2:1 is fair while in Taiwan this ratio is 20:1. It can, therefore, be assumed that in countries whose culture is characterized by greater distance toward authority employees consider greater differentiation in compensation as justified.

Methodology

The study included managers studying to attain an Executive MBA at the Polish Academy of Sciences in Warsaw. The selection of respondents resulted from the fact that the Executive MBA

studies are chosen by people with significant professional experience as well as experience in managerial positions. An average length of respondents' job seniority in managerial positions was 8.5 years. The study sample included 38 women and 82 men with the proportion reflecting the contribution of women and men holding management positions in Poland [18]. They represented companies of various sizes with a clear predominance of large and medium companies (81% of the group) and a variety of fields. The research was conducted in December of 2017 and the main tool was a questionnaire.

The following research problems have been formulated:

1. What conditions must be met for managerial staff to consider their salary as satisfying?
2. What is the relationship between satisfaction with salaries and such variables as fairness, justice, adequacy and transparency of salaries?

Questionnaire surveys whose results have been used in this publication are based on the mechanism of introspection*. The author is aware that this method is considered to produce knowledge which not is inter-subjectively verifiable and does not provide factual causes of behaviors. Regardless of criticism raised by methodologists of social sciences introspective studies are essentially the basis for all questionnaire studies and the use of their results in the diagnosis of managers' opinion about psychological aspects of their compensation is based on a statement that has been well-documented in literature – that the employee is the best source of information about the specificity of his/her position or the fulfilled organizational role. Managers hired through a contract were intentionally chosen for this research.

Management staff about their earnings – analysis of research results

A vast majority (62.5%) of middle and senior managers evaluated their salary as satisfying with 'rather satisfying' chosen by 57.5% of participants. It is important that in respect to female managers taking part in the study the level of satisfaction with their salary was lower and that only 47.36% of women participating in the study marked answers: 'rather satisfying' and 'definitely satisfying' (cf. table 1)

Table 1. Salary satisfaction level declared by managers participating in the study

Is your salary satisfying?	Definitely not		Rather not		Partly yes and partly not		Rather yes		Definitely yes	
	Number	%	Number	%	Number	%	Number	%	Number	%
Men (N=82)	7	8.54	8	9.76	10	12	52	63.4	5	6.1
Women (N=38)	2	5.3	11	28.94	7	18.42	17	44.73	1	2.63
Together (N=120)	9	7.5	19	15.83	17	14.17	69	57.5	6	5

Source: self-elaboration based on questionnaire results

* Percentages concern individual subgroups (82 = 100% of men; 38 = 100% of women)

Data from table 1 indicate statistically significant differences in responses provided by women and men. Frequently men evaluated their satisfaction emphatically (as low or high), whereas significant part of women chose more neutral opinions (average). Women declared their dissatisfaction with the amount of their salary much more often than men and the answer reflecting

* Introspection – from Latin *introspicere*, literally means “looking inside,” observing and analysing one's own mental states, thoughts, feelings, and motives. It deals with conscious contents and processes.

this fact was selected by almost one third of female participants. Most likely this is the result of persistent differences in salaries of women and men holding similar management positions [19].

Managers taking part in the study were asked about the level to which factors evaluating their work should impact the amount of their compensation and which elements should be used to structure their salary so that they could consider it fair. (cf. Table 2).

Table 2. The evaluation of factors that should be considered in establishing fair compensation of managerial staff (on a scale from 1 to 5 where 1 means irrelevant and 5 means crucial)

Evaluated element influencing the amount of compensation	Men (N=82)		Women (N = 38)		Whole sample (N = 120)	
	mean	variance	mean	variance	mean	variance
Complexity of work	3.85	0.79313	4.03	1.32361	3.9	0.957913
Difficulty of work	4.68	0.29329	4.66	0.33926	4.67	0.305252
Degree of responsibility of work	4.67	0.27296	4.53	0.36415	4.63	0.303571
Time devoted to tasks at work	4.14	0.42276	4.58	0.68279	4.28	0.540896
Mental strain relevant to work	4.39	0.38904	4.68	0.22191	4.48	0.352661
Innovativeness of working	4.05	1.18278	4.03	0.83713	4.04	1.065476
Results of team directed by manager	4.51	0.87002	4.29	1.23826	4.44	0.988165
Results of the whole company	3.63	1.42005	3.03	1.05334	3.44	1.37472
Mean wage on the market	3.73	0.96417	4.26	0.523471	3.9	0.880672
Mean wage of other managers in the company	4.01	1,07392	4.07	0.453058	4.03	0.872829

Source: self-elaboration based on questionnaire results

In the opinion of male managers in establishing the amount of compensation the employer should primarily consider the work's difficulty and degree of responsibility (average grade above 4.6) as well as the results achieved by a team lead by them (average grade 4.51). Women participating in the research believed that a fair amount requires the consideration of far more elements. According to their judgment the employer should strongly consider difficulty and complexity of their work, time required for completing assignments and mental strain relevant to work (average grade of the importance of these elements was above 4.5). The influence of the sex of managers participating in the study as a statistically significant variable has been proven through an analysis of the results of the Mann-Whitney U Test (cf. table 3).

Table 3. The influence of managers' sex-analysis of the results of the Mann-Whitney U Test

Evaluated element influencing the amount of remuneration	Mann – Whitney U Test	Asymptotic pertinence
Complexity of work	1284.5	0.099
Difficulty of work	1537.5	0.883
Degree of responsibility of work	1368.0	0.195
Time devoted to tasks at work	901.0	0.001
Mental strain relevant to work	1178.0	0.015
Innovativeness of working	1468.5	0.591
Results of team directed by manager	1348.5	0.161
Results of the whole company	1083.0	0.006
Mean wage on the market	1085.0	0.005
Mean wage of other managers in the company	1498.0	0.717

Source: self-elaboration based on questionnaire results

Most managers who participated in the study (regardless of gender) in large part expect the employer not to make their salary dependent upon the results of whole company (average grade under 3.5). However, a variance analysis of their answers shows a considerable diversity in their opinions in respect to this topic. A principle which has been well documented by science that people do not want their salary to be dependent on factors over which they have no direct control was confirmed. Relatively low importance of innovativeness as a determinant for the amount of compensation can be similarly evaluated. Studies show [20, 21] that innovativeness, including organizational innovativeness, is a core competence of managers which the employer must acknowledge. In Polish organizational reality the innovativeness of managers is often hindered by strict rules and may be a reason for the participants' belief that innovativeness should not influence wage levels to a greater degree.

An important issue considered within the study was fairness of earnings related to their individualization. As many as 87.5% of respondents answered positively to the question whether they would accept a situation where they earn less than managers who have better work results with the same percentage declaring that, in general, employee compensation should be strictly related to individual work results.

Respondents of the present study are strongly against the complete transparency of wages. As many as 90.1% of respondents answered 'no' to the question: 'Should information concerning managerial staff's salary be public'. However, they also believe that the rules governing as well as all components used in the structuring of employee salaries should be public.

Conclusions

Since the research included 120 representatives of managerial staff it should be considered to be a pilot study. The obtained results enable the formulation of hypotheses which could later be used in further quantitative research with a significantly larger research sample. Study results allowed the author to conclude that sex of management staff meaningfully influences psychological aspects of compensation evaluation. Majority of the male managers evaluated their salary as satisfying whereas female managers who were satisfied with their salary constituted less than half of the study sample. Additionally, women have described their salary as unsatisfactory or average more often than men. The disparity between men's and women's salaries existing in Poland, even though the law prohibits all discriminatory practices, may also be a factor in explaining such feelings.

Female managers participating in the study more frequently than their male counterparts believed that their salary was fair if it was structured with consideration to such factors as time needed for job completion and mental strain relevant to the job being performed. Regardless of gender managers taking part in the research thought that difficulty and degree of responsibility connected with a job as well as results achieved by the team managed by them should have the largest impact on their salary for them to consider it fair. Most managers expressed their belief that their compensation should not depend on the results of whole company. Majority of management staff also declared an acceptance of differentiation in their salaries within the same organization and would like them to be strictly linked to an individual's work results. In large part they would like salaries to remain undisclosed and transparency in the rules used to structure them.

The quantity and structure of the study sample was insufficient to obtain an answer to the question whether there is a statistically significant relationship between the perception of the size

and fairness of salaries and such variables as: age, job seniority or industry represented by the employer of the participant.

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