

A study of the relationships between compensation package, work motivation and job satisfaction

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Summary

This study applied the theoretical framework based on expectancy and discrepancy theories to examine how the elements of total compensation might influence work motivation and job satisfaction. The principal dimensions of total compensation that give rise to distinct reactions among employees were examined. Two samples of employees, 269 exempt employees and 297 nonexempt employees, were studied separately in order to identify the differences of reaction between these two groups. The relationships between the elements of total compensation, work motivation and job satisfaction were analysed by a structural equations model with LISREL VII. Proposals were developed to predict the conditions of compensation efficiency on work motivation and job satisfaction in the cultural context of employment in France. The three principal conclusions of the study were: (1) under certain conditions, individualized compensation of exempt employees can be a factor of work motivation; (2) flexible pay of nonexempt employees neither motivates nor increases job satisfaction; (3) benefits of exempt and nonexempt employees neither motivate nor increase job satisfaction. Copyright © 1999 John Wiley & Sons, Ltd.

Introduction

The existence of a relationship between the different components of compensation, job satisfaction, and work motivation, is not generally called into question. However, the nature and the measurement of this relationship gives rise to numerous differences of opinion. In France, these differences have mainly been between human resource management researchers and practitioners as the latter have generally established their company compensation policy on the hypothesis that flexible pay corresponds not only to the needs of organizations but also to the expectations of employees, particularly the managerial staff. Opinion polls and organizational surveys seem to support the practitioners' point of view. But what does flexible pay mean in the framework of

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French companies? To answer this question we must briefly explain the evolution of compensation policies in France since the beginning of the 1980s.

A wage freeze in 1982 provided a major turning-point in the compensation policies of French companies. Following this wage freeze, the French Government succeeded in slowing down the inflation rate by establishing a policy which cut the link between pay level and the consumer price index. Because of this, businesses had room to manoeuvre in two directions. The first direction, characteristic of the 1980s, was the development of individual pay rises to the detriment of collective pay rises. This tendency is widespread for managerial staff today (Lanciaux, 1990; Melessike, 1995; Naro, 1991; Roussel and Heneman, 1997). The second, characteristic of the 1990s, was the appearance of the concept of total compensation which aims to optimize the pay mix according to an organization's commercial and financial strategies while taking into account its corporate culture, management methods, and employee expectations (Amadiou, 1995; Donnadiou, 1991; Sire and David, 1993). The pay mix is principally based on individualized salaries and the flexibility of compensation. This flexibility is obtained by increasing variable pay (bonus plans, gain-sharing . . .) and short and medium term deferred income (profit-sharing¹, employee stock ownership plans, company savings plans . . .) in the total compensation package. As a consequence of this evolution, the compensation system of French organizations is based on three principal components: fixed pay, flexible pay and benefits.

The objective of the present study is to measure and compare the impact of compensation on job satisfaction and work motivation of exempt and nonexempt employees. The terms exempt employees and nonexempt employees are used as they correspond best to French employment concepts. This distinction is based on the definition proposed by Gomez-Mejia, Balkin and Cardy (1995), according to which the term exempt employees refers to employees who are not paid for overtime whereas nonexempt employees are. In France, exempt employees include professionals, administrators and executives. Engineers correspond to a specific employment category among exempt employees, whereas outside salesmen are more often nonexempt employees, along with supervisors/foremen, technicians, employees and industrial workers. The interest of making a distinction between exempt and nonexempt employees lies in the fact that these two categories of employees are treated differently in terms of compensation. This differential treatment concerns not only pay levels but also the total compensation design, whereas other variables, such as sex or seniority in the organization, account for differences primarily in pay level (Sandoval, 1996). This specificity explains our choice of controlling the subsamples of exempt and nonexempt employees in the present study.

Our research aimed to make evident and to understand French worker reactions to French pay systems. We wanted to test whether satisfaction with regard to one or other component of total compensation had an influence on job satisfaction. Likewise, we wanted to test whether the motivation of employees in relation to one or other component of total compensation had an influence on work motivation. We suppose that the compensation policy of an organization is efficient if satisfaction with regard to any of the compensation components increases job satisfaction, and if motivation incited by any of the compensation components actually results in higher work motivation.

The postulates which underlie compensation policies in France and which appear in the discourse of chief executive officers, human resource managers, consultants and politicians have never been based on hypotheses tested by field research. The interest of this study is therefore that we endeavour to make up for this absence of data by conducting some empirical research. Our research is centred around information obtained from 269 exempt employees and 297 nonexempt

¹ In France, profit-sharing allowances are generally blocked for 3 to 5 years.

employees. It provides new results which support the creation of compensation policies adapted to the populations concerned.

Theoretical Framework

Before measuring the impact of total compensation on work motivation and job satisfaction, we will define the three constructs used in this research.

The total compensation package

We used an empirically tested classification based on a comparison of several classifications of the elements of compensation proposed by French jurists, economists, and business administrators (Roussel, 1996). Our classification proposes three main components of total compensation: fixed pay, flexible pay and benefits. The empirical test for this classification was carried out using the same sample of employees and the same survey questionnaire as in the present study. It shows that each of these three components reveals a homogeneity in relation to feelings of pay and job satisfaction, as well as in relation to attitudes concerning expectations, valence and effort in the motivational process. The classification refers to the concept of total compensation (Béard, Donnadiou and Priouret, 1986) insofar as it attempts to propose a compensation design based on categories, in order to determine the various human resource management (HRM) strategic variables of the pay system. Thus, objectives (such as improving work motivation, job satisfaction or commitment, or reducing employee turnover, absenteeism, etc.) may be assigned to each category in accordance with the HRM policy in a particular organization.

In this classification, fixed pay is compensation where the amount and payment are guaranteed (base pay, seniority bonuses, 13th month, etc.). The second component is flexible pay, which includes variable pay and deferred income. Variable pay is compensation in which the amount is variable and/or its distribution is uncertain (gain-sharing, bonuses, incentives, goal-based pay, overtime, etc.). Deferred income are sums that are blocked for a given period of years before becoming available (French profit-sharing, company savings plans, employee stock ownership plans, etc.). The concept of flexible pay also encompasses the idea of forms of payment which aim to decrease the fixed costs/variable costs ratio in labour charges (Sire and David, 1993). The third component of total compensation regroups all the different kinds of benefits and is made up of four principal elements. The first comprises allowances and reimbursements for miscellaneous expenses concerning food, transportation, clothing, etc. The second consists of miscellaneous benefits and perquisites in the form of goods and services supplied at a reduced price, made available, or offered to employees (company housing, company car, private usage of telephone, public transportation passes, etc.). The third includes employee welfare programmes and recreational opportunities concerning tickets for various entertainment events, Christmas presents, family assistance, scholarships, etc. Finally, the fourth comprises complementary pension plans and health insurance cover paid for by the employer.

The possibility of comparing these three main components of total compensation between employees of different companies is made easier by the important legal framework surrounding them. Both at the level of employment laws and collective labour agreements, the rules and regulations cover all firms operating in France. They concern minimum pay levels which must be guaranteed to employees, but also pay administration procedures. For example, French

employees, with one or two exceptions not included in our sample, are paid on a monthly basis. Only the payment date can differ between companies. Another example is the regulation of performance appraisal methods in relation to gain-sharing and profit-sharing. However, this legal framework is flexible enough to allow companies to define their own compensation policy and the way this policy is put into practice with due respect for the law.

Work motivation

Our research comes within the field of cognitive choice theories according to Kanfer's taxonomy of motivation theories (1990). These cognitive choice, or process, theories (Campbell, Dunnette, Lawler and Weick, 1970), study the mechanism of motivation and are governed by Vroom's expectancy theory (1964). Several models have been developed to improve on Vroom's original formulation. They describe motivation as a process that drives the individual to voluntarily produce effort in his work (e.g. Campbell and Pritchard, 1976; Graen, 1969; Lawler, 1964; Porter and Lawler, 1968, etc.). They propose an explanation of motivated behaviour that can be observed through effort displayed at work. Among these models, those created by Lawler, at first in collaboration with Porter (Porter and Lawler, 1968), then with Nadler (Nadler and Porter, 1977) are particularly well adapted to research concerning the interaction between compensation, work motivation and job satisfaction. It is this last model which is used as the theoretical framework for the study of work motivation. It explains the link between behaviour and attitudes and in particular between effort, which is the indicator of motivation, and job satisfaction. Kanfer (1990) notes that expectancy theory remains the most used theoretical framework for empirical studies that concern our field of research, while Pinder (1984), after completing his research on theories of work motivation, considers it 'may be a more valid representation of work-related attitudes and behaviours than has been concluded' <previously>' (Pinder, 1984, p. 147). This theoretical framework allows for a better differentiation between the concepts of work motivation and job satisfaction compared to other possible approaches such as need, intrinsic motivation, equity, or goal setting theories. Furthermore, expectancy theory clearly indicates the attitudinal factors which, during the motivational process, drive the individual to produce effort to perform better.

According to the terminology used in the model by Nadler and Lawler (1977) effort is the indicator of the dependent variable 'work motivation'. The process of motivation in relation to compensation can be described by three independent variables: effort–performance expectancy, performance–outcome expectancy, and valence. Outcome and valence relate to the different categories of total compensation previously mentioned. However, the first empirical studies in France based on this theoretical model show that the motivational process of employees distinguishes only three independent aspects of compensation: fixed pay, flexible pay, and benefits (Roussel, 1996). We thus put forward the following three hypotheses:

Hypothesis I: The expectancy that effort leads to performance achievement positively influences work motivation.

Hypothesis II: The expectancy that performance leads to the obtaining of outcomes in terms of total compensation positively influences work motivation. The total compensation outcomes are fixed pay, flexible pay, and benefits.

Hypothesis III: The valence attached to each component of total compensation positively influences work motivation. The components concerned are fixed pay, flexible pay, and benefits.

Job and pay satisfaction

We followed Locke's approach (1969, 1976, 1984) for our research. Referred to as discrepancy theory, it incorporates contributions from two-factor theory (Herzberg, 1971; Herzberg, Mausner and Snyderman, 1959), need theories (Alderfer, 1969; Maslow, 1943), intrinsic motivation theories (Deci, 1972, 1975; Hackman and Oldham, 1976, 1980), and equity theory (Adams, 1963, 1965), hence its strength. In discrepancy theory, the process of satisfaction results from the distance between two perceptions concerning aspects of the job which an individual values. This evaluation depends on the individual's own needs, values, beliefs, expectations, aspirations and desires (i.e. the factors corresponding to the contributions from the above-mentioned theories). The process of satisfaction, according to the principle of discrepancy, corresponds to the degree of congruence perceived by a person between what each aspect of work should be and what it actually is. For Locke (1976, p. 1300), job satisfaction is 'a pleasurable or positive emotional state resulting from the appraisal of one's job or job experiences'.

The process of social comparison (Festinger, 1954) constitutes a major determinant of job satisfaction in compensation studies. The possibility of integrating this contribution to discrepancy theory was proposed by Lawler (1971) with regard to the case of pay satisfaction. Thus, the concept of social comparison, which underlies equity theory (Adams, 1963, 1965) and relative deprivation theory (Crosby, 1976, 1984) can be found in Lawler's discrepancy theory, with the advantage of proposing a more precise explanation of the process that leads to satisfaction. We retain this contribution for our study regarding the independent variable 'pay satisfaction'. The aim is to measure the relationship between the feelings of satisfaction aroused by the different forms of compensation and the dependent variable 'job satisfaction'. However, we do not adopt the unidimensional vision of pay satisfaction proposed by Lawler (1971) which is limited to attitudes solely in relation to the amount of salary received. We prefer to follow the recommendations of Dyer and Thériault (1976), Heneman (1985), Heneman and Schwab (1985), and Miceli and Lane (1991) who consider pay satisfaction as a multidimensional concept. This perspective represents two major contributions to research on interactions between compensation and satisfaction. The first corresponds to the idea that an individual can experience distinct feelings of satisfaction in relation to the various elements of compensation such as fixed pay or benefits. The second takes into consideration the effect of organizational justice (Greenberg, 1987, 1990), which, in distinguishing distributive justice from procedural justice, indicates that the individual can also experience feelings of pay administration satisfaction.

Since Heneman and Schwab (1985) developed the 'Pay Satisfaction Questionnaire', research concerning the determination of the factorial structure of the concept of pay satisfaction has intensified, opening a debate between the supporters of three-, four-, or five-facet structures (Ash, Dreher and Bretz, 1987; Heneman, Greenberger and Strasser, 1988; Judge, 1993; Judge and Welbourne, 1994; Mulvey, 1991; Mulvey, Miceli and Near, 1992; Orpen and Bonnici, 1987; Scarpello, Huber and Vandenberg, 1988). The first French research on this theme also addressed this issue (Roussel, 1996). However, given the absence of consensus in Anglo-Saxon research to allow the development of a universal model and also prompted by a desire to keep in mind the specific nature of French firms, a new theoretical model has been developed.

In this first French model, the facets of pay satisfaction were hypothesized as being: (1) direct compensation level, (2) the structure and administration of direct compensation, (3) the level and administration of pay raises, and, (4) the level and administration of benefits. This theoretical framework was similar to the one proposed by Heneman and Schwab (1985) who defined a four-facet structure of pay satisfaction as a result of their investigations. This structure has been frequently tested in the United States, though it has not yet been entirely validated. The French

theoretical model also took into account the propositions made by Dyer and Thériault (1976) with regard to the relevance of considering pay rise administration as well as level. It also included the recommendations by Miceli and Lane (1991) to adopt a similar approach with regard to benefits. But the French model does not distinguish between the level of benefits and the system of benefits, as suggested by Miceli and Lane. In fact, benefits do not seem to have the objective and subjective significance in France as they have in North America, so one factor was considered enough to take into account this aspect of compensation.

The initial empirical studies conducted in France did not entirely validate this theoretical model (Roussel, 1996). The facets of procedural justice were not confirmed as being independent from those of distributive justice. Employees do not experience distinct feelings of satisfaction between the amounts concerned and administrative and procedural problems. Thus the concept of organizational justice (Greenberg, 1987, 1990) has not yet been validated in relation to French compensation. It must be noted that the validation of the concept of pay satisfaction in France did not take into account the distinction between exempt and nonexempt employees. Research by Scarpello *et al.* (1988) suggests testing the factorial structure of this construct with these two employment categories. After validation, the French theoretical model now includes five facets. The first three concern the level and administration of fixed pay and relate specifically to fixed pay internal equity satisfaction, fixed pay external equity satisfaction and pay rises satisfaction. The fourth dimension corresponds to flexible pay level and administration satisfaction, and the fifth to the level and administration of benefits satisfaction. Thus, we put forward the following hypothesis:

Hypothesis IV: Satisfaction in relationship to each dimension of total compensation positively influences job satisfaction. The dimensions concerned are (1) internal equity of fixed pay, (2) external equity of fixed pay, (3) pay rises, (4) flexible pay and (5) benefits.

The interactions between compensation, work motivation and job satisfaction

The theoretical framework of our research led us to clearly differentiate work motivation from job satisfaction. One of the consequences, for example, is that solutions to make fixed pay more satisfying can have a positive effect on job satisfaction without having any effect on work motivation. In the same way, introducing a more motivating administration of flexible pay can have a positive effect on work motivation, but not necessarily on job satisfaction. So according to this approach, it would seem difficult to follow these two different objectives (to motivate and to satisfy) simultaneously by using the same HRM strategic variables. Thus, in our study we successively examined a work motivation model, then a job satisfaction model in order to clearly differentiate between the two sets of relationships. The most significant point in this research was to test the hypothesized relationships between the independent and dependent variables. We therefore did not envisage testing the simultaneous effects between the dependent variables as could be the case with a structural equations model such as the one proposed by Miceli, Jung, Near and Greenberger (1991). The first characteristic of our research model is therefore that we treated separately the relationships linked to satisfaction and those linked to motivation. The model is presented schematically in Figure 1. The second characteristic is that the relationships we tested concerned only perceptual variables. These relations between perceptual variables correspond to the hypothetical relations defined earlier. They are summarized in the encircled parts of the Figure 1.

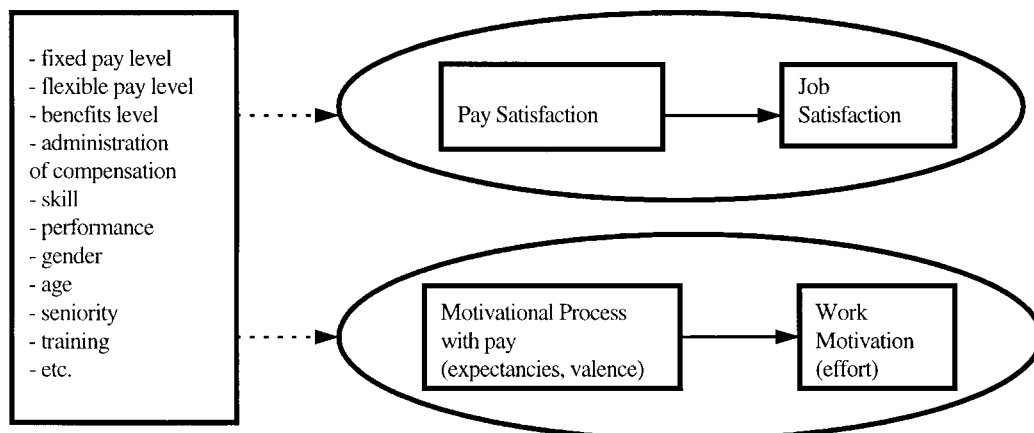


Figure 1. Outline of the research model indicating the interrelations between compensation, satisfaction and motivation

There are two reasons for our choice of only examining the relations between perceptual variables. The first results from the way in which we set out our hypotheses on the efficiency of compensation in relation to satisfaction and to motivation. The first three hypotheses, relating to the concept of motivation, seek to answer the question: 'is an employee who is incited by this or that component of his compensation more motivated to perform at work?' The fourth hypothesis, relating to the concepts of pay satisfaction and job satisfaction, seeks to answer the question: 'is an employee who is satisfied by this or that component of his compensation more satisfied in his job?' Thus in each case, we examine whether a first field of perceptions has an influence on the second (see the encircled parts of Figure 1). If pay satisfaction has an influence on job satisfaction, and if being incited by compensation actually increases motivation to perform at work, then the compensation, or one or other component of the compensation, is efficient.

The second reason for constructing a model which only takes account of the relations between perceptual variables comes from an analysis of previous empirical research. Dreher (1981) and then more recently Heneman *et al.* (1988) have insisted that research should be oriented towards the study of perceptual variables. In fact, they allow a better understanding of satisfaction phenomena and permit a reply to the question: 'why do two individuals working in the same organization, with the same pay level, equivalent performance, identical seniority and similar jobs . . . not experience the same level of satisfaction?' Recent studies have shown that perceptual variables can explain more of the variance of pay satisfaction than variables said to be objective (Dreher, 1981; Berkowitz, Cochran, Fraser and Treasure, 1987). It is this approach which has been preferred in the principal models of pay satisfaction tested (Dyer and Thériault, 1976; Weiner, 1980a,b; Heneman and Schwab, 1985; Mulvey *et al.*, 1992). There can be the same kind of debate when studying the concept of work motivation, where it is possible to oppose 'objective' approaches such as in research by Ilgen, Dugoni, Nebeker and Pritchard, 1980; Ilgen, Nebeker and Pritchard, 1981; Ilgen, Bigy, Nebeker and Pritchard, 1982) and 'perceptual' approaches such as in research by Arvey and Mussio (1973), Cammann, Lawler and Seashore (1975), Nadler and Lawler (1977).

The Empirical Research

Method

Procedure

The methodology that guided the empirical research followed the principles of Churchill's paradigm (1979). This paradigm proposes a procedure allowing the construction of precise measuring instruments for multiple scale or multi-item questionnaires. In an exploratory phase, the questionnaire was pre-tested on a first sample to eliminate the items that challenged the reliability and construct validity of the scales. The statistical instruments used were Cronbach's alpha (1951) for the test of internal-consistency reliability, principal components analysis and Campbell and Fiske's multitrait-multimethod matrix (1959) for construct validity. For Cronbach's α coefficient, the norm of 0.70 set by Nunnally (1978) was used. The questionnaire was then submitted to a validation phase with a second sample in order to test the stability of the reliability and the construct validity of the scales. Again, the instruments used were Cronbach's alpha and principal components analysis.

The validation phase ended with a confirmatory factor analysis (CFA) using LISREL VII (Jöreskog and Sörbom, 1989). This allowed for the determination of the dimensionality of each theoretical construct which was then used during the explanatory study. The interpretation of fit indexes allowed for the selection of a theoretical model that corresponded to the factorial structure that best fit the empirical data. The fit indexes used were those proposed by Jöreskog and Sörbom (1989), namely the ratio chi-square to degrees of freedom (χ^2/df), goodness of fit (GFI), adjusted goodness of fit (AGFI) and the root mean square residual (RMR). They were completed by the comparative fit indexes developed by Bentler and Bonett (1980), namely the normed fit index (NFI) and the non normed fit index (NNFI), as well as the comparative fit index (CFI) proposed by Bentler (1990). For the χ^2/df ratio, the most flexible acceptance norm must not be higher than 5, but to be more cautious it should not go above 2 or 3 (Pedhazur and Pedhazur-Schmelkin, 1991). The GFI should not go lower than 0.90, and the lowest acceptable level for the AGFI is 0.80. Sometimes, these two indexes are set at 0.80 (Hart, 1994), or 0.70 for the AGFI in the case of complex models (Judge and Hulin, 1993). The highest acceptable level for the RMR when a correlation matrix is analysed is $|0.05|$ (Pedhazur and Pedhazur-Schmelkin, 1991). Finally, the authors of NFI, NNFI, and CFI recommend going above the base norm of 0.90 if possible.

Before proceeding with the explanatory analysis, a descriptive study (Igalens and Roussel, 1996) was undertaken in order to verify if making a distinction between exempt and nonexempt employees was more pertinent than an analysis using all usual job categories (professionals, administrators, engineers, executives, supervisors/foremen, technicians, employees, industrial workers). Multiple correspondence factor analysis (MCFA), which allows the inclusion of nominal variables such as job categories, was used in this descriptive study. The factorial plot indicated that two groups of job categories could be opposed. The first group included all the job categories of exempt employees (i.e. professionals, administrators, engineers and executives). Their position placed them as being among the most satisfied and motivated in their jobs, as well as having the highest level of pay satisfaction. Their motivation from compensation was also revealed. At the opposite end, a second group of job categories, corresponding to those of nonexempt employees (i.e. supervisors/foremen, technicians, employees and industrial workers), showed more dissatisfaction and lack of motivation with regard to their job and compensation. Thus the observed duality between exempt and nonexempt employees justified the decision to test the research hypotheses on two subsamples.

Finally, in the explanatory analysis, hypothesized relationships were examined with a structural equation model named MIMIC (Multi Indicators Multi Causes), using LISREL VII software under SPSS/PC + 5.0. The MIMIC model (Jöreskog and Sörbom, 1989) allows a more detailed study of the relationships between the variables of compensation, work motivation and job satisfaction. It treats one latent dependent variable at a time. It links this variable with the entire set of independent variables that are associated with it. For each relationship tested a regression coefficient (or structural coefficient) called gamma (γ), is calculated. Compared to multiple regression, this model has the advantage of taking into consideration, first, all the possible inter-correlations between the latent independent variables, and second, the measurement errors. As for all structural equation models, it produces a hypothetical system of the relationship between variables. It does not prove causality, but could infer it if two conditions are met (Brannick, 1995; Kelloway, 1995). On one hand, a temporal order of the variables in the model must be established, and on the other hand, all the pertinent independent variables must be included. Schumacker and Lomax (1996) and Hoyle and Panter (1995) specify that if these conditions are not met, as is the case here, only a reliable association between independent and dependent variables can be inferred.

Sample

The questionnaire was administered to French employees, either directly or by mail. In the first case, the respondents were all employees following evening or Saturday classes, outside their working hours. The questionnaire was given to them at the place where they were taking classes, mainly in universities and schools situated in the majority of large French towns. In the second case, the respondents were employees contacted through a data file of former university graduates. At the time of the survey, they were all working in firms located throughout a large part of France. Therefore, this convenience sample is to be considered as heterogeneous. This approach was chosen for two reasons. The first was that this research did not concern company compensation policies but the attitudes of employees with regard to their pay. Secondly, it is extremely difficult to conduct a survey on such a sensitive subject inside French companies.

During the survey, 579 questionnaires were collected out of an initial population of 2400 for the total sample (a 24 per cent return rate). However, 13 employees did not indicate their job category and their responses were not retained for the present research. For the explanatory analysis, the respondents were divided into two samples, the exempt employees ($N1 = 269$) and the nonexempt employees ($N2 = 297$). In this sample, 63 per cent of the respondents received the questionnaire directly during their evening or Saturday class, and 37 per cent were the respondents contacted by mail.

Of the sample 64 per cent were male and 36 per cent were female. The average age was 34 years old (median: 32 years old). The average seniority was 7 years (median: 5 years). The job category distribution of different professions and status groups was: upper management (6 per cent), engineers (9 per cent), middle and lower management (33 per cent), supervisors/foremen (13 per cent), technicians (15 per cent), service employees (21 per cent), industrial workers (3 per cent). The breakdown of company size with regard to number in the labour force is as follows: less than 11 (10 per cent), 11 to 49 (13 per cent), from 50 to 199 (15 per cent), from 200 to 499 (11 per cent), from 500 to 999 (10 per cent), and more than 1000 (40 per cent). The respondents came from the following sectors of activity: manufacturing (41 per cent), trade (10 per cent) and services (48 per cent). The survey took place during the first quarter of 1994. On 31 December 1993 the average fixed pay was \$2392 per month (median: \$2152), and the average before tax annual pay for 1993 was \$28,515 (median: \$25,454).

Measuring instruments

The questionnaire used for the present study is made up of three series of scales. It was developed and tested during a previous investigation in which the data for the present research were collected. The development of the scales and the tests of reliability and validity are discussed in detail in this previous study (Roussel, 1996). Only the principal results of interest in the present study are mentioned here.

After a series of pre-tests, the original questionnaire with 95 items was reduced to 65 items. The three series of scales used were the following: (1) the 20-item job satisfaction scale (translated): MSQ—Minnesota Satisfaction Questionnaire (Weiss, Dawis, England and Lofquist, 1967 and 1977); (2) the 23-item French Compensation Satisfaction Questionnaire: QSR—Questionnaire de Satisfaction à l'égard de la Rémunération (Roussel, 1996); (3) the 22-item French Compensation and Work Motivation Questionnaire: QRMT—Questionnaire de Rémunération et de Motivation au Travail (Roussel, 1996).

Job satisfaction is one of the two dependent variables of this research. It is measured with the Minnesota Satisfaction Questionnaire that we translated and adapted for France according to the methods proposed by Vallerand (1989). A Cronbach's alpha value of 0.90 at the end of the validation phase proved to be an excellent indicator of the instrument's internal coherence reliability. Concerning construct validity, the factorial structure submitted to a principal components analysis (PCA) and the multitrait-multimethod (MTMM) matrix tests was confirmed using confirmatory factor analysis (CFA). The CFA produced the most rigorous goodness-of-fit indexes for a 4-factor model ($\chi^2/df = 3.15$; GFI = 0.92; AGFI = 0.89; RMR = 0.05; NFI = 0.88; NNFI = 0.90; CFI = 0.92). The four dimensions of job satisfaction are intrinsic satisfaction, extrinsic satisfaction, recognition, and authority/social utility. As these four dimensions are only indicators in our research and not observed latent variables, we did not calculate the alpha reliability coefficients (Table 1).

The QSR questionnaire was designed to measure the independent variable of pay satisfaction. It is comprised of 23 items with a 5-point scale ranging from 'extremely dissatisfied' to 'extremely satisfied' as in the PSQ proposed by Heneman and Schwab (1985). However, the items are very different as they were adapted for French compensation policies and for the hypothetical construct that we wished to test. The five dimensions of pay satisfaction are satisfaction with: internal equity of fixed pay, external equity of fixed pay, pay rises, flexible pay, and benefits level and administration. The number of items for each variable and the descriptive statistics are indicated in Table 1. As an example of the formulation of the items, one of the items to measure the satisfaction of individuals in relation to the external equity of their fixed pay is: 'What is your level of satisfaction with regard to the pay ranges in your company compared to those in other companies?' To measure satisfaction with regard to the level and administration of benefits, one of the items is: 'What is your level of satisfaction with regard to the amount of your employer's contributions for your complementary pension plan and insurance cover?' Upon completion of the validation phase the QSR presented an alpha coefficient of 0.92. For each five sub-dimensions of the QSR, the alpha coefficient is presented in Table 1. Concerning construct validity, the factorial structure submitted to a PCA and the MTMM matrix tests was confirmed by CFA. The goodness-of-fit indexes confirmed the validity of a 5-factor model, yet only the most flexible levels were attained ($\chi^2/df = 5.04$; GFI = 0.86; AGFI = 0.82; RMR = 0.05; NFI = 0.86; NNFI = 0.86; CFI = 0.88).

Finally, the QRMT was designed to measure the process of work motivation. It consists of four scales: (1) valence, (2) effort-performance expectancy, (3) performance-outcome expectancy for the independent variables, and (4) effort for the dependent variable (indicator of work motivation). The scales for valence and the relationships of effort-performance and

Table 1. Descriptive statistics, correlations and alpha coefficients for the MSQ, QSR and QRMT

| Variables | <i>NI</i> | <i>M</i> | <i>S.D.</i> | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 |
|--|-----------|----------|-------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-------|-------|-------|-------|---------------|-------|----|
| 1. Job satisfaction | 20 | 3.54 | 1.03 | <i>(0.90)</i> | | | | | | | | | | | | | |
| 2. Work motivation | 5 | 3.47 | 1.35 | 0.53* | <i>(0.79)</i> | | | | | | | | | | | | |
| 3. Internal equity of fixed pay satisfaction | 2 | 2.75 | 0.93 | 0.48* | 0.32* | <i>(0.82)</i> | | | | | | | | | | | |
| 4. External equity of fixed pay satisfaction | 4 | 2.79 | 0.79 | 0.43* | 0.24* | 0.63* | <i>(0.88)</i> | | | | | | | | | | |
| 5. Flexible pay satisfaction | 5 | 2.66 | 0.80 | 0.41* | 0.32* | 0.41* | 0.44* | <i>(0.85)</i> | | | | | | | | | |
| 6. Pay raises satisfaction | 4 | 2.25 | 0.74 | 0.55* | 0.39* | 0.53* | 0.60* | 0.49* | <i>(0.84)</i> | | | | | | | | |
| 7. Benefits satisfaction | 8 | 2.72 | 0.76 | 0.49* | 0.34* | 0.39* | 0.43* | 0.48* | 0.51* | <i>(0.83)</i> | | | | | | | |
| 8. Valence of fixed pay | 1 | 4.21 | 0.75 | -0.11 | -0.06 | -0.13† | -0.08 | -0.06 | -0.16* | -0.07 | — | | | | | | |
| 9. Performance–fixed pay expectancy | 1 | 2.74 | 1.35 | 0.12† | 0.10 | 0.12† | 0.19* | 0.11 | 0.19* | 0.15* | 0.26* | — | | | | | |
| 10. Performance–flexible pay expectancy | 2 | 2.34 | 1.09 | 0.18* | 0.14† | 0.18* | 0.13† | 0.30* | 0.18* | 0.21* | -0.03 | 0.33* | — | | | | |
| 11. Valence of flexible pay | 2 | 3.32 | 0.79 | 0.15† | 0.13† | 0.08 | 0.04 | 0.10 | 0.03 | 0.12* | 0.16 | 0.05 | 0.33* | — | | | |
| 12. Effort–performance expectancy | 3 | 3.43 | 0.76 | 0.34* | 0.28* | 0.21* | 0.07 | 0.17* | 0.21* | 0.18* | -0.05 | 0.15* | 0.21* | 0.17* | <i>(0.69)</i> | | |
| 13. Performance–benefits expectancy | 4 | 1.99 | 1.00 | -0.01 | 0.04 | 0.03 | 0.01 | 0.10 | 0.03 | 0.10 | -0.01 | 0.29* | 0.43* | 0.16* | 0.13† | — | |
| 14. Valence of benefits | 4 | 3.27 | 0.79 | -0.02 | -0.02 | -0.10 | -0.02 | -0.03 | -0.09 | 0.08 | 0.22* | 0.11† | 0.09 | 0.28* | 0.07 | 0.26* | — |

* $p < 0.001$; † $p < 0.01$. *NI*, number of items; for each variable, the composite score is the mean response to items. Alpha reliabilities (where appropriate) are shown in italics, on the diagonals. MSQ, variable 1; QRMT, variables 2 and 8 to 14; QSR, variables 3 to 7.

performance–outcome expectancies have a 5-point scale ranging from ‘low importance’ to ‘high importance’. By way of example, one of the items to measure the valence of fixed pay is: ‘Each of us attaches a different importance to our pay. As far as you are concerned, what importance do you give to your fixed pay?’ To measure effort–performance expectancy, one of the items is: ‘In your work, what is the importance of the link you can perceive between your efforts and your personal performance?’ Concerning performance–outcome expectancy, one item used for flexible pay is: ‘In your job, what importance does your performance have in the determination of your variable pay?’ The scale for effort had four items with five points ranging from ‘strongly disagree’ to ‘strongly agree’ and one item with response alternatives ranging from ‘greatly decreased’ to ‘greatly increased’. As an example, one of the first four items (reversed scored) is: ‘If I had the chance to change jobs, I would make more effort than I do in my present job’. Cronbach’s alpha coefficients were the lowest for the QRMT. The α coefficient was 0.69 for the effort–performance expectancy scale, 0.60 for the valence scale, 0.76 for the performance–outcome expectancy scale, and 0.79 for the effort scale (Table 1). Concerning construct validity, the factorial structure submitted to a PCA and the MTMM matrix analysis was confirmed by CFA. However, these procedures extracted six factors. For this factorial structure, the most rigorous goodness-of-fit indexes were only attained for Jöreskog and Sörbom’s indexes ($\chi^2/df = 3.48$; GFI = 0.91; AGFI = 0.88; RMR = 0.05). The other fit indexes were rather poor (NFI = 0.86; NNFI = 0.87; CFI = 0.89). These six dimensions are: (1) valence of direct compensation, (2) valence of benefits, (3) effort–performance expectancy, (4) performance–direct compensation expectancy, (5) performance–benefits expectancy, and (6) effort, which is the indicator of work motivation. Direct compensation regroups fixed pay and flexible pay. In relation to the present research objectives and the tests of hypotheses I, II, and III, both valence and performance–outcome expectancy dimensions linked to direct compensation were divided in two in order to be able to analyse the influences of fixed pay and flexible pay on work motivation. Thus, on one hand, we shall distinguish between the valence of fixed pay and the valence of flexible pay, and on the other hand between performance–fixed pay expectancy and performance–flexible pay expectancy.

Results

The hypothesized relationships between the latent variables of work motivation and job satisfaction were successively examined with the MIMIC model. Each analysis simultaneously relates to the sample of exempt employees (sample size $N1 = 269$) and that of nonexempt employees (sample size $N2 = 297$).

Compensation and work motivation

Hypotheses I, II, and III were tested in order to analyse the efficiency of the principal components of total compensation on work motivation. Hypothesis I was: ‘The expectancy that effort leads to performance achievement positively influences work motivation’. It was supported since effort–performance expectancy was positively and significantly ($t > 2$) related to work motivation (γ_{15}). The expectancy that effort leads to performance is the independent variable which is most strongly related to the dependent variable, work motivation. This expectancy is an important predictor of work motivation for both the exempt and nonexempt employees (Figure 2; Tables 2 and 3).

Hypothesis II was: ‘The expectancy that performance leads to the obtaining of outcomes in terms of total compensation positively influences work motivation. The total compensation

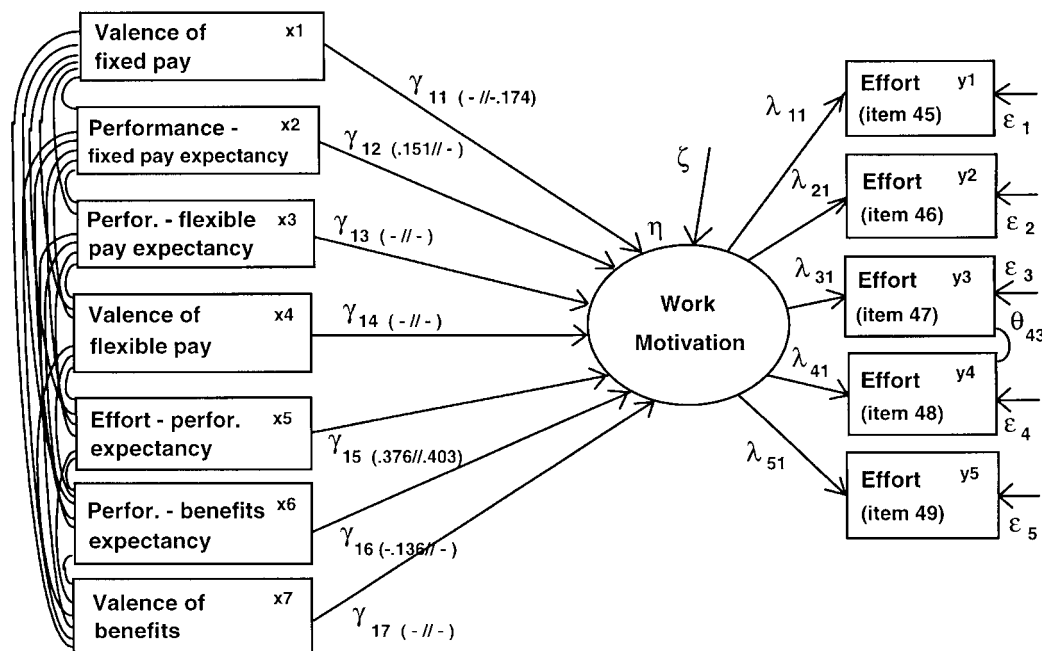


Figure 2. The MIMIC model of motivation (samples of exempt employees/nonexempt employees). The regression coefficients are unstandardized. The first ones correspond to exempt employees and the second to the nonexempt employees. The insignificant coefficients ($t < 2$) are not presented and are thus replaced by a hyphen. Finally, *Effort* mean the items of the effort scale for the dependent variable of process of work motivation

outcomes are fixed pay, flexible pay, and benefits'. It is only supported by a single structural relationship, and this only among the exempt employees. For the exempt employees (Figure 2; Table 2), the expectancy of a relationship between performance and fixed pay is positively and significantly related to work motivation (γ_{12}). Among the nonexempt employees, the expectancy that performance leads to rewards in terms of fixed pay has slightly positive, but insignificant consequences on their work motivation. On the contrary, the expectancy of a relationship between performance and flexible pay does not influence work motivation (γ_{13}). The perception

Table 2. Parameter of the structural relationships and fit indexes estimations (sample of exempt employees)

| MIMIC model of motivation | | | | y measurement model | | | |
|---------------------------|------------|---------|-------------------------|----------------------|------------|---------|-------------------------|
| Parameter | Estimation | t value | Standardized estimation | Parameter | Estimation | t value | Standardized estimation |
| γ_{11} | -0.100 | -1.515 | -0.069 | $\lambda_{11}^{(y)}$ | 1.000* | 0.000 | 1.029 |
| γ_{12} | 0.151 | 3.788 | 0.179 | $\lambda_{21}^{(y)}$ | 0.511 | 10.298 | 0.526 |
| γ_{13} | 0.083 | 1.627 | 0.090 | $\lambda_{31}^{(y)}$ | 0.980 | 14.740 | 1.008 |
| γ_{14} | 0.103 | 1.698 | 0.087 | $\lambda_{41}^{(y)}$ | 0.891 | 15.301 | 0.916 |
| γ_{15} | 0.376 | 5.650 | 0.260 | $\lambda_{51}^{(y)}$ | 0.883 | 15.536 | 0.909 |
| γ_{16} | -0.136 | -2.509 | -0.128 | | | | |
| γ_{17} | -0.087 | -1.293 | -0.061 | | | | |

F/Note.* This parameter was fixed at 1.000 in order to establish a measurement scale. Other estimations, $R^2(\eta_1) = 0.138$; GFI = 0.97; AGFI = 0.92; RMR = 0.04; $\chi^2 = 118.66$; df = 32; $\chi^2/df = 3.71$.

Table 3. Parameter of the structural relationships and fit indexes estimations (sample of nonexempt employees)

| MIMIC model of motivation | | | | y measurement model | | | |
|---------------------------|------------|---------|-------------------------|----------------------|------------|---------|-------------------------|
| Parameter | Estimation | t value | Standardized estimation | Parameter | Estimation | t value | Standardized estimation |
| γ_{11} | -0.174 | -2.451 | -0.117 | $\lambda_{11}^{(y)}$ | 1.000* | 0.000 | 1.107 |
| γ_{12} | 0.067 | 1.551 | 0.082 | $\lambda_{21}^{(y)}$ | 0.699 | 12.214 | 0.774 |
| γ_{13} | -0.035 | -0.645 | -0.035 | $\lambda_{31}^{(y)}$ | 0.803 | 11.887 | 0.889 |
| γ_{14} | 0.037 | 0.515 | 0.026 | $\lambda_{41}^{(y)}$ | 0.794 | 12.873 | 0.880 |
| γ_{15} | 0.403 | 5.850 | 0.277 | $\lambda_{51}^{(y)}$ | 0.616 | 11.021 | 0.683 |
| γ_{16} | -0.115 | -1.964 | -0.103 | | | | |
| γ_{17} | 0.008 | 0.106 | 0.006 | | | | |

* This parameter was fixed at 1.000 in order to establish a measurement scale. Other estimations, $R^2(\eta_1) = 0.104$; GFI = 0.97; AGFI = 0.92; RMR = 0.05; $\chi^2 = 113.06$; $df = 32$; $\chi^2/df = 3.53$.

that one's performance will lead to rewards in the form of flexible pay does not increase work motivation for either the exempt or nonexempt employees. For the first group the relationship is slightly positive, and for the second group it is slightly negative, but in both cases it is insignificant. Finally, the expectancy of a relationship between performance and benefits negatively influences work motivation (γ_{16}). Among the nonexempt employees this relationship is insignificant, whereas it is significant among the exempt employees. For the latter group, (Table 2; Figure 2), the less they perceive their performance as being rewarded by benefits, the more they are motivated. Therefore, hypothesis II is not supported. The expectancy of rewards in the form of benefits or flexible pay has no positive incidence on work motivation.

Hypothesis III was: 'The valence attached to each component of total compensation positively influences work motivation. The components concerned are fixed pay, flexible pay, and benefits'. It is not supported since the valence attached to fixed pay (γ_{11}), flexible pay (γ_{14}), and benefits (γ_{17}) does not influence work motivation. The relationship between the valence of fixed pay and work motivation is negative, but it is significantly negative only among the nonexempt employees (γ_{11} in Table 3 and Figure 2). For this group, the less fixed pay appears attractive, the more they are motivated. Finally, for the valences of flexible pay and benefits, the relationships with work motivation, whether positive or negative, are insignificant for both groups of employees.

Thus, the tests of hypotheses I, II, and III reveal that for exempt employees, work motivation is only influenced by expectancies of relationships between effort and performance on one hand, and expectancies of relationships between performance and fixed pay on the other hand. Porter and Lawler's (1968) model, refined by Nadler and Lawler (1977), is therefore only validated for these two relationships in its adaptation to total compensation in France.

Compensation and job satisfaction

A final hypothesis was tested to analyse the efficiency of the principal components of total compensation on job satisfaction. Hypothesis IV was: 'Satisfaction in relationship to each dimension of total compensation positively influences job satisfaction. The dimensions concerned are (1) internal equity of fixed pay (2) external equity of fixed pay, (3) pay rises (4) flexible pay and (5) benefits'. Figure 3 and Tables 4 and 5 indicate that hypothesis IV is partially supported. In the analysis of these results, the convergent and discriminant aspects between exempt and nonexempt employees are examined.

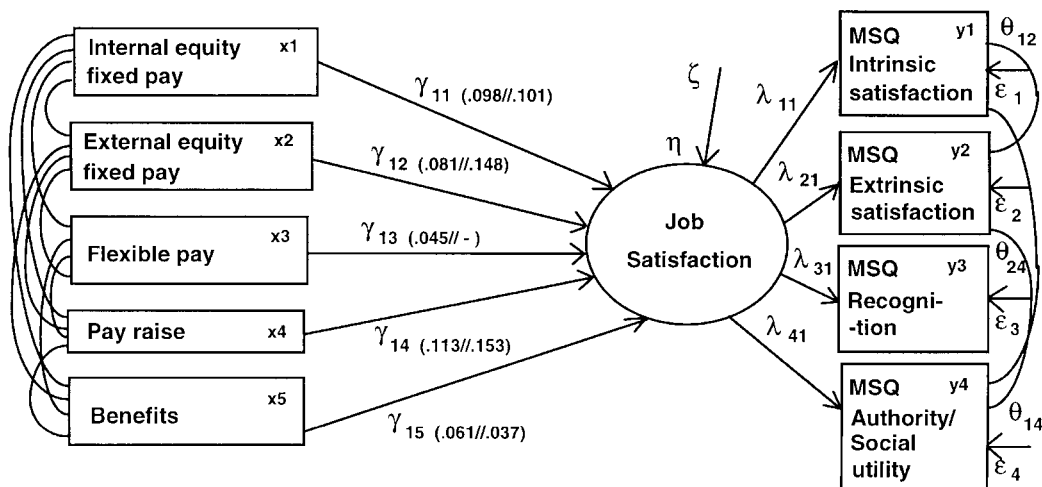


Figure 3. The MIMIC model of satisfaction (samples of exempt employees/nonexempt employees)

Table 4. Parameter of the structural relationships and fit indexes estimations (sample of exempt employees)

| MIMIC model of satisfaction | | | | y measurement model | | | |
|-----------------------------|------------|---------|-------------------------|--------------------------------|------------|---------|-------------------------|
| Parameter | Estimation | t value | Standardized estimation | Parameter | Estimation | t value | Standardized estimation |
| γ ₁₁ | 0.098 | 6.977 | 0.327 | λ ₁₁ ^(y) | 1.000* | 0.000 | 0.308 |
| γ ₁₂ | 0.081 | 4.658 | 0.231 | λ ₂₁ ^(y) | 1.372 | 12.651 | 0.422 |
| γ ₁₃ | 0.045 | 3.395 | 0.116 | λ ₃₁ ^(y) | 2.544 | 11.485 | 0.783 |
| γ ₁₄ | 0.113 | 6.548 | 0.317 | λ ₄₁ ^(y) | 1.016 | 10.928 | 0.313 |
| γ ₁₅ | 0.061 | 4.045 | 0.136 | | | | |

* This parameter was fixed at 1.000 in order to establish a measurement scale. Other estimations, R²(η₁) = 0.815; GFI = 0.97; AGFI = 0.90; RMR = 0.02; χ² = 84.25; df = 14; χ²/df = 6.02.

Table 5. Parameter of the structural relationships and fit indexes estimations (sample of nonexempt employees)

| MIMIC model of satisfaction | | | | y measurement model | | | |
|-----------------------------|------------|---------|-------------------------|--------------------------------|------------|---------|-------------------------|
| Parameter | Estimation | t value | Standardized estimation | Parameter | Estimation | t value | Standardized estimation |
| γ ₁₁ | 0.101 | 6.328 | 0.272 | λ ₁₁ ^(y) | 1.000* | 0.000 | 0.344 |
| γ ₁₂ | 0.148 | 7.206 | 0.341 | λ ₂₁ ^(y) | 1.007 | 12.257 | 0.346 |
| γ ₁₃ | 0.006 | 0.368 | 0.013 | λ ₃₁ ^(y) | 2.295 | 11.064 | 0.789 |
| γ ₁₄ | 0.153 | 7.224 | 0.332 | λ ₄₁ ^(y) | 0.478 | 5.548 | 0.164 |
| γ ₁₅ | 0.037 | 2.184 | 0.082 | | | | |

* This parameter was fixed at 1.000 in order to establish a measurement scale. Other estimations, R²(η₁) = 0.693; GFI = 0.96; AGFI = 0.86; RMR = 0.03; χ² = 128.25; df = 14; χ²/df = 9.16.

The internal and external equity dimensions of fixed pay are indicators of salary individualization. Internal equity relates to how an employee feels about the way his contributions (e.g. performance, skill) are taken into account in his compensation. External equity is when the individual compares this same relationship to that of other employees which he uses as a reference point. An examination of these two indicators shows that fixed pay can have a positive influence on job satisfaction in relation to these two dimensions. In fact, the more employees are satisfied with the internal equity of their fixed pay, the more they tend to be satisfied with their job (γ_{11}). Similarly, the more employees are satisfied with the external equity of their fixed pay, the more they tend to be satisfied with their job (γ_{12}). These results are favourable to the individualization of fixed pay founded on the principles of internal and external equity. Finally, though the regression coefficients γ_{11} and γ_{12} are lower for the exempt employees (Figure 3; Table 4) than the nonexempt employees (Figure 3; Table 5), when these estimations are standardized the difference no longer appears. Thus, we can note convergent results and support for hypothesis IV.

Pay rises represent the most sensitive aspect of pay administration, since pay rise satisfaction is positively and significantly related to job satisfaction, with the strongest link (γ_{14}) in comparison to the other indicators. For both exempt and nonexempt employees, hypothesis IV is therefore supported for the dimension of pay rises.

The last point of congruence between exempt and nonexempt employees is that benefits have little influence on job satisfaction. There is a positive and significant, but weak relation between benefit satisfaction and job satisfaction (γ_{15}), and we therefore cannot conclude that hypothesis IV is supported with regard to benefits for either group of employees.

Flexible pay satisfaction has a slight influence on job satisfaction (γ_{13}) for the exempt employees (Figure 2; Table 5). But this relationship, though positive, is insignificant ($t < 2$) for nonexempt employees. Hypothesis IV is therefore not supported for the nonexempt employees with regard to flexible pay, and this type of compensation only has a limited influence for exempt employees.

Discussion

The three main findings of the present study may be of interest to those who wish to set work motivation and job satisfaction objectives in relation to company compensation strategies.

Firstly, the data suggest that under certain conditions, individualized compensation of exempt employees can be a factor of work motivation. The first condition is that the individualization must be expressed by fixed pay rises and not by bonuses. The second condition is that fixed pay rises must relate to the individual efforts of exempt employees. On the contrary, when the relationships between effort, performance and pay rises are not perceived, the exempt employees are less motivated. Though this second result is more consistent with the prevailing ideas, it must be noted that it cannot be generalized to nonexempt employees. This therefore confirms the interest of having differentiated practices for the two groups of employees in relation to HRM strategies regarding work motivation.

This is not the case concerning the impact of these practices of individualization on job satisfaction. When this type of compensation is judged as being fair, in relation to both internal and external equity, it can increase the feeling of job satisfaction for nonexempt as well as exempt employees. Internal equity reveals that employees are more satisfied when they perceive their fixed pay as fair in relation to their contributions to their firm, compared to other employees in the organization that are used as a reference. Their contributions correspond to a mix of performance, effort, qualifications, training, skill, seniority and experience, and it is these criteria which

employees use to fix their own idea of a fair pay level. As for external equity, the more employees feel that they are treated fairly, compared to other employees outside their organization, the more they are satisfied with regard to their job. These results suggest a high expectancy on the part of employees for individualized compensation based on fixed pay and the recognition of their contributions to the company. This observation is in line with previous research on a larger scale, as noted by Igalens and Peretti (1986) and Schwab (1987). The efficiency of fixed pay on job satisfaction is observed for both exempt and nonexempt employees on the condition that it abides by the principles of internal and external equity. This result is consistent with observations made in North America (Gerhart and Milkovich, 1990). As an example of another type of behaviour linked to involvement, Cowherd and Levine (1992) show that favouring internal equity can improve performance linked to product quality, due to higher commitment by subordinates to the goals set by supervisors.

On the other hand, in the case of a previous study concerning French compensation practices (Roussel, 1996), the concept of organizational justice (Greenberg, 1987; 1990) was not validated since the constructs of distributive justice and procedural justice were not independent. Consequently, we could not independently measure the effects of procedural justice on employee attitudes, as is possible in another cultural context such as the United States (e.g. Dailey and Kirk, 1992; Brown and Huber, 1992; McFarlin and Sweeney, 1992). Nevertheless, it must be noted that McFarlin and Sweeney (1992) demonstrated that distributive justice is a better predictor of pay satisfaction and job satisfaction than is procedural justice.

Thus, the data suggest that fixed pay can increase work motivation and job satisfaction for exempt employees and only job satisfaction for nonexempt employees. This positive relationship occurs for motivation when fixed pay evolves with the level of an individual's performance, whereas for satisfaction it depends on the recognition of internal and external equity. In the first case merit (effort and performance) is recognized, and in the second case, all the contributions to the company (performance, skill, seniority, training, etc.) The efficiency of these forms of recognition favours the development of individualized fixed pay. These results are consistent with those found by Miceli *et al.* (1991) in empirical research relating to North American exempt employees. These authors equally confirmed the major principles of expectancy theories according to which the perception of relationships between effort and performance on the one hand, and performance and compensation on the other hand, are determinant factors that allow the prediction of employee reactions with regard to their compensation and their job. Our results are also consistent with what past researchers (Heneman, 1992; Mount, 1987) have suggested is necessary for an efficient merit-based pay system.

Secondly, the data suggest that flexible pay (variable pay and deferred income in the research framework) neither motivates nor increases job satisfaction. An employee can experience feelings of satisfaction with regard to gain-sharing dividends or a bonus without this increasing his job satisfaction. This observation holds true particularly for nonexempt employees. Even for exempt employees, where efficiency of flexible pay may exist, it is only slight, notably in comparison to fixed pay. We can observe therefore, a less significant difference in attitudes between exempt and nonexempt employees for this form of compensation in our study than that which has been observed in the United States (Markham, 1988; Heneman, 1990). Furthermore, this type of compensation has no effect on work motivation for either group.

These two series of observations thus suggest a lack of efficiency of flexible pay in France. In other cultural contexts similar to that of the United States, when the choice of a pay system is given to the employees, variable pay plans can be effective (Farh, Griffeth and Balkin, 1991). But as a general rule, they do not seem to have any really positive effects on the functioning of an organization (Hamner, 1983). Recent research reveals the efficiency of compensation linked to

performance, but only concerning pay satisfaction, with no mention of the effects on job satisfaction (Miceli *et al.*, 1991).

In the case of France, several explanations can be proposed for this lack of efficiency. Firstly, the numerous elements belonging to this type of compensation, such as gain-sharing and profit-sharing, but also quite frequently goal-based incentives and bonuses, are calculated on performance at the level of a profit centre or group of employees (team, department) (Coutrot, 1994; INSEE, 1996; Roussel, 1997; Roussel and Heneman, 1997). An individual does not perceive a strong link between his effort and collective performance. Thus, for him, the attributed reward does not reflect the work he has personally accomplished. Hamner (1983) believes that in order to favour team cooperation it is necessary to elaborate pay systems based on merit, where financial incentives are calculated according to organizational performance. However, we observe that this system seems to function poorly in France with regard to work motivation and job satisfaction objectives. Interviews that were conducted during the present research suggest the hypothesis that poor performance leads individuals of one department (e.g. sales) to blame the mistakes on other departments (e.g. production). This phenomena can sometimes be accentuated by a repetition effect. In fact, the pressure exerted on an individual to achieve certain goals, drives him to adopt blame-avoidance strategies over a period of time. For example, during the annual performance appraisal interview with a superior, he can give an underestimation of the goal to be attained.

Another commonly advanced factor (Locke, Shaw, Saari and Latham, 1981; Hamner, 1983) is the difficulty of defining clear goals that are ambitious yet accessible, and then measuring the related performance. This renders the perceived link between goals, performance, and rewards less credible. Expanding on Hamner's research (1983), we can also note that certain elements of flexible pay (profit-sharing, stock options, company savings plans) correspond to deferred income, where the perceived relationship with performance is lost because of the time delay. Also, the objective assigned to this form of compensation in relation to reducing overall employment costs could explain its relatively weak attraction. The perceived link between flexible pay and a firm's fiscal and economic efficiency can lead an individual to consider that he is not the principal focus of attention for this form of compensation. Consequently, it can engender a certain indifference, or even rejection. This source of dissatisfaction can be strengthened by the secrecy that surrounds incentive pay systems. It can lead an individual to believe that his earnings are not related to his performance in comparison with other people that he takes as a reference (Hamner, 1983; Lawler, 1971). Finally, with reference to research by Brown and Huber (1992) on the attitude of American employees with regard to their stock option plans, we believe that French employees also react negatively towards the loss of pay stability, consecutive to the development of flexible pay.

Finally, the data suggest that benefits neither motivate nor increase job satisfaction. Benefits include allowances and reimbursements for miscellaneous expenses, miscellaneous benefits and perquisites, employee welfare programmes and recreational opportunities, complementary pension plans and insurance cover. These different forms of compensation arouse similar reactions among employees.

Exempt and nonexempt employees who express a feeling of satisfaction towards benefits are no more likely to be satisfied in their job. As for the motivational process, employees who consider this form of compensation as inciting tend to be less motivated with regard to their work. And inversely, the less employees find benefits inciting, the more they are motivated in their work. This is the case for exempt employees. For nonexempt employees, the situation is different as no significant relationship was found.

Making benefits attractive can favour satisfaction, but this is done to the detriment of motivation. Employees who are attracted or motivated by this form of compensation seem to

seek the satisfaction of a need for comfort or security. They are more satisfied with their job if it offers benefits that correspond to their expectations, but their motivation to perform will not be increased. There seems to be a kind of rejection effect among exempt employees: the less they are incited by benefits, the more they are motivated in their work.

It seems, therefore, that benefits represent an inefficient HRM strategic variable with regard to work motivation and job satisfaction. This is due to the absence of a perceived relationship by an individual between his effort, his performance and the benefits on the one hand, and (with the exception of complementary pension schemes) the weak attraction that they arouse in general on the other hand. These results present the originality of opening the debate concerning the efficiency of benefits on work motivation and job satisfaction. Indeed, as far as we know, only relationships between benefits and total pay satisfaction (and its facets) have given rise to empirical research (Dreher, 1981; Dreher, Ash and Bretz, 1988; Heneman *et al.*, 1988; Miceli and Lane, 1991; Miceli *et al.*, 1991; Mulvey, 1991; Tremblay, Sire and Pelchat, 1996).

From a theoretical perspective, we might also find an explanation for the inefficiency of benefits we observed, in research by Hills, Bergmann and Scarpello (1994). Referring to surveys concerning employees, they formulate the proposition that benefits are generally perceived as a right in United States society, so they have no incentive character. This explanation could be equally valid in the French context, as a large part of these benefits are obligatory by law, by employment contracts or by collective labour agreements. Moreover, the development of voluntary benefits does not seem to have resolved the problem. We suppose that there is still too little clear and precise communication regarding the distinction between voluntary and obligatory benefits, as well as about the cost for the company. Consequently, employees are not in a position to appreciate the extent of the effort made by the company, thus they cannot establish reference points between their benefits and those of other employees. Furthermore, research by Hills and Hughes carried out in 1977 (in Hills *et al.*, 1994), indicates that pay and benefit levels tend to vary concomitantly. In this case, employees would have a tendency to note only the pay levels when comparing their situation with that of their colleagues or other employees outside their company. Benefits would not be a sufficiently salient factor of comparison to give rise to appreciable affective or behavioural reactions. Finally, the results of the present study could also be explained by another hypothesis put forward by Hills *et al.* (1994). Benefits may not be able to motivate employees to perform since they are based essentially on membership of the organization rather than on performance, and they therefore act more as 'golden handcuffs' to tie an individual to his company.

In conclusion it would appear necessary to assign realistic goals to each component of a company compensation policy. Realistic in terms of the population concerned, as this study indicates noteworthy differences between exempt and nonexempt employees. Realistic, also, in terms of the goals assigned to each of the components of the HRM strategy, as it would seem difficult to pursue satisfaction and motivation objectives in parallel with fiscal optimization or when seeking more compensation flexibility. However, there are three principal limitations to this research. The first concerns the external validity of our research. A sample of 566 employees cannot be considered as representative. Nevertheless, the return rate allowed us to obtain a high number of respondents for this type of research. The results give certain indications which merit further study before being generalized. The second limit concerns the type of respondents. A majority of the employees in the sample (63 per cent) were taking evening or Saturday classes. Because of this, the external validity of the study is limited by the low representation of older employees, and also, by the low number of respondents in the industrial worker category. The third limitation comes from the possible influence of the economic context on the relationships brought to light in our study. Surveys have indicated regularly since 1990 a deterioration in the confidence of

employees (SOFRES, 1993). The increase in unemployment and the importance of restructuring in large companies in France has created a generally depressed climate. We suppose that this could have consequences on employee expectations and consequently, on the processes of job satisfaction and work motivation.

The possible developments of this research could take three directions. The first concerns the study of the interactions between certain determinants of pay satisfaction and the process of work motivation. In fact, Greenberg (1987) and Kanfer (1992) suggest that links between organizational justice and work motivation could be studied in an integrated model of the motivational process. The second direction for the development of this research could be to refine the analysis according to certain individual criteria, such as membership of a trade union, but also according to contextual variables, as Mitchell (1997) suggests. Organizational culture is one of these contextual variables which could be used to categorize the focus population. The third extension could be related to transcultural research. Our research model pertains exclusively to interactions between perceptual variables in the processes of motivation and satisfaction. This approach to the individual would allow a comparison of these mechanisms between employees of several countries.

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