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Compensation And Benefits

What Matters More to Your Workforce than Money

by Andrew Chamberlain

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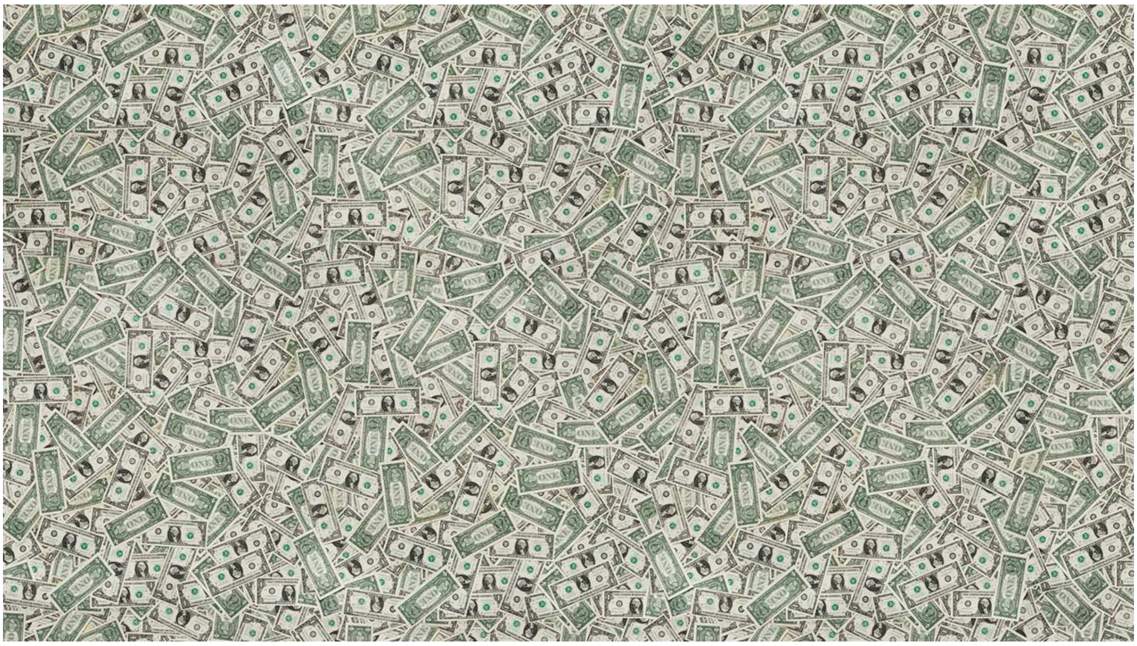

Economists have long argued that money doesn't buy happiness. But compensation is still a major factor for us when we're considering where to work. What do we know about how more pay influences employees' motivations?

That slice of information can be the difference between a workforce that is satisfied and productive and one that isn't — costing the business money in the long run.

As the chief economist at Glassdoor, my role is to help unearth some of the driving forces behind job seekers' decisions: why they choose the jobs they do, what matters to them at work, and what causes them to love — or despise — their company or manager.

Money Can't Buy Happiness

At Glassdoor we have a unique window into the labor market, as we use reviews and salary surveys to gather insights about companies and employee sentiment. The result is a wealth of real-world data, allowing us to identify the factors beyond pay that really drive happiness at work.

One of the most striking results we've found is that, across all income levels, the top predictor of workplace satisfaction is *not* pay: It is the culture and values of the organization, followed closely by the quality of senior leadership and the career opportunities at the company. Among the six workplace factors we examined, compensation and benefits were consistently rated among the *least* important factors of workplace happiness.

The fact that pay is not the main driver of worker satisfaction will come as little surprise to economists. Writing more than 250 years ago, in *The Theory of Moral Sentiments,* Adam Smith famously warned that material gains often make us less happy, not more. A 2010 study from Princeton University researchers showed that having a higher income increases happiness but only up to about $75,000 per year. Beyond that, higher pay doesn't influence happiness much, and other factors take over.

Our Glassdoor analysis echoes these findings in the workplace. Data scientist Patrick Wong and I took a sample of more than 615,000 Glassdoor users who had both reported their pay and written a review of their employer since 2014. We placed them into four salary groups, from lowest (those earning under $40,000 a year) to highest (those earning over $120,000), and looked at the relative explanatory power of each for employee satisfaction. If we think of our model as a pie of explanatory power, each workplace characteristic represents a slice. Factors with the biggest slices are the biggest drivers of workplace happiness. This data is correlational, but in conjunction with similar results from other research, we believe it offers some recommendations for managers nonetheless.

Higher-Earning Employees Have Different Priorities

Although money isn't a major driver of employee satisfaction, a person's workplace priorities do change as their income rises. For example, the culture and values of the organization explain about 21.6% of worker satisfaction in the lowest income group, but that rises to 23.4% for the highest incomes. This suggests that higher earners want their employers to share their values and create a positive company image.

Other factors whose importance rises as compensation does include the quality of senior leadership (which rises from 20.4% to 22.8% of the predictive pie as income rises) and the importance of career opportunities (rising from 17.5% to 22.8%). At higher pay levels, workers clearly place more emphasis on culture and long-term concerns like leadership and growth opportunities, rather than day-to-day concerns like pay and work-life balance.

By contrast, three of the factors we examined were less important to higher-earning employees. Work-life balance declines in importance at higher income levels, falling from 13.2% of the predictive pie to 9.5% as pay rises. High earners are more willing to give up leisure time for work income. We were interested to find that the employer's business outlook also declines in importance as income rises, but the shift is small.

Finally we found that compensation and benefits, in addition to being among the least important factors, fall in importance as income rises. For those earning less than $40,000 annually, pay accounts for only 12.8% of workplace satisfaction. As salary rises, the predictive power of compensation and benefits falls sharply, dropping to 9.8% of the pie for those earning more than $120,000 annually.

Focus on Culture Without Compromising Pay

Although pay is not the most important driver of employee satisfaction, these results don't suggest that employers can disregard it. Compensation and benefits may have less predictive power for employee satisfaction than the other factors, but it is still the top factor that job seekers consider when evaluating potential employers, according to a recent Glassdoor survey — particularly for job seekers weighing competing offers. For the purpose of attracting talent, offering competitive pay and benefits remains critical for employers.

However, once employers have begun offering pay that's within the range of competing firms, what's the next step for improving employee morale, engagement, and productivity? Our research suggests that further tinkering with the compensation package is not likely to improve employee satisfaction much, particularly among higher-earning employees.

While pay can help get new talent in the door, our research shows it's not likely to keep them there without real investments in workplace culture: making a commitment to positive culture and values, improving the quality of senior management, and creating career pathways that elevate workers through a career arc in the organization.

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Andrew Chamberlain, Ph.D, is chief economist at jobs site Glassdoor and director of research at Glassdoor Economic Research.

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