PERSONALITY AND PREFERENCES FOR CHARACTERISTICS OF PAY FOR PERFORMANCE PLANS: A PATH TO JOB SATISFACTION AND CUSTOMER SATISFACTION

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ABSTRACT

Person-organization fit has been shown to lead to employee job satisfaction which in turn has been shown to be related to customer satisfaction. Using a person-organization fit framework, relationships between individual differences in the big five personality dimensions and preferences for characteristics of variable pay were investigated. In an experimental setting, the relationship between personality and preferences for pay contingent on individual performance versus team performance was investigated. Additionally, the relationship between personality and preferences for the degree of pay at risk (the portion of pay tied to performance) within variable pay systems was investigated. The results indicate that participants who prefer to have their pay contingent on team performance have higher levels of openness to experience than do individuals who prefer to have their pay contingent on their individual performance. Participants who prefer to have greater levels of their pay at risk have higher levels of extraversion and openness to experience and lower levels of neuroticism than do participants who prefer to have lower levels of their pay at risk. These results suggest that there are systematic differences in preferences for components of pay for performance plans by individuals with differing personalities. To maximize the likelihood of employee job satisfaction and customer satisfaction, organizations should select employees whose personalities align with the organization's pay for performance plan's characteristics.

INTRODUCTION

Customer satisfaction is, or should be, the telos, the ultimate goal, of all business activities (Larsen & Wright, 2020). Further, the pursuit of customer satisfaction should include the total, integrated effort of all entities in a business, including accounting and finance, human resources, research and development, and other business activities of the firm (Wright, Pearce, & Busbin, 1997). When this total, integrated effort of the firm produces customer satisfaction, financial profitability is the usual result (Kohli & Jaworski, 1990). This philosophy, variously described as either "market orientation" (Kohli & Jawarski, 1990; Narver and Slater, 1990) or "the marketing concept" (Webster, 1994), sets the table for a focus on non-traditional, non-marketing activities that can contribute to an overall increase in customer satisfaction. The focus of this paper is on how employee compensation, a concept more at home in human resource management circles than in marketing, can help produce the total, integrated effort across the firm that leads to increased customer satisfaction and profitability.

Customer satisfaction is a critical objective for many organizations (Fournier & Mick, 1999; Tse, Nicosia, & Wilton, 1990). Research demonstrates that there is a positive relationship between employee job satisfaction and customer satisfaction (Brown & Lam, 2008). In other words, when an organization's employees are satisfied with their jobs, the organization's customers tend to be more satisfied (Brown & Lam, 2008; Homburg & Stock, 2004; Jeon & Choi,

2012; Netemeyer, Maxham, & Lichtenstein, 2010; Wangenheim, Evanschitzky, & Wunderlich, 2007). Therefore, successful organizational efforts to increase employee job satisfaction will likely also cause an increase in the overall satisfaction of an organization's customers. Conversely, low levels of employee job satisfaction could bring about lower levels of customer satisfaction. Low levels of satisfaction could ultimately lead customers to engage in retaliation-related behaviors aimed at the organization (Huefner & Hunt, 2000).

P-O FIT AND JOB SATISFACTION

Much has been written about job satisfaction and its antecedents and outcomes (Brief, 1998; Cranny, Smith, & Stone, 1992; Spector, 1997). One interesting line of research focuses on the idea of person-organization fit (P-O fit) and the positive outcomes that can result from a successful P-O fit. This literature contends that employees prefer to work for organizations that have cultures that are compatible with their personality and values (Kristof, 1996). Successful P-O fit relates to increased job satisfaction (Boxx, Odom, & Dunn, 1991; Bretz & Judge, 1994; Cable & Judge, 1996; Chatman, 1991; Kristof, 1996; O'Reilly, Chatman, & Caldwell, 1991; Verquer, Beehr, & Wagner, 2003). Stated differently, employees who "fit" with their organizations are less likely to be dissatisfied with their job situation and therefore, less likely to engage in counterproductive or retaliatory behaviors in the workplace than those who are "misfits" in the organization (Mount, Ilies, & Johnson, 2006). Consequently, when organizations hire employees whose personality and values align with the organization's culture, employee job satisfaction and customer satisfaction are likely to follow.

It is worth noting that other advantages of successful P-O fit include increased organizational commitment and individual performance as well as decreased turnover and intentions to quit (Kristof, 1996), which are all part of the total integrated effort of the organization that lead to greater customer satisfaction and corporate profitability (Wright, Pearce, & Busbin, 1997)

An organization's method of compensation is a large part of its culture. According to Lawler & Jenkins (1992), "depending on how reward systems are developed, administered, and managed, they may cause the culture of an organization to vary quite widely" (pp. 1015-1016). Rynes (1987) notes that compensation systems "communicate so much about an organization's philosophy, values, and practices" (p. 190). Similarly, Gerhart & Milkovich (1990) note that employers tend to differentiate among themselves through differences in the contingency of compensation. These differing ways in which compensation systems are structured send signals to job applicants as to the overall nature of an organization's culture (Kerr & Slocum, 1987; Schein, 1992). Thus, if a pay system is structured according to an organization's culture, an individual's fit with a pay system may indicate their fit with the organization as a whole (Barber & Bretz, 2000; Pappas & Flaherty, 2006; Rynes, 1987).

One aspect of an organization's compensation system is whether it is designed to motivate higher levels of individual and/or organizational performance. Research has demonstrated that such pay for performance systems are indeed related to higher levels of individual and organizational performance (Gerhart & Milkovich, 1990; Gerhart & Newman, 2020; Huselid, 1995; Pfeffer, 1998). Furthermore, for performance-based compensation systems to have the greatest possibility of motivating higher levels of performance, employee preferences for specific compensation components should align with the compensation system offered by an organization (Fang & Gerhart, 2012; Gerhart & Milkovich, 1992; Trank, Rynes, & Bretz, 2001). Such alignment can occur by applicants sorting themselves into organizations based on knowledge of

the differing compensation systems of organizations and/or by organizations being proactive and selecting employees based on this alignment ("fit") (Deckop, Merriman, & Blau, 2004; Dohmnen & Falk, 2011; Fang & Gerhart. 2012). Such an operationalization of P-O fit is known as the needs-supplies perspective, where P-O fit is defined "as the match between individual preferences or needs and organizational systems and structures" (Kristof, 1996). The needs-supplies operationalization is tied to the theory of work adjustment (Dawis & Lofquist, 1984) that proposes that employees will experience more work satisfaction if their needs are met by the work environment.

Barber & Bretz (2000) noted that scant research attention has been given to compensation systems and their impact on applicant attraction. They argue that this lack of attention is "particularly troubling in light of the burgeoning literature on P-O fit" (p. 37). Because of the positive outcomes of P-O fit, such as increased job satisfaction, Barber & Bretz (2000) note the importance of research using a P-O fit perspective on compensation's role in employee attraction. In particular, they point out that such research is especially relevant given emerging compensation practices such as team-based pay and at-risk pay.

Organizations have traditionally structured compensation systems to primarily tie pay to the value of each job within the organization. Such systems use the process of job evaluation to attach point values to the jobs in an organization based on compensable factors such as responsibility and working conditions; pay is then assigned based on the respective point totals for each job and with reference to the market value of the job (Gerhart & Newman, 2020). More recently, many firms have abandoned the job evaluation process and have largely relied on market data to determine a wage for each job (Armstrong & Brown, 2017; Gerhart & Newman, 2020). In addition to the wage assigned to the job, an additional amount of money is often awarded to the job holder based on some measure of individual, team, and/or organization performance. One traditional individual-based performance reward is merit pay, which gives additional pay to job holders based on evaluations of their individual performance. Once received, these merit raises become part of base pay, and function as an annuity in the future (Gerhart & Milkovich, 1992; Gerhart & Newman, 2020; Schuster & Zingheim, 1992). Consequently, businesses have experienced increasing payrolls during times of growth and during times of decline. While merit pay ties rewards to measures of individual performance, profit sharing and gainsharing are examples of ways in which organizations supplement base pay through rewards contingent on team and/or organization performance. When rewards such as profit-sharing payments are coupled with a market-based salary, the organization is sharing its success with the employee. If the organization does well, pay goes up via profit sharing payouts, but if the organization struggles, the employee won't see a profit-sharing payout but their salary will remain constant at the market rate (Newman, Gerhart, & Milkovich, 2017). Compensation practices such as those detailed above cause an organization's payroll to regularly increase (e.g., merit pay) or fluctuate upward from constant base salary in profitable times (e.g., traditional profit sharing). This has become a difficult position for businesses in the increasingly competitive global marketplace where profits and losses are both very real possibilities and has motivated employers to investigate new methods of compensation that share the risk of the profits and losses in the competitive marketplace with employees (Gerhart & Newman, 2020; Lawler, 1990; Schuster & Zingheim, 1992).

Another motivation for the shifting of compensation systems away from strictly job-based methods, where pay is tied to the value of the job and additional rewards are granted based on individual performance, lies in structural business changes. Job boundaries are expanding and even disappearing. Workers are expected to know more and do more either individually or as a member

of a work team. This makes traditional compensation systems that tie pay to the content of a specific, narrowly defined job and that are reliant on rewarding individual performance increasingly out of synch with how work is being restructured (Flannery, Hofrichter, & Platten, 1996; Gerhart and Newman, 2020; Lawler, 1990).

To remain competitive in today's global market, and to align compensation systems with internal structural changes, many businesses have begun transforming their pay systems. With this transformation, businesses hope to have their compensation systems be more reflective of their successes and failures in the marketplace and be better suited for new forms of organization where there may be more focus on the performance of the team and the organization (Gerhart & Newman, 2020; Schuster & Zingheim, 1992). Under these new pay systems, pay may be structured so that employees share in the risk of the variability of the organization's successes and failures. Base compensation is set with reference to the market but may often be lower than traditional base pay. However, an additional portion of the individual employee's pay is contingent on performance of the individual, the work group, and/or the organization. Unlike merit pay, these performance "bonuses" are not incorporated into base pay. Consequently, with such at-risk pay, the employee will receive more pay during times of stronger performance, and during times of weaker performance the employee will receive less pay (Gerhart & Milkovich, 1992; Gerhart & Newman, 2020; Greene, 2013; Heneman, Fay, & Wang, 2001). Under such systems, pay may be higher in times of success than it would be under a traditional system (and in times of lower performance it may be lower). While some researchers have expressed concerns that employees potentially will be dissatisfied with at-risk pay plans (Brown & Huber, 1992; Renn, Barksdale, & Van Scotter, 2001), if an organization properly communicates the details of the plan (Brown & Huber, 1992) and makes their employee selection decisions based on the idea of P-O fit (including the fit of employee preferences for pay models and the pay model of the organization), then employees should continue to be satisfied with their jobs during the ups and downs of this pay cycle and customer satisfaction should follow.

Thus, given the range of compensation systems that are emerging in business, and given the insights of Barber & Bretz (2000), the present research investigates individual attraction to differing compensation practices (in particular individual vs. team-based pay and the degree of risk within at-risk pay plans) utilizing a P-O fit framework.

A variety of individual differences could be used in assessing the person side of P-O fit. However, the present study takes advantage of advances that have taken place in the use of personality in management research. Notably, the use of personality testing in the selection of employees had fallen out of favor for many years beginning in the 1960s. Research by Guion (1965) and Guion & Gottier (1965) had concluded that personality variables showed little systematic relationship to work-related criteria. The study of the use of personality measures in employee selection was also adversely impacted by the person-situation debate that surrounded Mischel's (1968) research. However, after many years of debate surrounding the validity of personality measures, as well as the person-situation argument, researchers now recognize that personality is consistent across adulthood (Costa & McCrae, 1988; Hogan, Hogan, & Roberts, 1996) and that it is predictive of job performance over periods of several years (Hogan, 1998; Judge. Higgins, & Thoresen, 1999, Oswald & Hough, 2011). Additionally, the predictive ability of some personality dimensions on performance can be generalized across occupations (Barrick and Mount, 1991; Mount and Barrick, 1995; Oswald & Hough, 2011).

Barber & Bretz (2000) suggest focusing research efforts on the "big five" dimensions of personality (Barrick & Mount, 1991), and note that "the existence of this parsimonious structure

of personality traits has facilitated the accumulation of knowledge of personality effects in selection and could do the same for research on attraction and compensation" (p. 44). Therefore, in the following two sections, hypotheses are set forth regarding relationships between big five personality variables and attraction to two compensation components. According to the P-O fit framework, hiring and employing individuals who prefer the way an organization structures its compensation system should lead to more satisfied employees. Having more satisfied employees should help ensure the satisfaction of the customers of the organization (Brown & Lam, 2008; Jeon & Choi, 2012; Homburg & Stock, 2004; Netemeyer et al., 2010; Wangenheim, et al., 2007). Conversely, hiring and employing individuals who do not prefer the way an organization structures its compensation system should lead to less satisfied employees (and consequently less satisfied customers). In the first section to follow, hypotheses are presented for relationships between individual differences in some of the big five personality dimensions and one's preferred level of aggregation for performance-based pay--specifically, relationships between the personality dimensions and preferences for individual versus team performance-based pay are investigated. In the second section to follow, relationships between individual differences in some of the big five personality dimensions and the preferred degree to which pay is at risk are examined. The degree to which pay is at risk can vary widely (Cascio, 1998, Gerhart & Newman, 2020). When a relatively small proportion of pay is at risk, there is a degree of stability for the employee, but potential rewards may be smaller than if a relatively large proportion of pay is at risk. On the other hand, when a relatively large proportion of pay is at risk, income is not very stable and is subject to wide fluctuations, but the potential payoff may be higher. Individuals vary as to the extent to which they are accepting of or adverse to risk (Cadsby, Song, & Tapon, 2007; Dohmen & Falk, 2011; Fulmer & Walker, 2015; Pappas & Flaherty, 2006). Thus, relationships between the personality dimensions and preferences for low base pay with an additional large portion of pay tied to performance versus a higher base pay with an additional small portion of pay tied to performance are investigated. Hypotheses are not developed for all five of the big five personality dimensions in each section. Hypotheses are only presented where a logical relationship can be developed between one of the dimensions and the particular pay component.

LEVEL OF AGGREGATION HYPOTHESES

Three hypotheses regarding the relationships between big five personality variables and preferences for individual vs. team-based pay were formulated. Three of the big five dimensions ---agreeableness, openness to experience, and extraversion--- were expected to be related to individuals' preferences for either individual or team-based pay.

Agreeableness

Agreeableness is a dimension largely composed of interpersonal tendencies. A person high in agreeableness is "fundamentally altruistic. He or she is sympathetic to others and eager to help them and believes that others will be equally helpful in return. By contrast, the disagreeable or antagonistic person is egocentric, skeptical of others' intentions, and competitive rather than cooperative" (Costa & McCrae, 1992, p.15). Given the cooperative, trusting nature of the agreeable individual, it seems likely that individuals higher in agreeableness will be more likely to prefer team-based pay systems -- where cooperation and trust help achieve higher levels of pay -- than individuals lower in agreeableness.

This notion is supported by the findings of Judge & Cable (1997) -- individuals scoring high on agreeableness were more attracted to team-oriented organizational cultures. The items on

the measure of team orientation used by Judge & Cable seem to describe distinctions between cultures that encourage participation and those that do not. Team-based compensation schemes require a high level of participation and cooperation and thus would seem to be similarly related to agreeableness.

Bretz, Ash, & Dreher, (1989) also investigated the relationship between personality variables and preferences for individual versus organizational-oriented reward systems. When an attempt to find a relationship between the need for affiliation and preference for organizational-oriented reward systems failed, Bretz, et al. performed a post hoc test to reanalyze the relationship with a higher order factor of personality. This factor was labeled "degree and quality of interpersonal orientation" and appears similar to the big five dimension of agreeableness. This relationship was also not supported. However, Bretz, et al. did not use an instrument that was specifically designed to measure the big five dimensions of personality. A more pure measure of agreeableness may support this relationship.
Therefore:

> **Hypothesis 1:** *Individuals who prefer team-oriented performance-based compensation systems will have higher levels of agreeableness than will individuals who prefer individually-oriented performance-based compensation systems.*

Openness to Experience

Open individuals have intellectual curiosity, a preference for variety, and are curious about both the outer and inner worlds (Costa &McCrae, 1992). Individuals who score low on openness "tend to be conventional in behavior and conservative in outlook. They prefer the familiar to the novel, and their emotional responses are somewhat muted" (Costa & McCrae, 1992, p.15). It seems probable that people higher in openness will be more willing to experience different (unconventional) types of compensation systems than will individuals who are lower in openness. While team-oriented performance-based compensation systems are becoming more prevalent, they are still unconventional because performance-based compensation systems have historically been individually oriented. Thus, more open individuals would seem more likely to prefer team-oriented performance-based compensation systems than would less open individuals. Support for the relationship between openness to experience and preference for team-based rewards can be found in the work of Gomez-Mejia & Balkin (1989) and in research related to Holland's (1973) theory of vocational choice. Gomez-Mejia & Balkin found that individually based rewards for research and development scientists were not related to pay effectiveness. However, they found that team-based rewards for these scientists were significant predictors of pay satisfaction, reported project performance, and turnover intentions. Holland's (1973) theory of vocational choice can be used to link the results of the Gomez-Mejia & Balkin (1989) study with openness to experience. According to Holland, occupations and the individuals who select into them can be grouped into six categories. One of the categories---the investigative category --- consists of individuals that can be described as analytical, abstract, curious, and theory-oriented (Hogan & Blake, 1996). These terms could easily be used to describe research and development scientists such as those used in the Gomez-Mejia & Balkin study. Costa, McCrae, & Holland, (1984) showed that when openness to experience is correlated with Holland's (1973) work domains, significant correlations with Holland's investigative domain (r = .33 for men and .40 for women) are obtained. Hogan & Blake (1996) report similar correlations between the investigative domain and openness to experience scales for three personality instruments. Given this evidence, individuals high in openness to

experience would be expected to be similarly motivated by team-based rewards---just as the research and development scientists were. Therefore:

> **Hypothesis 2:** *Individuals who prefer team-oriented performance-based compensation systems will have higher levels of openness to experience than will individuals who prefer individually oriented performance-based compensation systems.*

Extraversion

Traits frequently associated with this dimension include "being sociable, gregarious, assertive, talkative, and active" (Barrick & Mount, 1991, p.3). Extraverts like people and prefer large groups and gatherings (Costa & McCrae, 1992). On the other hand, introverts are reserved, independent, and even paced (Costa & McCrae, 1992). Given the extraverts' desires for social situations and groups, it seems probable that they would have a stronger preference for team-oriented performance-based compensation systems where there is a high level of participation and interaction than would more introverted individuals. Support for this idea can be found in Judge & Cable (1997). They found that individuals higher in extraversion preferred team-oriented organizational cultures. Thus, for the reasons cited above, it is probable that individuals high in extraversion will prefer team-oriented performance-based compensation systems.

Furthermore, Cable & Judge (1994) found that highly individualistic job seekers were more attracted to individual versus group-based pay plans than were highly collectivistic job seekers. Individualistic individuals were described as preferring to work alone whereas collectivistic individuals derive satisfaction from group accomplishment (Cable & Judge, 1994). Individualistic individuals would seem to share characteristics with introverts whereas collectivistic individuals would seem to share characteristics with extraverts. Thus, introverts would seem less likely to prefer team-oriented performance-based pay plans than would extraverts. Therefore:

> **Hypothesis 3:** *Individuals who prefer team-oriented performance-based compensation systems will have higher levels of extraversion than will individuals who prefer individually oriented performance-based compensation systems.*

DEGREE OF RISK HYPOTHESES

Four of the big five dimensions---neuroticism, conscientiousness, extraversion, and openness to experience--- are expected to be related to individuals' preferences for the amount of their pay that they are willing to have at risk.

Neuroticism

The dimension of neuroticism provides an indication of the degree of an individual's emotional stability. It "contrasts adjustment or emotional stability with maladjustment or neuroticism" (Costa & McCrae, 1992, p.14). Individuals high in neuroticism tend to experience negative feelings and cope more poorly than others with stress. Individuals low in neuroticism are more secure and are better able to face stressful situations. When a larger proportion of pay is tied to performance, the financial risk faced by the individual becomes greater. Risk averse individuals prefer to avoid such variable pay plans and prefer fixed pay (Cable & Judge, 1994; Deckop. Merriman, & Blau, 2004; Dohmen & Falk, 2011). However, as more organizations drop fixed pay plans in favor of variable pay plans (Gerhart & Newman, 2020), employees may have to choose

between the degree of variability in pay between organizations as opposed to a fixed pay organization versus a variable pay organization. Such inherently risky pay situations tend to be stressful. Thus, individuals lower in neuroticism would seem to fare better when financial risk is greater than would individuals higher in neuroticism.

Support for the suggested relationship between neuroticism and the degree of risk assumed within an organization's culture is found in Judge & Cable (1997). They found a significant negative relationship between level of neuroticism and preferences for organizational cultures that promote experimentation and risk taking and that do not emphasize being stable or secure. In other words, individuals higher in neuroticism did not express preferences for working in risky, non-stable organization cultures. Similarly, Fulmer & Walker (2015) noted that individuals higher in neuroticism were less likely to thrive under a pay for performance system. In a laboratory study, they found that more emotionally stable (lower neuroticism) individuals were more productive under a piecework system than under a fixed pay system. A similar relationship is expected between neuroticism and preferences for the degree of risk within pay plans. Therefore:

> **Hypothesis 4:** *Individuals who prefer having a relatively higher proportion of their pay at risk will have lower levels of neuroticism than will individuals who prefer having a relatively lower proportion of their pay at risk.*

Conscientiousness

Conscientiousness reflects being achievement-oriented, hardworking, and persevering (Barrick & Mount, 1991). The conscientious individual is determined, strong-willed, and purposeful. High conscientiousness is associated with occupational and academic achievement. Individuals low in conscientiousness are more lackadaisical in working toward their goals (Costa & McCrae, 1992). Given that conscientious individuals are achievement-oriented, purposeful, and occupationally successful, it seems logical to argue that such individuals would be willing to assume more risk in their pay because of the linkage between performance and the ultimate payoff. In other words, while less conscientious individuals may not have the motivation to perform at levels that could bring increased rewards and thus prefer putting less of their pay at risk, more conscientious individuals are motivated to work at the levels that may be required to bring about increased rewards.

On the other hand, Judge & Cable (1997) found that there was a negative relationship between level of conscientiousness and preferences for organizational cultures that promote experimentation and risk taking and that do not emphasize being stable or secure. Judge & Cable argue that this relationship occurs because conscientious individuals are risk-averse and that their need for order may cause them to avoid novel situations. However, this careful, orderly side of the conscientious individual may be overpowered by the achievement striving, hardworking aspects of the conscientiousness dimension when performance-based rewards are a component of an organization's culture. Thus:

> **Hypothesis 5:** *Individuals who prefer having a relatively higher proportion of their pay at risk will have higher levels of conscientiousness than will individuals who prefer having a relatively lower proportion of their pay at risk.*

Extraversion

This dimension indicates the degree to which an individual is extraverted, as described in the previous section on level of aggregation hypotheses. According to Gray (1973), extraverts are

very open to the influence of external rewards whereas introverts are not. According to Gray, the more extraverted an individual is the more sensitive he or she is to a signal of a reward. Support for Gray's theory can be found in research related to Holland's (1973) theory of vocational choice. One of Holland's (1973) occupational categories---the enterprising category --- consists of individuals that can be described as motivated by their desire for economic gain. Costa et al., (1984) showed that when extraversion is correlated with Holland's (1973) work domains, the strongest correlation is with Holland's enterprising domain (r = .65 for men and .51 for women). Similar findings are reported by Hogan & Blake (1996) who show the highest extraversion-Holland work domain correlation to be for the enterprising domain across a range of personality instruments. Given this relationship between extraversion and Holland's enterprising domain, extraverted individuals are expected to be similarly motivated by a desire for economic gain. Stewart (1996) supported this notion by demonstrating that salespeople higher in extraversion excelled on job performance dimensions that provided the greatest reward. Additionally, Fulmer & Walker (2015) found via a laboratory study that extraverted participants performed better under performance-based pay than under fixed pay. Therefore, it seems logical that extraverted individuals would be more satisfied with pay systems where a larger portion of pay is at risk and subsequently, potential economic gains are greater. Thus:

> **Hypothesis 6:** *Individuals who prefer having a relatively higher proportion of their pay at risk will have higher levels of extraversion than will individuals who prefer having a relatively lower proportion of their pay at risk.*

Openness to Experience

As described in the previous section on level of aggregation hypotheses, individuals scoring high on openness to experience are characterized as more unconventional, while those scoring low on openness are characterized as conventional. It is probable that people higher in openness will be more eager to experience different (unconventional) types of compensation systems than will individuals who are lower in openness. Risk sharing plans where a portion of employee pay is at risk are still a relatively unconventional practice (Gerhart & Newman 2020). Further, the larger the portion of pay that is at risk, the more unconventional the pay system. Therefore, it seems likely that individuals who are more open to experience are more likely to prefer having a relatively large portion of pay put at risk than are less open individuals.

Support for the relationship between openness to experience and the degree of risk assumed within an organization's culture may be found in Judge & Cable (1997). They found a significant positive relationship between level of openness to experience and preferences for organizational cultures that promote experimentation and risk taking and that do not emphasize being stable or secure. In other words, individuals higher in openness to experience expressed preferences for working in risky, non-stable organization cultures. A similar relationship is expected between openness to experience and preferences for degree of risk within pay plans. Thus:

> **Hypothesis 7:** *Individuals who prefer having a relatively higher proportion of their pay at risk will have higher levels of openness to experience than will individuals who prefer having a relatively lower proportion of their pay at risk.*

METHOD

Sample

The participants consisted of MBA students at a large university in the United States. Each participant completed a personality inventory and a compensation system preference measure. To determine the appropriate sample size needed to test the hypotheses using independent sample *t* tests, a power analysis was performed for a medium effect size (d = .5) and an alpha level of p = .05. The analysis revealed that a sample of 50 participants was needed in each group (e.g., team-based pay preference group vs. individual-based pay preference group) to obtain a power of .80 (Cohen, 1987). To account for the possibility that some participants would provide incomplete information and fall out of the study and that some participants may not express an opinion regarding a compensation system characteristic, data were collected from a larger group of participants to ensure that at least 50 participants could be placed in each group in the statistical analysis. Data were collected from a total sample of 209 participants. This yielded a usable sample of N = 196. There were 65 female and 131 male participants. The age of participants ranged from 21 to 55 (M =30.05, SD = 6.48). Total months of full-time work experience for the participants ranged from zero to 400 (M =92.22, SD = 78.69). The age and work experience of the participants strengthen the experiment in that the majority of these individuals are familiar with the workplace and the nature of compensation systems.

Measures

Personality Inventory. Each participant completed the Revised NEO Personality Inventory developed by Costa & McCrae (1992). This inventory consists of 240 statements on which respondents are asked to indicate their relative agreement on five-point scales ranging from "strongly disagree" to "strongly agree." This personality inventory was specifically designed to measure personality according to the five factor model. For this paper, all personality scores are expressed in standardized form, i.e., T-scores (M = 50, SD = 10) with higher T-scores indicating a higher level of the personality dimension.

Compensation System Preference Measure (CSPM). Each participant read and completed the CSPM. This measure, developed by the authors, consists of four case descriptions of compensation systems. The four cases differ on two dimensions. First, two of the cases describe situations where a portion of an individual's pay is contingent on his or her individual performance. The other two cases describe situations where a portion of an individual's pay is contingent on the performance of his or her work team in meeting unit profit objectives. Second, two of the cases describe systems with relatively high base pay with a small portion of additional pay contingent on performance. The other two cases describe situations with relatively low base pay with a larger portion of additional pay contingent on performance. These cases are structured in such a way that the low base pay systems have potential earnings that are higher than the high base pay systems when performance levels are high. Conversely, when performance levels are lower, the high base pay systems have potential earnings that are higher than those in the low base pay systems.

Four cases were presented to each participant: 1. low base pay with a large additional portion of pay contingent on individual performance, 2. low base pay with a large additional portion of pay contingent on team performance, 3. high base pay with a small additional portion of pay contingent on individual performance, 4. high base pay with a small additional portion of pay contingent on team performance. The order of the four cases within the packets was randomized. Each participant was told to assume that the four positions represented in the cases were all in their chosen profession, with successful organizations, and were in the same

metropolitan area.

Participants were asked to rank their preferences for the systems from most preferred to least preferred. Finally, they were asked to explain the rationale for their rankings. A 5-month test-retest reliability analysis of rankings on the CSPM was completed on 26 MBA students (a subset of the MBA students who served as participants in the study). Spearman's rank order correlation coefficients were computed for each individual. Sixty-five percent of the individuals' ratings obtained Spearman rank order correlation coefficients of .80 or above. In fact, only three individuals' rankings obtained Spearman rank order correlation coefficients below zero. Thus, it appears that responses to the CSPM remain relatively stable over time.

The compensation preference variables---preference for team-based pay, preference for individual-based pay, preference for low risk / stable income, and preference for high risk / high potential income---were determined by examining the content of the written explanations of the rankings in conjunction with the rankings. Two trained raters performed the content analysis. Based on their examination these raters noted stated preferences for individual or team-based pay and stated preferences for low risk / stable income or high risk / high potential income. The content analysis of the raters was compared to ensure reliability. For the content analysis of whether a participant indicated a preference for team-based pay, individual-based pay, or did not state a preference, the two raters agreed in 93.3 percent of the cases (Cohen's kappa = .893, $p < .001$). For the content analysis of whether a participant indicated a preference for low risk / stable income, high risk / high potential income, or did not state a preference, the two raters agreed in 83.2 percent of the cases (Cohen' s kappa = .717, $p < .001$). When the two raters agreed, their categorization of the variables was used. When the two raters disagreed, the authors jointly determined the appropriate compensation preference variable category.

ANALYSIS AND RESULTS

Independent sample *t*-tests were conducted to directly test the hypotheses. To test the level of aggregation hypotheses, the participants' preferences were classified into two groups based on their stated preference for level of aggregation in contingent pay. The first group contained individuals with stated preferences for individually based contingent pay ($N = 98$). The second group contained individuals with stated preferences for team-based contingent pay ($N = 46$). To test the degree of risk hypotheses, the participants' preferences were classified into two groups based on their stated preferences for risk in pay. The first group contained individuals with stated preferences for systems with a higher base pay, more stability, and less risk ($N = 70$). The second group contained individuals with stated preferences for systems with lower base pay, higher potential pay, less stability, and more risk ($N = 91$). Table 1 reports the means and standard deviations for the variables examined in the analyses. The results of the hypotheses are presented below categorized according to type of hypothesis (i.e., level of aggregation and degree of risk) and personality dimension.

LEVEL OF AGGREGATION HYPOTHESES

Agreeableness. Hypothesis 1 stated that individuals who preferred team-oriented performance-based pay would have higher levels of agreeableness than individuals who preferred individually oriented performance-based pay. As can be seen in Table 2, a one-tailed *t* test indicated that there was not a significant difference in agreeableness between the two groups ($t(142) = -.69$, *ns*; $d = .13$). Thus, hypothesis 1 was not confirmed.

Table 1

Means and Standard Deviations

Variable	Mean	S.D.
Neuroticism	49.88	10.34
Extraversion	57.12	10.76
Openness to Experience	54.01	10.78
Agreeableness	44.63	10.84
Conscientiousness	53.92	11.11

Table 2

Individually Based Pay and Team-Based Pay Means, Standard Deviations, t *-Tests, and Effect Sizes*

	Individually-based group (n = 98)		Team-Based group (n = 46)			
Variable	*M*	*SD*	*M*	*SD*	*t*(142)	*d*
Agreeableness	44.9	11.12	46.3	10.17	-0.69	.13
Openness to Experience	54.0	10.99	56.7	10.29	-1.37*	.25
Extraversion	58.4	10.97	55.8	10.46	1.35	.24

Note: d = effect size
*$p < .10$ (one tailed).

Openness to Experience. Hypothesis 2 stated that individuals who preferred team-oriented performance-based pay would have higher levels of openness to experience than individuals who preferred individually oriented performance-based pay. As can be seen in Table 2, a one-tailed *t*-test indicated a very marginally significant difference in openness to experience between the two groups ($t(142) = -1.37$, $p < .10$; $d = .25$). Thus, hypothesis 2 was marginally supported. Participants who preferred team-oriented performance-based pay tended to be higher in openness to experience ($M = 56.68$, $SD = 10.29$) than participants who preferred individually oriented performance-based pay ($M = 54.04$, $SD = 10.99$).

Extraversion. Hypothesis 3 stated that individuals who preferred team-oriented performance-based pay would have higher levels of extraversion than individuals who preferred individually oriented performance-based pay. Table 2 shows that a one-tailed *t*-test indicated that there was not a significant difference in extraversion in the proper direction between the two groups ($t(142) = 1.35$, *ns*). In fact, the mean level of extraversion for participants who preferred

team-oriented performance-based pay was slightly lower than the mean for participants who preferred individually oriented performance-based pay.

Table 3

High risk/Low base pay and Low risk/ High base pay Means, Standard Deviations, t *-Tests, and Effect Sizes*

	High risk/ Low base group (n = 91)		Low risk/ High base group (n = 70)			
Variable	*M*	*SD*	*M*	*SD*	*t*(159)	*d*
Neuroticism	48.8	9.48	52.1	10.91	2.03**	.33
Conscientiousness	54.3	10.72	53.3	11.17	-0.54	.09
Extraversion	58.7	10.39	54.8	9.86	-2.40***	.38
Openness to Experience	54.2	9.95	51.1	10.49	-1.91**	.30

Note: *d* = effect size
** $p < .05$ (one tailed).
*** $p < .01$ (one tailed).

DEGREE OF RISK HYPOTHESES

Neuroticism. Hypothesis 4 stated that individuals who preferred having a relatively higher proportion of their pay at risk would have lower levels of neuroticism than individuals who preferred having a relatively lower proportion of their pay at risk. As can be seen in Table 3, a one-tailed *t*-test indicated that there was a significant difference in the level of neuroticism between the two groups in the proper direction ($t(159) = 2.03$, $p < .05$; $d = .33$). Thus, as hypothesized, participants that preferred having a relatively higher proportion of their pay at risk were significantly lower in neuroticism ($M = 48.83$, $SD = 9.48$) than participants who preferred having a relatively lower proportion of their pay at risk ($M = 52.10$, $SD = 10.91$).

Conscientiousness. Hypothesis 5 stated that individuals who preferred having a relatively higher proportion of their pay at risk would have higher levels of conscientiousness than would individuals who preferred having a relatively lower proportion of their pay at risk. Table 3 shows that a one-tailed *t*-test indicated that there was not a significant difference in conscientiousness between the two groups ($t(159) = -.54$, *ns*; $d = .09$). Thus, hypothesis 5 was not confirmed.

Extraversion. Hypothesis 6 stated that individuals who preferred having a relatively higher proportion of their pay at risk would have higher levels of extraversion than would individuals who preferred having a relatively lower proportion of their pay at risk. As can be seen in Table 3,

a one-tailed *t*-test indicated that there was a significant difference in the level of extraversion between the two groups in the proper direction (t (159) = -2.40, $p < .01$; $d = .38$). Thus, as hypothesized, participants that preferred having a relatively higher proportion of their pay at risk were significantly higher in extraversion ($M = 58.69$, $SD = 10.39$) than participants who preferred having a relatively lower proportion of their pay at risk ($M = 54.81$, $SD = 9.86$).

Openness to Experience. Hypothesis 7 stated that individuals who preferred having a relatively higher proportion of their pay at risk would have higher levels of openness to experience than would individuals who preferred having a relatively lower proportion of their pay at risk. Table 3 shows that a one-tailed *t*-test indicated that there was a significant difference in the level of openness to experience between the two groups in the proper direction ($t(159) = -1.91$, $p < .05$; $d = .30$). Thus, as hypothesized, participants that preferred having a relatively higher proportion of their pay at risk were significantly higher in openness to experience ($M = 54.20$, $SD = 9.95$) than participants who preferred having a relatively lower proportion of their pay at risk ($M = 51.10$, $SD = 10.49$).

DISCUSSION

The goal of this study was to determine if there are systematic differences in personality dimensions that account for peoples' preferences for differences in aspects of compensation systems. This is an important goal because it can be advantageous to select individuals that fit well with an organization's culture and/or for applicants to sort themselves into matching cultures. Successful P-O fit has been demonstrated to be related to increased levels of employee job satisfaction (Boxx, et al., 1991; Bretz & Judge, 1994; Cable & Judge, 1996; Chatman, 1991; Kristof, 1996; O'Reilly, et al., 1991; Verquer, et al., 2003) and employee job satisfaction has been shown to be related to customer satisfaction (Brown & Lam, 2008; Homburg & Stock, 2004; Jeon & Choi, 2012; Netemeyer, et al., 2010; Wangenheim, et al., 2007). The present study addressed the issue of P-O fit by investigating the relationships of personality variables -- characteristics of the individual-- and stated preferences for differing types of compensation systems -- potential characteristics of various organization cultures.

In the current study, systematic relationships between personality variables and preferences for differing types of compensation systems were found. Two components of compensation systems were investigated. First, preferences for the level of aggregation used in the determination of performance-based pay were investigated. In general, individuals who prefer having their pay based on the performance of their work team tend to have higher levels of openness to experience than do individuals who prefer having their pay based on their individual performance. No other personality variables were found to be related to preferences for the level of aggregation of pay.

Hypothesis 1 stated that individuals who preferred team-oriented performance-based compensation systems would have higher levels of agreeableness than would individuals who preferred individually oriented performance-based compensation systems. This hypothesis was not supported. Apparently, individuals who prefer team-oriented compensation systems are drawn to them for reasons other than the interpersonally oriented nature of the reward system. Judge & Cable (1997) found that individuals scoring high on agreeableness were more attracted to team-oriented organizational cultures. Similarly, Stevens and colleagues (Stevens & Ash, 2001; Stevens, Guthrie, Ash, & Coate, 2002) indicated that when given the choice in a managerial situation, individuals higher in agreeableness preferred working in a team environment. While individuals higher in agreeableness may prefer to work in team-oriented situations, they do not appear to have a clear preference for whether their pay is based on team or individual performance. Thus, they

may view the interpersonal nature of the work itself as separate from how that work is compensated.

Hypothesis 3 stated that individuals who prefer team-oriented performance-based compensation systems would have higher levels of extraversion than individuals who prefer individually oriented performance-based systems. Individuals who preferred team-oriented performance-based pay systems were not significantly higher in extraversion than those who preferred individually oriented performance-based systems. A possible explanation for this result lies in the make-up of the personality dimension of extraversion. Hogan & Hogan (1995) maintain that extraversion contains distinct elements of sociability and ambition. Therefore, it may be the case that while more sociable individuals would prefer to work in groups, more ambitious individuals may prefer to be paid based on their individual performance. As such, these potential opposite relationships may have negated any effect that extraversion would have on preferences for level of aggregation in performance-based pay.

The second component of compensation systems that was investigated was individual preferences for the level of risk in contingent pay (i.e., the proportion of pay tied to performance). In general, individuals who prefer having a relatively higher proportion of their pay at risk have lower levels of neuroticism and higher levels of extraversion and openness to experience than individuals who prefer having a relatively lower proportion of their pay at risk.

One research hypothesis related to the level of risk in pay was not supported. Hypothesis 5 stated that individuals who prefer having a higher proportion of their pay at risk would have higher levels of conscientiousness than would individuals who prefer having a relatively lower proportion of their pay at risk. Although the results were in the proper direction, they were not significant. A possible explanation for this result is that contrary to expectations, facets of conscientiousness related to being purposeful and achievement oriented may have been overpowered by a need for order. As was noted earlier, Judge & Cable (1997) found there was a negative relationship between level of conscientiousness and preferences for organizational cultures that promote experimentation and risk taking and that do not emphasize being stable or secure. They argued that this relationship occurs because conscientious individuals are risk averse and that their need for order may cause them to avoid novel situations. In the present study we argued that this careful, orderly side of the conscientious individual might be overpowered by the achievement striving, hardworking aspects of the conscientiousness dimension when performance-based rewards are a component of an organization's culture. As the test of the hypothesis indicates, such is not the case.

MANAGERIAL IMPLICATIONS

There are practical implications from the results of this study for improving the likelihood of better P-O fit and thus higher levels of employee job satisfaction and customer satisfaction. First, in general, all else being equal, organizations should consider individuals scoring higher in openness to experience as better matches to compensation systems that pay individuals based on team performance and that provide for a larger portion of pay to be tied to performance. Thus, hiring employees with higher levels of openness to experience when the organization has team-based pay for performance plans with larger portions of pay tied to performance should bring about increased P-O fit that will result in increased employee job satisfaction and consequently customer satisfaction. Beyond this relationship, Ekinci & Dawes (2009) have demonstrated a direct link between employee openness to experience and consumer satisfaction. Conversely, organizations should consider individuals scoring lower in openness to experience as better matches to

compensation systems that pay individuals based on individual performance and that provide for a relatively small portion of pay to be tied to performance. Second, additionally, all else being equal, individuals scoring higher in extraversion should be considered as better matches to compensation systems that provide for a larger portion of pay to be tied to performance. Therefore, hiring employees with higher levels of extraversion when the organization ties larger portions of pay to performance should bring about increased P-O fit that will result in increased job satisfaction, and consequently, customer satisfaction.

Beyond the aforementioned advantage of hiring extroverted employees to fit a particular organizational culture, other researchers have found relationships between employee extraversion and customer satisfaction. Ekinci & Dawes (2009) found that employee extraversion had a strong positive impact on interaction quality which in turn led to consumer satisfaction. Dormann & Kaiser (2002) demonstrated that employee extraversion had a positive relationship with customer satisfaction. Conversely, organizations should consider individuals scoring lower in extraversion as better matches to compensation systems that provide for a relatively small portion of pay to be tied to performance. While this may seem counterintuitive given the research of Ekinci & Dawes (2009) and Dormann & Kaiser (2002), hiring employees with moderate levels of extraversion may still contribute to customer satisfaction. Further research could investigate whether there is a lower bound to extraversion in terms of its relationship with customer satisfaction. Finally, all else being equal, individuals scoring lower in neuroticism should be considered as better matches to compensation systems that provide for a larger portion of pay to be tied to performance. Conversely, organizations should consider individuals scoring higher in neuroticism as better matches to pay systems that provide for a relatively small portion of pay to be tied to performance. Hiring according to these recommendations should bring about increased P-O fit that will in turn result in increased employee job satisfaction and customer satisfaction.

Practically, this means utilizing selection tools that screen for these personality variables or at a minimum incorporating compensation plan information into recruitment materials so that applicants can sort into organizations with plans that fit the applicants' preferences.

LIMITATIONS AND IMPLICATIONS FOR FUTURE RESEARCH

Although four of the seven hypotheses were supported, the effect sizes for these hypotheses were not large. Effect sizes for the supported hypotheses ranged from .25 to .38. Thus, according to the frame of reference recommended by Cohen (1988), the effect sizes fall between small (d = .2) and medium (d = .5). Therefore, even though the effect sizes for the supported hypotheses are not large, they represent significant findings. This is especially true for the degree of risk hypotheses. While previous research efforts have investigated individual preferences for fixed pay versus contingent pay, this is the first research effort to investigate individual differences associated with preferences for differing levels of risk within contingent pay. Thus, these findings do contribute to the understanding of the relationships between individual differences in personality and preferences for differing compensation system characteristics.

A second limitation of the present study is the experimental design using student participants. While this is not the ideal research situation, efforts were undertaken to ensure that the participants were not novices in the world of work. Evidence of this can be inferred through the average age of the participants (30.05 years) and their average number of months of full-time work experience (92.22 months).

While the present research does have its limitations, there is value in learning more about the relationships between individual differences in personality and preferences for differing

compensation system characteristics. Such information can be useful to organizations that desire to devise selection systems that maximize P-O fit and increase employee job satisfaction and customer satisfaction. Given the findings of the present research, further research is encouraged to investigate whether these findings will hold under other experimental settings and in the field. Additionally, research should be conducted to determine whether these personality-compensation system preference relationships are similar or different across different levels of jobs. The participants in the present study were all college graduates pursuing an advanced degree. As such, their willingness to assume more risk in pay or have their pay based on team performance may differ from the desires of other types of workers (e.g., lower-level service or production workers). Thus, further investigations in this line of research should attempt to broaden the scope of workers that are studied. Research directly investigating the relationship between P-O fit, achieved through aligning employee personality and compensations system characteristics, and employee job satisfaction and customer satisfaction is encouraged. Finally, research in other traditional HR domains should be explored as part of determining how the total, integrated effort of the employees of a firm can contribute to the overall increase in customer satisfaction and, ultimately, organizational profitability.

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