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Want a Healthier Workforce? Take a Look at Your Pay Strategy

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Leveraging pay policies to enhance employee well-being.

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We know that employee well-being is critical to organizational success, and enhancing well-being is among the most frequently mentioned workforce trends **identified by experts**. Organizations seem to acknowledge this reality and have started investing heavily in programs designed to enhance well-being. These include programs designed to **build community through support groups**, encourage healthier habits at work and beyond through access to **fitness classes** and **healthier food choices**, or even providing **mental health support** like free access to therapy. These initiatives all tackle critical components of employee well-being, and are likely important factors for building a healthier and more sustainable workforce. Despite this, they leave out one critically important driver of employee well-being—their pay. It seems obvious that the manner and amount we are paid will have direct consequences for our well-being, yet pay is conspicuously absent in discussions of workplace well-being. Further, research examining the ways pay impacts employee well-being was scattered across many disciplines, limiting our ability to systematically build knowledge and understanding on this topic.

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To address this problem, we reviewed the research on pay and well-being, to identify what was already known and what questions remain unanswered. Our work has recently been published in the ***Journal of Applied Psychology***, a leading scientific journal in the field of management and organizational behavior. In our research, we conducted a systematic review of the scientific literature and identified 138 articles which examine the relationship between pay and well-being. This body of evidence covers research over the last 50 years from a wide range of disciplines, including business, economics, psychology, public policy, and medicine. Further, it captures nuanced aspects of pay strategy including pay-for-performance, pay level, and pay administration. In the section below, we identify four key insights from our review that managers can use to optimize their organization's approach to compensation policies and practices, which in turn can enhance employee well-being.

Key Takeaways

First, *managers should take steps to design pay-for-performance in ways that reduce their harmful effects on employee health.* There is accumulating evidence that pay-for-performance, when improperly designed and implemented, can have detrimental health effects. In a study of UK organizations, researchers found increased absenteeism and physical ailments in firms with individual performance pay.1 Rates of anti-anxiety and anti-depressant use among employees also spike when organizations implement performance-based pay.2 Piece-rate pay appears particularly harmful, as it often encourages employees to take shortcuts to maximize their earnings resulting in lower-quality output or more workplace accidents.3 However, based on our research, there are ways to optimize pay-for-performance for well-being and productivity.

Managers should first ensure that performance pay is directly tied to desired behaviors, and not to undesired ones. This is easier said than done, as many pay-for-performance schemes unintentionally incentivize workers to prioritize speed over safety, or quantity over quality. Managers need to think through incentive schemes carefully and monitor their implementation for any signs of unintended consequences, which could include decreased output quality, reduced cooperation among team members, or more mistakes or accidents. Second, managers should take steps to ensure that any performance-based-pay scheme also preserves employees' sense of autonomy and control over their work. When rewards become coercive, internal motivation is drastically decreased. To preserve autonomy, pay-for-performance policies must permit employees to choose *how* they will accomplish the goal or objective. This could be done by incentivizing a well-defined goal while empowering employees to find their own way of achieving this goal.

Managers could also reduce the percent of total compensation that is derived from performance-based pay as a way of minimizing the coerciveness of rewards. For example, reducing commission-based pay for salespeople from 80% to 20% of total compensation decreased the number of sick days taken.4 Doing so provides more stability in pay to employees, while still maintaining some of the motivation-enhancing effects of performance pay. A third consideration would be creating more team-based performance goals that encourage employees to build relationships while working toward a mutual goal. We did not find any evidence that team rewards had the same negative effects as high intensity individual pay-for-performance designs.

Second, *managers and organizations should minimize the volatility and uncertainty in employees' pay.* Volatility refers to the amount that pay fluctuates over time. For example, those working on commission might have a busy month with lots of sales (and a higher paycheck), followed by a month with relatively few leads. Our research shows that dealing with this constant fluctuation puts wear and tear on employees. For example, one study in the trucking industry showed that drivers who experience more volatility in their pay are more likely to voluntarily leave the organization, resulting in the expensive process of recruiting and training new employees.5 Other research examining individuals who work for tips, piece-rate, or commissions showed that pay volatility also has costs for employees' physical health, with individuals reporting more headaches, backaches, and trouble sleeping when they have more volatility in their pay.6 Uncertainty in pay, by contrast, refers to instances when employees are unsure how much they will earn for their work. This could be a result of unpredictable demands, frequently changing hours, or unclear policies for distributing bonuses. Research shows that uncertainty in pay pushes employees to overwork, neglecting rest and recovery which is vital to long-term performance.7

Together, this suggests that maintaining a healthy and sustainable workforce requires pay that is steady and predictable over time. While volatility in pay cannot be eliminated in many instances, managers and organizations can take steps to soften sudden shocks—especially negative ones. Instituting a pay floor each week or month is one solution, so that employees have some income they can rely on. Spreading bonuses or commissions over a longer timeframe can also help minimize volatility. For example, taking commission earned in one quarter and paying it out evenly over the next quarter can give employees some stability in their earnings. Of course, this timeframe can be adjusted depending on the specific industry or job. Finally, reducing the percent of total compensation that comes from volatile sources (e.g., commissions, tips, piece-rate) will also help to minimize the harmful effects of volatility, as mentioned above.

Regarding uncertainty, managers must ensure that expectations for receiving performance-based pay or bonuses are crystal clear. In short, employees need to know exactly what is required of them to receive their pay or bonus. For hourly workers, prioritizing predictable work schedules and minimizing on-call days can also help minimize uncertainty in pay. As artificial intelligence continues to gain traction, we recommend organizations look toward systems that can help workers in predicting future paychecks to reduce uncertainty in pay. Such systems could estimate pay based on internal and external factors like anticipated work hours, seasonal changes in demand, and the ebb and flow of projects within the organization.

Third, *managers and organizations wishing to develop a sustainable workplace with long-term performance in mind should also do what they can to pay employees more.* Every organization has constraints over the amount it can pay employees. With that said, a wide body of evidence indicates that employees who are paid more tend to be healthier and more satisfied in their jobs and lives. This is particularly the case for low-wage workers, as increased earnings can make a huge difference in their quality of life. For example, researchers taking advantage of differences between state and federal minimum wage found that a $1/hour increase in the minimum wage decreased suicide rates by 3-5% for those most likely to be impacted by such a change.8

Increasing pay for workers can be a reliable way of enhancing their health and well-being. Organizations struggling with recruitment, retention, or frequent instances of absenteeism and sick leaves should pay special attention to employees' wages. In the face of recent staffing shortages, a number of large retailers have pledged higher wages including **Target** and **Walmart**, for example. While raising wages has implications for the bottom line, managers must also consider the high costs of low wages in the form of expensive recruitment and training efforts as well as the need for more supervision and technology when employees are not qualified for their jobs. We suggest organizations model the financial implications of raises for those at the bottom of the hierarchy and consider the balance of these costs with the long-term benefits of a workforce paid a livable wage.

Fourth, *managers should pair transparency in how much employees are paid with transparency in how that pay was determined.* It's becoming easier than ever to determine how much colleagues are paid. Recently passed laws in a number of states now require pay ranges be published in job advertisements, and sites like GlassDoor and OpenPayrolls disclose pay either voluntarily or through public records. Norms are also shifting towards greater transparency, with over half of Millennials and Gen Z stating their willingness to share their salary information on LinkedIn according to **one survey**. Despite this, there are real health costs to feeling underpaid relative to others, including workplace injuries and increased sick time.9

To maintain a sense of fairness despite potentially unfavorable pay comparisons, managers and organizations need to prioritize fairness and transparency in *how* pay is determined. Research shows that employees are accepting of differences in pay, as long as those differences are based on job-relevant factors like performance, experience, or education, instead of nepotism and politics.10 Managers can be proactive by providing employees with thorough explanations for how pay is determined by the organization. This could include specific formulas used, or a list of factors that the organization uses to set pay for employees. Following this recommendation, the social media marketing company **Buffer** has full transparency not only in how much employees are paid, but also the formula used to determine this pay. By doing so, any employee discouraged by comparing their pay to a higher paid colleague can at least understand the reasoning behind these discrepancies, which goes a long way in maintaining a sense of fairness despite inevitable inequalities in pay. This is an area where rapidly advancing AI tools could provide solutions. If managers can leverage AI to communicate tailored pay information to employees alongside paths to higher pay rates in the future, pay differences could be seen not only as justified but motivational toward a better future for the employee.11

Conclusion

Pay is one of the primary reasons why we work, and it has a massive impact on our quality of life. Despite this, organizations often overlook the implications that their pay policies have for employee well-being, instead focusing on how these policies impact employee motivation and performance. Mounting evidence suggests that employee well-being is a key component of organizational performance, to be ignored at the organization's own peril. The good news is that pay policies are easily observable and can be modified directly by management. In short, considering the impact of pay policies on employee well-being offers managers with a new lever for improving their workforce, and one that can be adjusted with relative ease and precision. We provide four concrete, evidence-based recommendations that managers can use to enhance the sustainability of their workforce.

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