

## **PAY PREFERENCES AND JOB SEARCH DECISIONS: A PERSON-ORGANIZATION FIT PERSPECTIVE**

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The present study investigated the degree to which pay preferences influenced job search decisions in both hypothetical and actual organizations, and the degree to which preferences for particular compensation attributes depended on job seekers' dispositional characteristics. Based on prior theory and research, we hypothesized that certain pay systems generally would be preferred by job seekers, that these pay systems would affect applicant attraction to organizations, and that different types of job seekers would be attracted to different types of pay systems. The sample comprised 171 college students who were seeking jobs during the study, and who represented six majors, three degree types, and two degree levels. Experimental policy-capturing results and results obtained about actual companies with which the job seekers would potentially interview supported hypotheses that organizations perceived to offer high pay levels, flexible benefits, individual-based pay, and fixed pay policies were more attractive to job seekers. Results further suggested that the attractiveness of these pay policies may be heightened by greater levels of fit between individual personality traits and compensation system characteristics.

Pay is an important job attribute (Jurgensen, 1978) and has a significant influence on job attractiveness and subsequent job choice decisions (Rynes, 1987; Rynes, Schwab, & Heneman, 1983). Research on the relationship between compensation systems and job attractiveness typically has examined the effects of pay level (Barber, 1991; Gerhart & Milkovich, 1992). However, components of pay systems other than pay

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level may affect the value job seekers place on organizational inducements. For instance, an incentive plan based on individual achievement may be more attractive to job seekers than a seniority-based plan, even if the expected level of pay is the same (Lawler, 1966). Although several studies have examined individuals' preferences for merit pay versus seniority-based pay (e.g., Beer & Gery, 1972; Heneman, 1990; Lawler, 1966), no research has investigated general pay preferences in total compensation packages. This appears to be an important omission because pay policies are commonly thought to be malleable, allowing organizations to implement pay systems that have a positive influence on organizational effectiveness (Lawler, 1981). If organizations knew the pay preferences of their ideal applicants, it might be possible to increase their attractiveness without affecting labor costs.

Furthermore, compensation systems may act as signaling devices to job seekers, affecting job and organizational attractiveness by providing information about less visible organizational attributes (Gerhart & Milkovich, 1992; Rynes & Miller, 1983). Rynes (1987) suggested that "compensation systems are capable of attracting (or repelling) the right kinds of people because they communicate so much about an organization's philosophy, values, and practices" (p. 190). Thus, while some pay system characteristics may affect attraction directly, such that the majority of job seekers in a targeted selection pool interpret them similarly, certain types of individuals may attach different meanings and values to pay policies. Because business and human resource strategies appear to require certain types of employees, organizations may increase their effectiveness by designing pay systems that attract the right kinds of people (Rynes, 1987).

Self-selection based on compensation policies is consistent with the tenets of person-organization fit. It has been widely claimed that job seekers make search and choice decisions based on their perception of the match between their dispositions and organizational culture (Bretz, Ash, & Dreher, 1989; Judge & Bretz, 1992; Schneider, 1987; Turban & Keon, 1993). Although job seekers can acquire information about an organization's culture through a number of subtle sources (e.g., interviewers, product reputation), human resource systems are often directly observable (Bretz & Judge, in press). Furthermore, Judge and Bretz (1992) suggested that job choices based on fit may operate only when information about organizational values is salient to job seekers. Because pay systems are important and observable (Lawler, 1981), they are likely to be salient and may be especially important in job search decisions based on fit (Rynes, 1987). However, although certain relationships between dispositions and compensation attributes have been examined (Bretz & Judge, in press; Bretz et al., 1989; Turban & Keon, 1993), there is a

lack of systematic empirical research on the relationship between total compensation systems, pay preferences, and job attractiveness.

Total compensation systems can be conceptualized along a number of dimensions (Gomez-Mejia & Balkin, 1992), some of which are more strategic or central to the goals of organizations than others. Milkovich and Newman (1990) asserted that only those pay system decisions affecting the success of a business are considered strategic. Accordingly, although other researchers have assembled more exhaustive lists of compensation decisions, the pay attributes chosen for investigation in the present study are based on the strategic compensation dimensions cited by Gerhart and Milkovich (1992) and Milkovich and Newman (1990). These include external competitiveness (e.g., pay level), internal pay structure (e.g., pay hierarchy), employee contributions (e.g., individual vs. group contribution), benefits (e.g., flexible vs. fixed), and alternatives to traditional systems (e.g., pay-at-risk, skill-based pay).

Thus, in response to a void in the research literature, the present study presents an exploratory attempt to answer three research questions about pay and job attractiveness. First, Are certain types of pay systems generally preferred by job seekers in a targeted selection pool? Second, Do different types of pay systems affect attraction to actual organizations? Finally, Are different types of job seekers attracted to different types of pay systems?

### *Hypotheses*

An effort was made to include at least one pay attribute from each of the strategic choices cited by Gerhart and Milkovich (1992) because it appears appropriate to begin systematic research on the effects of pay systems on job search with the most consequential pay decisions. However, the possibility existed that job seekers would not be familiar enough with the pay policies to distinguish between them. For instance, pay structure, concerning the number of pay levels and the rate of progression through a pay hierarchy (Milkovich & Newman, 1990), was not considered relevant to the purposes of this study because the target population had very little full-time work experience. Pay structure is more pertinent to job seekers who have held full-time positions and have had the opportunity to work within a pay structure (e.g., receive promotions).

A pilot study ( $N = 29$ ) conducted to assess job seekers' familiarity with the pay policies suggested that respondents were familiar with the different pay policies and could distinguish between them. The study asked individuals about five different pay attributes (e.g., "How familiar are you with contingent pay systems?"), and responses were to a graphic

rating scale which ranged from 1 = "very familiar" to 4 = "no knowledge." The average familiarity to the pay attributes was as follows: flexible benefits,  $M = 1.66$  ( $SD = .67$ ); group-based pay,  $M = 1.69$  ( $SD = .66$ ); contingent pay,  $M = 1.90$  ( $SD = .62$ ); knowledge-based pay,  $M = 1.93$  ( $SD = .75$ ); pay structure,  $M = 2.07$  ( $SD = .66$ ). Analyses confirmed that respondents were significantly less familiar with pay structure and rated it as significantly less important to them ( $p < .01$ ) than the other attributes included in this study.

The pay attributes used in this study appear in Table 1. Each attribute is considered in turn. In general, it is expected that certain compensation system attributes will be preferred by job seekers, that these pay attributes will positively affect job search decisions, and that the attractiveness of different pay policies will vary based on individuals' dispositional characteristics.

### *Pay Level*

It is generally accepted that individuals prefer high levels of pay, and that high pay levels will attract greater quantities of higher quality applicants (Lakhani, 1988; Yellen, 1984). Rynes et al. (1983) found that pay level acted as a hurdle in job choice decisions, where nonpecuniary job factors affected decisions only if a predetermined level of pay was offered. Jurgensen (1978) found pay to be the most important job factor when respondents were asked what employees other than themselves looked for in a job, a question that may have reduced social desirability effects. Similarly, Gerhart and Milkovich (1990) suggested that pay levels might have their most direct effects on employee attraction. Thus,

*Hypothesis 1:* Job seekers will be more attracted to organizations that offer high pay levels.

Pay is probably attractive to most individuals because it offers them a corresponding level of purchasing power. However, pay level may be more important to some job seekers than to others (Bretz & Judge, in press). A personality dimension that may influence the relationship between pay level and applicant attraction is materialism, or the importance one attaches to worldly possessions. Richins and Dawson (1992) proposed that materialistic individuals place high value on material acquisitions and the means to acquire possessions, and Wachtel and Blatt (1990) found that materialists required a higher income to live what they perceived as a comfortable life. Because level of pay directly affects an

individual's wealth and ability to acquire worldly possessions, more materialistic job seekers would be expected to place greater importance on level of pay than would those low in materialism. Thus,

*Hypothesis 2:* Materialistic job seekers will prefer a higher pay level than will less materialistic job seekers.

### *Flexible Benefits*

Flexible benefits plans, allowing choice among different types of benefits, may be beneficial to employees because they can choose less expensive benefits with greater personal value. McLaughlin and Anderson (1991) suggested that flexible benefits are more attractive to employees because they reduce tax liability and increase take-home cash. Barber, Dunham, and Formisano (1992) found that the implementation of a flexible benefits plan positively affected benefits satisfaction and, to a lesser degree, job satisfaction. In accordance with past theory and research, it is expected that individuals will prefer flexible benefits, and that flexible benefits will positively influence individuals' job search decisions. Thus,

*Hypothesis 3:* Job seekers will prefer organizations that offer flexible versus rigid benefits plans.

Although a large number of organizations are turning to flexible benefits, some employees may view them more positively than others. Employees may react negatively to the responsibility of choosing between benefits alternatives as well as the time investment required to learn about the benefits offered. Some support for this claim is derived from the fact that organizations are employing computerized expert systems to aid employees in choosing their benefits package (Sturman & Milkovich, 1992). Locus of control is a personality characteristic that appears related to job seekers' evaluations of flexible benefits. Locus of control concerns the degree to which individuals believe that they control events in their lives (internal locus of control) or believe that the environment or chance controls events (external locus of control) (Rotter, 1966). Job seekers with an internal locus of control might be more attracted to situations in which they have an opportunity to control their outcomes and may be more willing to invest the time and energy required to make benefits choices; those who feel control is beyond their ability may consider the investment a needless aggravation. Accordingly, Miceli and Lane (1991) suggested that individuals' control perceptions may affect their preferences for flexible benefits. Thus,

*Hypothesis 4:* Job seekers with an internal locus of control will be more attracted to flexible versus rigid benefits plans than will those with an external locus of control.

*Evaluative Focus: Individual- Versus Group-Based Pay*

Whether an organization evaluates and rewards individual or group performance presumably sends signals to job seekers concerning team-work expectations and organizational culture. Individuals may use these signals to compare organizations and to assess their desire to be evaluated either as an individual or as part of a team. Expectancy theory suggests that, in general, job seekers will prefer individual-based pay plans because the attractiveness of an alternative is expected to increase as the links between personal efforts, results, and outcomes become more direct. Individual-oriented pay systems appear to create this motivating state more than group-based pay systems because job performance and subsequent rewards are more associated with individual contributions, leading to higher contingencies between individual contributions and rewards. Furthermore, when studying U.S. job seekers, this hypothesis is consistent with international research (e.g., Hofstede, 1980) which has suggested that the U.S. is the most individualistic society in the world. Concordant with predictions based on expectancy theory, Bretz and Judge (in press) found that job applicants preferred individual-based incentive systems. Similarly, a national random sample of employed adults indicated that of those respondents who preferred an incentive system, 22% preferred an individual incentive system, while only 12% preferred a company-wide system (Bureau of National Affairs, 1988). Thus,

*Hypothesis 5:* Job seekers will prefer organizations that offer individual-versus group-based pay systems.

Just as cultures place different values on individualism and collectivism, intracultural variance is expected to exist among job seekers. In fact, individualism versus collectivism has been viewed as a dispositional construct. Individualists prefer to work alone and place value on personal goals, autonomy, and privacy (Wagner & Moch, 1986), whereas collectivists desire high levels of interaction, have a high degree of reliance on others, and have a cooperative disposition (Bretz et al., 1989). Furthermore, collectivists derive satisfaction from group accomplishment (Earley, 1989), and they feel individuals should be willing to make sacrifices for the sake of the group (Wagner & Moch, 1986). This personality characteristic is directly related to a pay system's evaluative

focus. Pay systems that emphasize results produced through group interdependence demand a cooperative work effort, whereas those that reward individuals for their performance tend to demand individual effort. Collectivists should prefer evaluation on group achievement and fit best in a group-based reward environment, whereas individualists should desire rewards for their individual performance, such as those provided through individual merit pay.

Bretz et al. (1989) and Bretz and Judge (in press) offered empirical support for the relationship between collectivism and group-based pay. Bretz et al. tested the hypothesis that individuals with greater needs for affiliation would be more attracted to group-based reward systems, finding limited support. The authors suggested that need for affiliation may not have been the construct best suited to explain individuals' propensity toward group-based reward systems. Based on this suggestion, Bretz and Judge developed a two-item team-orientation scale which measured desire for a group-based pay system (e.g., "members of a team should get the same rewards"). Although scores on this measure were related to the attractiveness of organizations with team-based pay systems, there is some question whether the authors examined the relationship between team orientation and desire for organizations with group-based pay, or whether they simply correlated two measures of desire for group-based pay. The present paper extends Bretz and Judge's findings with a general personality scale, providing a fuller examination of the relationship between personality and the attractiveness of organizations' pay systems.

*Hypothesis 6a:* Highly individualistic job seekers will be more attracted to individual- versus group-based pay plans than will highly collectivistic job seekers.

The characteristic of self-efficacy also appears relevant to individuals' proclivity toward individual- versus group-based pay systems. Perceived self-efficacy is concerned with judgments of how well one can execute courses of action (Bandura, 1982). Bandura proposed that self-efficacy judgments influence choice of activities and environmental settings since people avoid activities they believe exceed their capabilities, but they undertake those activities that they judge themselves capable of completing successfully. Expectancy theory predicts that situations will have higher expected value as the expectancy (the link between action and accomplishment) increases. Accordingly, individuals with more confidence in their personal ability (high self-efficacy) may perceive greater expectancy in their actions, and they may be more attracted to pay systems that link their individual behavior to rewards. Thus,

*Hypothesis 6b:* Job seekers with high self-efficacy will be more attracted to an individual- versus a group-based pay plan than will those with low self-efficacy.

### *Pay Stability*

In the context of agency theory, making employees' pay contingent on organizational outcomes aligns agents' interests with those of principals. However, agents are typically more averse to financial risks than are principals because agents are less able to diversify their risks (Eisenhardt, 1989). Furthermore, while contingent pay systems make rewards partly dependent upon employees' performance, pay also may be subject to unstable factors beyond employees' control, such as economic climate. Consistent with research that has found negative relationships between risk perceptions and attractiveness judgments (e.g., Weber, Anderson, & Birnbaum, 1992), it is expected that job seekers generally will prefer fixed over variable pay. This prediction is also consistent with findings indicating that 63% of a large national sample preferred a fixed wage or salary (Bureau of National Affairs, 1988). Thus,

*Hypothesis 7:* Job seekers will be more attracted to organizations that offer fixed versus contingent pay.

The possibility of losing a portion of pay is expected to be undesirable to most individuals. However, it is not expected that all individuals are equally averse to the risk inherent in contingent pay systems. Rynes (1987) and Olian and Rynes (1984) asserted that while little research is available, contingent pay systems probably attract certain types of applicants. Weber et al. (1992) suggested that while ratings of risk and attractiveness were inversely related, the two judgment tasks also showed systematic differences, and that risk evaluation is subject to individual differences. Three characteristics that are theoretically related to contingent pay are risk aversion, self-efficacy, and locus of control, discussed in turn below.

Gomez-Mejia and Balkin (1989) found that employees with a low willingness to take risks were more likely to experience withdrawal cognitions if they worked for a firm utilizing variable compensation. Maehr and Videbeck (1968) suggested that risk and uncertainty actually may be motivating to a risk-inclined individual and that a risk-taker can be expected to respond to unpredictable incentives differently from a low-risk person. Thus, risk aversion is expected to influence individuals' preferences for a fixed versus contingent pay system.



*Hypothesis 8a:* Job seekers with high risk aversion will be more attracted to a fixed versus a contingent pay system than will those with low risk aversion.

Because self-efficacy is concerned with judgments of how well one can execute courses of action (Bandura, 1982), individuals with high self-efficacy should be more attracted to pay systems that link their high performance to rewards. Contingent pay systems specify outcomes that must be achieved to activate a payout. Thus, it is expected that those individuals with higher self-efficacy will be more attracted to a contingent pay system in which they can maximize their outcomes. Consistent with this logic, Miceli and Lane (1991) noted that workers with high self-confidence may prefer more of their pay be contingent on performance. Thus,

*Hypothesis 8b:* Job seekers with high self-efficacy will be more attracted to a contingent versus a fixed pay system than will those with low self-efficacy.

Locus of control concerns the degree to which individuals believe that they (vs. the environment) control events. If individuals perceive that outcomes are contingent upon their behavior (internal locus of control), they should be more attracted to pay systems that base rewards on their behavior than if they believed rewards were based on chance. Accordingly, Miceli and Lane (1991) suggested that employees with an external locus of control may prefer a seniority-based system because they may perceive that their performance is not within their control. Thus,

*Hypothesis 8c:* Job seekers with an internal locus of control will be more attracted to a contingent versus a fixed pay system than will those with an external locus of control.

### *Pay Base*

In some organizations where flexibility is valued, employees are cross-trained to develop their knowledge of different positions. To promote learning, skill-based pay may be adopted. Contrasted with traditional job-based pay systems, where employees are compensated according to the value of the position they occupy, skill-based pay systems reward employees for gaining proficiency in different positions within the organization. Ledford (1991) suggested that skill-based pay encourages a high-commitment work force and tends to be used in organizations with high levels of employee involvement.

It is anticipated that job-based pay will be more desirable to most job seekers than skill-based pay due to the uncertainty and additional

investment skill-based pay is likely to represent. Although skill-based pay is an increasingly popular pay choice among employers, it is a relatively new pay program with little exposure among white-collar jobs and service organizations (for an exception see Ledford, 1991). In a pilot study it was found that understanding of skill-based pay systems was the lowest of the pay policies examined in the present study. Furthermore, it is not likely that job seekers would have worked under a skill-based pay system in the past, although they probably have had considerable experience with job-based pay. Skill-based pay, then, is likely to represent a more uncertain situation to most job seekers. Ambiguity, like risk, is generally avoided because it adds to the total uncertainty of the situation (Einhorn & Hogarth, 1985). Also, as described above, skill-based pay plans demand greater employee commitment and energy. Employees who are successful in the position into which they were hired may not receive additional rewards because they are expected to learn new skills. The conditions of a less certain but more demanding environment are expected to be undesirable to most job seekers. Thus,

*Hypothesis 9:* Job seekers will be more attracted to organizations that offer job-based versus skill-based pay.

Although job seekers generally are expected to prefer job-based over skill-based pay, individuals' preferences may vary, and those organizations with skill-based pay might attract different types of applicants than those with a traditional pay system. Self-efficacy appears to be a relevant construct in understanding individuals' attractions to skill-based pay systems. Employees working under skill-based pay systems are rewarded for skills they are capable of using, and pay raises follow new skill acquisitions. While job-based pay plans often make pay increases dependent on performance, skill-based pay places significance on continuous personal improvement and maintained proficiency. These reward characteristics appear more suitable for individuals who have high belief in their abilities. Skill-based pay plans generally are thought to create a more challenging work environment for individuals, and a large body of self-efficacy literature suggests that those with a strong sense of efficacy exert greater effort to master challenges (Bandura, 1982). In fact, Tosi and Tosi (1986) suggested that employees with low ability levels will be less satisfied with skill-based pay than will those with higher ability levels. Thus,

*Hypothesis 10:* Job seekers with high self-efficacy will be more attracted to a skill-based versus a job-based pay plan than will those with low self-efficacy.

### *Method*

#### *Setting, Subjects, and Procedure*

Subjects were engineering students and hotel administration students approaching graduation at a large northeastern university. Eighty-eight percent of respondents were interviewing for jobs at the time of survey distribution, 2% were interviewing "this semester," 4% were interviewing "next semester," and 5% were interviewing "next year." Data were collected with surveys which took approximately 45 minutes to complete. The target sample included 360 students from two schools (engineering and hotel administration) consisting of six majors (electrical engineering, chemical engineering, operations research, computer science, materials engineering, and hotel administration) and three degree types (bachelor of arts, bachelor of science, and master of science). Different surveys were given to the subjects depending on the specific companies with which they were eligible to interview, which depended on their school, major, and degree. The study was conducted with the support of the colleges' placement centers, and all respondents completed informed consent forms. Confidentiality of individuals' responses was assured, and participation was voluntary. All participants received \$10, and as an incentive participants completing the survey 1 week after distribution were entered into a lottery worth \$100. One hundred seventy-one usable surveys were returned (48%). Available data on nonrespondents (major, degree, gender, and college) were collected and compared to respondents, and no significant differences were found. Although variables more central to this study (e.g., ratings of pay systems) would have been more relevant to such a comparison, respondents appeared reasonably representative of the target sample, at least among the characteristics being compared.

Respondents' ages ranged from 19–29 years with an average of 21.2 years ( $SD = 1.25$  years). Seventy-one percent of respondents were men, and 77% were Caucasian. Degree-related work experience ranged from 0–11 years, with an average of 1.17 years ( $SD = 1.65$  years). Grade-point averages ranged from 2.0–4.0, with a mean of 3.11 ( $SD = 0.45$ ); in the analyses, grade-point averages were standardized within major and degree level to provide an estimate of academic achievement controlling for difficulty of program. Seventy-seven percent of the respondents were senior undergraduates, and 14% were graduate students. Twenty-four percent of respondents majored in electrical engineering, 22% in hotel administration, 22% in mechanical engineering, 15% in operations research, 13% in chemical engineering, and 4% in computer science.

*Research Design and Measures*

We employed multiple methods to test the hypotheses, complementing results from an experimental design with job seekers' perceptions of and attraction to actual companies. While each of these methods has inherent weaknesses (see limitations section), each also offers unique information about pay preferences and the effects of pay systems on job search decisions. Specifically, policy capturing was employed to assess general pay preferences, as well as the relative effect of each pay characteristic on job attractiveness. The experimental design permits strong causal inferences by eliminating the possibility that a company's image or reputation could influence job seekers' perceptions of its pay systems. However, all factors known to be relevant to job search decisions (e.g., location) cannot be included in a policy-capturing design. To assess the effects of pay systems on organizational pursuit when any job factors could influence job search decisions, we assessed pursuit intentions and pay system perceptions about relevant companies with which job seekers would potentially interview. Thus, these organization pursuit data support the generalizability of the policy-capturing results.

*Policy capturing.* Participants studied a series of positions defined by their compensation system attributes then indicated their attraction to positions with those characteristics. The importance of each pay system attribute was assessed with regression equations, where the magnitude of the standardized beta weights represented the policy decisions used to evaluate the stimuli. This design is known as policy capturing and has been used to study job search and choice decisions (Judge & Bretz, 1992; Rynes & Lawler, 1983; Rynes et al., 1983; Zedeck, 1977). Policy capturing is an alternative to direct estimation techniques, which give little indication of how rankings are used in actual decision making, demand greater self-insight than is likely to be possessed by decision makers, and are frequently criticized for eliciting responses subject to social desirability (Jurgensen, 1978; Schwab, Rynes, & Aldag, 1987). Policy capturing obviates these problems because individuals are placed more fully into the decision-making role, where subjects evaluate positions rather than directly state preferences for specific position factors. Also, the level of experimental control in policy-capturing designs facilitates causal inferences, enabling researchers to better assess the effects of the within-subjects factors.

When conducting research on job attractiveness, level of pay must be realistic if correct interpretations of independent variables' effects are to be drawn (Judge & Bretz, 1992; Rynes et al., 1983). In the present study, average starting pay levels and standard deviations were calculated for each individual (by major and degree; e.g., electrical engineers with

bachelor's degrees) on the basis of placement office records of recent salary offers. The standard deviation was added to and subtracted from each individual's mean to calculate the respective high and low pay level manipulations seen in Table 1. This corresponded roughly to the 25th and 75th percentiles of job offers within each major and degree.

Dichotomous conditions were used to define the compensation system variables (Hoffman, Slovic, & Rorer, 1968), and each of the manipulations are listed in Table 1. The manipulations were derived from Gerhart and Milkovich (1992), Milkovich and Newman (1990), and Gomez-Mejia and Balkin (1992). The gains-to-loss ratio in the contingent pay condition was based on evidence that employees charge organizations (in the form of pay premiums) to accept a portion of the risk that the organization would otherwise bear (Gerhart & Milkovich, 1992). The percentage of variability was adapted from research conducted by Drankoski and Judge (1992) which suggested that variable pay plans affecting lower to middle management contained 15% below-base loss and 25% above-base gain.

The pay system variables were completely crossed, creating every possible combination and permitting assessment of the relative importance placed on each factor by respondents (Hoffman et al., 1968). This created 32 discrete scenarios ( $2^5$ ). To assess respondents' reliability between the scenarios, 4 random scenarios were replicated. To minimize order effects, the resulting 36 scenarios were presented in random order and each pay variable was presented randomly within each scenario. The dependent variable indicated respondents' attraction to organizations based on pay system characteristics (e.g., "How likely is it that you would actively pursue interviewing with this organization?"). Subjects responded using a 7-point graphic rating scale anchored by 1 = "highly unlikely" to 7 = "highly likely." Reliability between the scenarios was assessed by computing the correlation between the response to each of the 4 duplicated scenarios (e.g., computing the correlation between the response to Scenario 1 and its duplicate, Scenario 33), and then averaging these 4 correlations. This reliability analysis indicated that individuals responded consistently to the scenarios ( $r = .82$ ). A sample question from the policy-capturing study appears below.

Assume that a position for which you interviewed possessed the following characteristics:

- Pay increases in this organization are based on evaluations of individual achievement.
- The starting annual salary for this position is \$38,570.
- Employees' pay is fixed at the assigned level.
- Employees' pay reflects the value of their position to the company and raises are based on job performance.
- Employees in this company are given an amount of cash to spend on benefits options.

TABLE 1  
*Overview of the Pay System Attributes*

Strategic compensation decision	Pay system variables	Reliability of pay perception <sup>1</sup>	Dichotomous conditions	Policy capturing: Dichotomous manipulations
External competitiveness	Pay level	.76	Low High	* The starting annual salary for this position is \$36,120. <sup>2</sup> * The starting annual salary for this position is \$44,120. <sup>2</sup>
Benefits	Benefits flexibility	.75	Flexible Rigid	* Employees in this company are given an amount of cash to spend on benefits options. * Employees are assigned a standard level of benefits based on their pay level.
Individual differences in pay	Individual vs. group focus	.66	Individual Group	* Pay increases in this organization are based on evaluations of individual achievement. * Pay increases in this organization are based on evaluations of group achievement.
Pay-at-risk	Pay stability	.68	Contingent pay Fixed pay	* Employees' offered salary is the target, or expected annual salary—actual pay is contingent on the success of the organization and can range from 1.5% below offered pay to 25% above offered pay. * Employees' pay is fixed at the assigned level.
Knowledge-based pay	Pay base	.69	Knowledge-based pay Job-based pay	* Employees' pay reflects the number of different jobs employees can perform at the company, and raises are based on acquiring new skills. * Employees' pay reflects the value of their position to the company.

<sup>1</sup> Reliability of pay attribute perceptions based on organization pursuit data

<sup>2</sup> Actual level of pay varied depending on major and degree type

*Organization pursuit data.* Rynes (1991) has lamented that previous studies on job search and choice have concentrated on contrived situations. In the present study, individuals indicated their willingness to pursue the organizations with which they were eligible to interview and reported their beliefs about those organizations' pay systems. Surveys were created to ensure that each respondent answered questions only about those organizations relevant to his or her interviewing possibilities. Number of companies rated ranged from 9–18 per respondent, and there were 11 different versions of the survey (e.g., Chemical Engineering, B.S.,  $N = 41$ ; Computer Science, B.S.,  $N = 13$ ). Consistent with Rynes (1991) and Rynes et al. (1983), information obtained about relevant organizations might be expected to have greater external validity than experimental data where characteristics are assigned to fictitious organizations.

Respondents provided their perceptions of how each company paid their employees (e.g., employees responded to statements about each pay attribute for each organization such as, "I believe Air Product's pay level is very high"). Perceived pay systems (from the job seeker's perspective) were assessed instead of actual pay policies (from the company's perspective) because presumably it is job seekers' perceptions that are used when they make decisions. Responses were anchored by a 5-point graphic rating scale where 1 = "strongly disagree" and 5 = "strongly agree."

Because companies' perceived pay systems and job seekers' pursuit decisions were assessed with a survey, self-report bias could have affected the responses. In the present study, average pay perceptions were calculated and utilized for each organization. Consistent with Mowday and Sutton (1993), perceptions about organizational contexts are more convincing when they are examined across a set of respondents. Since numerous individuals reported their perceptions of each organization's pay systems, the average perception for each organization represented a generalized cognizance across job seekers, reducing the possibility of self-report bias.

To assess the reliability of the pay system perceptions for each organization, an interrater reliability was calculated for each pay attribute. In this reliability analysis, individuals' perceptions about a given organization's pay systems were compared. Because interviewing companies specified certain types and levels of degrees which were eligible for interview assignments, different companies' pay policies were reported by different numbers of respondents (e.g., 25 job seekers reported the policies of Advanced Micro Devices, while only 6 reported for Intel Software

Division). Consistent with Little and Rubin (1987), a complete case analysis was performed whereby the available data was maximized to calculate an unbiased reliability estimate. Specifically, an interrater reliability was calculated based on individuals' reports for each pay variable across the organizations with enough responses to permit a reliability analysis. In this case, companies with at least 36 responses were included. After 36 responses per company, the number of responses diminished quickly, and further analyses could not be conducted. This sudden decrease occurred because some organizations were so specific in their requirements that few responses were possible in our sample (e.g., Motorola Corporate was only interested in interviewing M.S. and Ph.D. candidates in Mechanical and Electrical Engineering). The number of responses after 36 per company also decreased because respondents were permitted to "write in" information about organizations which they were pursuing but which were not listed on their survey. This led to cases of only 1 or 2 reports for some companies (e.g., only 2 respondents were interviewing with Lockheed).

Also consistent with Little and Rubin (1987), we performed two separate reliability analyses for each pay variable to assess whether trends or wide variations in reliability existed between companies with many responses compared to those with fewer responses. Specifically, we performed reliability analyses for those companies with at least 58 responses, then for companies with at least 36 responses. We found only extremely minor differences between the analyses (e.g., the reliabilities within a given pay attribute were within .04). To account for any variation that did exist, we averaged the reliabilities to arrive at a final interrater reliability for each pay attribute. The final reliability analysis included a total of 38 companies, or 73% of the organizations in this study. Interrater reliabilities of the pay system attributes ranged from .66 to .76 with an average of .71. The reliability for each pay attribute appears in Table 1. Thus, it appears that respondents had relatively consistent perceptions of how the organizations in the present study paid their employees.

Individuals also indicated their desire to pursue each organization (e.g., "rate the degree to which you would actively pursue obtaining a position with Air Products") on a graphic rating scale where 1 = "very little" and 5 = "very much." Desire to actively pursue an organization was chosen over job choice as a dependent variable because most participants were currently involved in the interviewing, or job search, process, while few had yet made actual job choice decisions. Thus, using job search as a dependent variable was thought to enhance the validity of the study. Although more specific pursuit intentions (e.g., willingness



to send a resume) might have been used, general attraction to the organization appeared appropriate in this initial investigation.

Salancik and Pfeffer (1978) argued that the order of information presented in a survey may prime respondents and distort the results obtained in later survey sections. In this study, presentation of the policy-capturing and company assessment sections were systematically varied. This information was then used to construct a control variable representing survey presentation order to reduce the possibility that priming would influence the effects of other variables in the analyses.

### *Between-Subjects Measures*

Measures for each personality characteristic were chosen based on past research. In two cases, namely the constructs of individualism and risk-aversion, few options were available because the available scales had very few items (e.g., 4) and were relatively unestablished (e.g., employed in one past study). To maximize the probability that the personality traits would be captured accurately, in some cases (i.e., for individualism/collectivism, locus of control, and risk aversion) we combined questions that were not redundant from the best available scales. The resultant scales can be obtained from the authors.

*Materialism.* Materialism was assessed using Richins and Dawson's (1992) 17-item measure which assesses the importance a person places on possessions (e.g., "Some of the important achievements in life include acquiring material possessions"). The measure has exhibited high reliabilities in past research, and in the present study the coefficient alpha internal consistency estimate was .85.

*Individualism/collectivism.* The construct of individualism/collectivism was assessed with a combination of scales. Erez and Earley (1987) created a four-item measure of collectivism based on Hofstede (1980), and Earley (1989) later modified the scale. Items from the scales were utilized in the current study (e.g., "Only those who depend on themselves get ahead in life"). Items also were adapted from Steers and Braunstein's (1976) Manifest Needs Questionnaire, a measure with specific reference to work settings (e.g., "I prefer to do my own work and let others do theirs"). Finally, items were slightly adapted from Wagner and Moch's (1986) work-based measure of collectivism (e.g., "Given the choice, I would rather do a job where I can work alone rather than do a job where I have to work with others in a work group"). The resulting internal consistency estimate of the 11-item composite scale created for this study was .74.

*Self-efficacy.* Self-efficacy was assessed with Sherer et al.'s (1982) self-efficacy scale, which measures general self-efficacy (e.g., "When I

make plans, I am certain that I can make them work") with acceptable reliability and construct validity. The internal consistency estimate for this 17-item scale was .84.

*Locus of control.* To measure the extent to which individuals believe that they or their environment "control" their lives, many researchers have employed Rotter's locus of control scale (Rotter, 1966). However, other researchers have found methodological and psychometric problems with this scale (Collins, 1974). In the current study, two scales were combined to measure locus of control. Levenson's (1981) internality scale, like Rotter's scale, assesses individuals' convictions in their ability to control events (internal locus of control). This measure exhibits moderate reliabilities and has been used in a wide variety of samples (an extensive description of samples and norms can be found in Levenson, 1981). The present study also utilized the personal efficacy scale of Paulhus' (1983) spheres of control measure. Both scales appear to demonstrate better psychometric properties than Rotter's scale (Lefcourt, 1991). The internal consistency estimate for this combined 17-item scale was .72.

*Risk aversion.* Risk aversion was measured in the present study with a scale developed by Slovic (1972) (e.g., "I am not willing to take risks when choosing a job or a company to work for"). The measure has exhibited high reliability in organizational research (Gomez-Mejia & Balkin, 1989). This four-item scale was combined with two risk aversion items developed by Drankoski and Judge (1992) (e.g., "I view risk of a job as a situation to be avoided at all costs"). The resulting internal consistency estimate of this six-item scale was .72.

*Other characteristics.* Each respondent's major, education, age, years of relevant work experience, sex, race, and grade-point average were assessed with specific questions on the survey. Respondents also indicated when they were interviewing for jobs, and they estimated their job opportunities in the present job market.

## Results

### *Policy-Capturing Analyses*

The means, standard deviations, and correlations among the variables used in the policy-capturing analysis appear above the diagonal in Table 2. Multiple regression analysis was used to estimate individuals' general pay preferences, and the relative importance of each compensation system attribute. With each of the 171 respondents making 36 job pursuit decisions, 6,156 observations were available for the analysis (actual number of observations was smaller due to listwise deletion of

TABLE 2  
Correlations Between Pay System and Between-Subjects Variables

Variable	M	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	M	SD
1. Grade-point average	3.12	0.45	—	.19	.03	.14	-.01	-.08	.06	.09	.02	.00	.00	.00	.00	.00	-.09	3.11	0.44
2. Work experience	1.23	1.77	-.22	—	.07	.09	.24	-.02	.09	-.12	.14	.00	.00	.00	.00	.00	-.10	1.15	1.65
3. Male	0.70	0.46	.06	.07	—	-.04	.13	-.01	.09	.01	.01	.00	.00	.00	.00	.00	.06	0.72	0.45
4. White	0.78	0.42	.12	.05	-.05	—	.06	.06	.04	.03	.07	.00	.00	.00	.00	.00	-.08	0.77	0.42
5. Age	21.09	1.26	.04	.30	.16	.06	—	.46	-.09	-.12	.08	.00	.00	.00	.00	.00	.04	21.08	1.11
6. Master's vs. bachelor's student	0.29	0.90	.03	-.04	.11	-.03	.49	—	-.08	-.07	-.03	.00	.00	.00	.00	.00	.10	0.35	0.98
7. Semesters before interviewing	1.32	0.90	.06	.10	.09	.04	-.12	-.08	—	-.02	.10	.00	.00	.00	.00	.00	.00	1.31	0.90
8. Order of survey presentation	0.42	0.49	.09	-.13	.00	-.03	-.09	-.06	-.06	—	-.05	.00	.00	.00	.00	.00	.02	0.42	0.49
9. Labor market alternatives	3.66	0.93	.04	.29	-.07	.06	.09	-.07	.11	-.01	—	.00	.00	.00	.00	.00	-.04	3.74	1.25
10. High (vs. low) pay level	2.74	0.30	-.01	.05	-.01	.02	-.19	-.05	.03	.00	.01	—	.00	.00	.00	.00	.44	0.50	.50
11. Individual (vs. group) focus	3.03	0.26	.00	.01	.03	-.04	.06	.08	-.01	-.02	.02	-.18	—	.00	.00	.00	.20	0.55	0.49
12. Fixed (vs. contingent) pay	3.12	0.31	-.04	.06	-.04	-.06	.00	.04	.04	-.02	.05	-.05	.05	—	.00	.00	.15	0.55	0.49
13. Rigid (vs. flexible) benefits	2.78	0.23	.02	.02	-.02	.02	.02	.01	.01	.00	.02	-.69	.21	-.07	—	.00	-.09	0.50	0.49
14. Job-based (vs. skill-based) pay	2.97	0.24	.05	.02	.06	-.04	.07	.10	-.01	-.03	.00	-.10	.12	.19	.05	—	.14	0.55	0.49
15. Job pursuit intentions	2.40	1.43	-.04	.03	-.01	.00	-.03	.02	.01	-.03	.06	.24	.12	.13	-.24	.00	—	4.83	1.54

Note: Above diagonal: policy capturing data; below diagonal: organization pursuit data. Zero correlations of policy capturing variables reflects the experimental nature of the method.

missing values; post hoc analyses revealed that removing the four replicated scenarios had no effect on the results).

Because pay preferences were assessed in the context of job search, relevant control variables were used to better estimate the true effects of the pay system attributes. Consistent with past research (e.g., Judge & Bretz, 1992), individuals' academic achievement and levels of job experience were expected to negatively influence the probability of pursuing an organization and were controlled for in the analysis. Academic achievement was represented by subjects' grade-point average, standardized within their major and degree type. Because job seekers might be more attracted to a position in a tight labor market, respondents' perceived labor market alternatives were controlled. Consistent with Judge and Bretz (1992), demographic characteristics including gender, race, and age were also entered in to the equation as controls. Because individuals in different degree programs (bachelor's vs. master's) might face somewhat different labor markets, a dummy variable was created and entered into the equation. In order to control for the possibility that individuals may be less likely to pursue positions as they draw closer to their job search, interviewing proximity also was controlled (ranging from 1 = "currently interviewing" to 5 = "more than a year"). Finally, the order of survey presentation was controlled by including a dummy variable representing the order of the survey.

To assess the effects of the between-subjects factors (e.g., gender) on job pursuit in the policy-capturing design, these factors were appended to each judgment situation made by respondents (36 for each individual). As Judge and Bretz (1992) noted, this is statistically appropriate because each scenario judgment represents an independent observation and is used as a dependent variable. This process is also conceptually valid because each between-subject variable may influence individuals' judgments in *each* scenario. For instance, labor market alternatives may influence each job pursuit decision in each hypothetical job scenario. Because between-subjects variables have been duplicated with each scenario, however, they are no longer independent observations and there is a consequent positive correlation between error terms. This autocorrelation violates an assumption of ordinary least squares regression, and can result in biased standard errors and *t*-values (Dielman, 1991). In the present study, the degree of autocorrelation was assessed with the Durbin-Watson statistic (*d*). The null hypothesis of no autocorrelation was rejected ( $d = 1.12$ ), indicating that the disturbances were significantly correlated ( $r_e = .44$ ,  $p < .01$ ), and that ordinary least squares regression was not appropriate. To provide unbiased estimates of the error terms, generalized least squares was used. Generalized least squares regression produces unbiased estimates of regression parameters and

TABLE 3  
*Regression Estimates Predicting Desire to Pursue Position  
 (Generalized Least Squares)*

Variable	Policy-capturing results		Organization pursuit results	
	$\beta$	SE	$\beta$	SE
<u>Control variables</u>				
Grade-point average	-.125**	.011	-.008	.025
Work experience	-.139**	.012	+.038	.027
Male	+.067**	.011	-.009	.024
White	-.063**	.011	-.022	.024
Age	+.025**	.012	-.053*	.029
Master's vs. bachelor's student	+.092**	.011	+.045*	.028
Semesters before interviewing	+.033**	.011	+.007	.025
Order of survey presentation	+.025*	.011	-.015	.024
Labor market alternatives	-.021	.011	+.071**	.025
<u>Hypothesized main effects</u>				
High (vs. low) pay level	+.500**	.011	+.169**	.033
Individual (vs. group) focus	+.198**	.011	+.041*	.024
Fixed (vs. contingent) pay	+.141**	.011	+.131**	.025
Rigid (vs. flexible) benefits	-.091**	.011	-.132**	.034
Job-based (vs. skill-based) pay	+.128**	.011	+.009	.025

\* $p < .05$ ; \*\* $p < .01$

error terms and is thus well-suited to deal with autocorrelated errors (Hanushek & Jackson, 1977).

The first columns of Table 3 provide the regression results from the policy-capturing analysis. The main effects of the pay system variables were all significant and in the predicted direction. As a group, individuals were significantly more attracted to positions with high pay level, individual-based pay, fixed pay, flexible benefits, and job-based pay. The standardized beta weights for the compensation characteristics also provide an indication of the relative importance of each variable to the respondents. Pay level was the most consequential pay system characteristic, followed by individual-based pay, fixed pay, job-based pay, and flexible benefits.

Consistent with past research, individuals with higher grade-point averages and more work experience were less attracted to a given job, presumably because these job seekers perceived they had more job opportunities than did individuals with lower grade-point averages and less work experience. Three demographic variables (gender, race, & age) also significantly affected job attractiveness such that males, non-whites, and older respondents were more likely to pursue a position. Bachelor's students and individuals closer to the process of job search and choice (e.g., interviewing respondents) were less likely to pursue a position. Finally, the order of survey presentation had a significant effect, suggesting that individuals were more likely to pursue a position if they responded to the

personality scales before stating pursuit intentions. While the effect is not large, this finding supports Salancik and Pfeffer's (1978) arguments that priming may be a factor to control for in experimental research. Because the influence of this variable was accounted for in the equation, however, the effects of the other variables on job search should be unbiased by priming effects.

### *Organization Pursuit Analyses*

The means, standard deviations, and correlations among the company variables appear below the diagonal in Table 2. To assess the effects of actual companies' perceived pay policies on the attractiveness of those organizations, individuals' pursuit of a particular organization (e.g., "I would very much like to pursue a position with Air Products") was predicted with the average perception of that organization's pay policies (e.g., the average response to, "I believe Air Products has a group-based pay plan" across all respondents). The decision to analyze individual pursuit decisions rather than the mean pursuit of each organization (e.g., an organizational-level analysis) was consistent with research suggesting that results obtained from an organizational level of analysis, but interpreted as individual-level decisions, are subject to the ecological fallacy (e.g., Sackett & Larson, 1992). Also, an organizational-level analysis would not have permitted controlling for many individual differences known to be important in job search decisions (e.g., grade-point average, major, work experience). However, results from an organizational-level analysis were entirely consistent with the results reported in this paper (e.g., the beta coefficients for high pay level, individual focus, fixed pay, rigid benefits, and job-based pay are .36, .08, .29, .33, and  $-.01$ , respectively; the first four variables were significant at the .01 level.)

The data set used in this analysis was created with a procedure similar to that described in the policy-capturing design, where each respondent's between-subjects variables (e.g., gender) were duplicated for each organizational pursuit decision (average number of company pursuit decisions was 12). The degree of autocorrelation was again assessed with the Durbin-Watson statistic, yielding an average serial correlation between the errors of .18. While this correlation is substantially lower than the policy-capturing results, the Durbin-Watson statistic ( $d = 1.64$ ) fell within the range of values for which the test is said to be inconclusive. One alternative is to treat inconclusive values as if they suggested autocorrelation (Dielman, 1991). To ensure conservative and unbiased estimates of the regression parameters and error terms, generalized least squares regression again was used.

The second columns of Table 3 provide the results from the organization pursuit analysis. The results offer further support for four of five hypotheses, generally reinforcing the policy-capturing results. Pay level again was the most important pay variable in relation to organizational attractiveness, and individuals again were more attracted to organizations that were perceived to offer flexible benefits, individual-based pay, and fixed pay. The significance of these results, as well as the relative influence of each pay variable on organizational attractiveness, replicates the results from the experimental policy-capturing analysis. Contrary to the results of the policy-capturing data, however, whether companies were perceived as basing pay on skills rather than merit had no significant effect on their job search intentions. The control variables were less predictive in this analysis: Individuals who perceived more job opportunities were more likely to pursue an organization, as were younger job seekers and master's students.

#### *Person-Organization Fit Analysis*

To test whether different types of people prefer certain pay systems, individuals' pay preferences were predicted by their dispositional characteristics. First, multiple regression analysis was used to estimate each respondent's pay preferences from the policy-capturing data. One regression equation was calculated for each participant (Cohen & Cohen, 1983). Because the judgment situation (e.g., attraction to a job) created in the present study was objectively structured, each individual's beta coefficients represented the meaning of the different pay variables to that person. In a structured judgment situation, all judges have the same information at their disposal (Hoffman, 1960). In the 171 regression equations, large beta coefficients meant that the corresponding predictors (e.g., pay level) accounted for large proportions of the judgment variance (job attractiveness), indicating a preference for that pay characteristic. The  $R^2$  coefficient from each individual regression equation represents the degree to which each attractiveness estimate was accurately modeled. Although a wide range in  $R^2$  coefficients existed among respondents in the present analysis (.01 to .99), the average for the 171 participants was .68, indicating that respondents' pay preferences were accurately captured.

Multiple regression analysis then was used to estimate the effect of personality characteristics on individuals' preferences for particular compensation systems (beta coefficients). In addition to the personality characteristics, it is possible that nonpersonality based individual differences may be related to pay preferences (e.g., grade-point average, age, gender). However, the between-subject variables appear more relevant

TABLE 4  
*Multiple Regression Estimates Predicting Pay Preferences  
 with Personality Characteristics*

Predictor	Criterion									
	Rigid benefits		Job-based pay		High level		Fixed pay		Individual pay	
	$\beta$	SE	$\beta$	SE	$\beta$	SE	$\beta$	SE	$\beta$	SE
Collectivism	-.033(.085)		.043(.080)		.086(.078)		.071(.078)		-.377(.074)**	
Materialism	-.006(.089)		.014(.083)		<u>.194(.081)**</u>		.032(.081)		-.100(.077)	
Risk aversion	-.036(.087)		.029(.085)		-.165(.083)*		<u>.265(.083)**</u>		-.078(.078)	
Self-efficacy	.062(.102)		-.200(.093)**		.026(.092)		<u>.003(.091)</u>		<u>.165(.086)*</u>	
Order of survey	-.030(.086)		.009(.082)		-.031(.080)		.000(.080)		.085(.075)	
External locus of control	<u>.160(.096)*</u>		.119(.088)		.036(.086)		-.078(.085)		-.022(.081)	

Note: Underlined entries represent hypothesized relationships.

\* $p < .05$ ; \*\* $p < .01$ ; (one-tailed test);  $n = 159$ .

to job search decisions than to pay preferences. For example, there is little theoretical reason to expect job seekers with a higher grade-point average to prefer rigid benefits more than a job seeker with a lower grade-point average. To determine if excluding these controls changed the results, we estimated a regression which included all of the control variables in Table 3. The effect of the control variables on the fit hypotheses was insignificant. Of the 45 possible relationships between the nine control variables (in Table 3) and the five pay preferences, only 4 of the 45 were significant at the .05 level. Thus, due to the lack of theoretical and empirical support for the control variables, nonpersonality based variables were not entered into the fit analysis. However, the order of the survey presentation was controlled to remove potential priming effects.

Individuals' beta weights from the organization pursuit analysis could not be utilized as dependent variables because pursuit decisions about actual organizations represent an unstructured judgment situation. The factors affecting individuals' pursuit decisions could not be controlled (e.g., job seekers knew different information about the same companies), and respondents made judgments on different stimuli (e.g., job seekers were pursuing different organizations). Since the amount, type, and clarity of information available to respondents was uncontrolled, the judgment situation is ambiguous and inconsistent, making analysis of the beta weights from the organization pursuit data inadvisable (Hoffman, 1960).

Table 4 provides the results from the person-organization fit analysis. Six of the eight fit hypotheses were supported. More materialistic job seekers placed greater emphasis on pay level when deciding whether or not to pursue an organization than did less materialistic job seekers. Job



seekers with an internal locus of control were more attracted to organizations offering flexible benefits than were those with an external locus of control. Individualists were more attracted to individual-based pay plans than were collectivists. Job seekers with high self-efficacy were more likely to pursue an organization with individual-based pay than were those with low self-efficacy. Risk-averse job seekers were more attracted to organizations with noncontingent pay systems than were risk takers. Job seekers with high self-efficacy were more attracted to organizations with skill-based pay systems than were those with lower efficacy. Contrary to the hypotheses, job seekers with high self-efficacy did not prefer contingent pay systems more than did those with low self-efficacy, and job seekers with an internal locus of control were not more attracted to organizations with contingent pay systems than were those with an external locus of control. Finally, an interesting but unhypothesized effect resulted from the analysis. Risk-averse individuals placed less emphasis on pay level as a criterion in their job pursuit process.

#### *Discussion*

These findings suggest that individuals have relatively established pay preferences, and that pay system characteristics other than pay level are important in the job search process. Results indicated that high pay level, flexible benefits, individual-based pay, fixed pay, and job-based pay were the preferred means of pay when other factors were held constant, because these pay systems significantly influenced job attractiveness in the experimental design. Most of these pay attributes, as perceived by a relevant group of respondents, also influenced job seekers' attraction to companies with which they would potentially interview. Thus, the results from the experimental method generally were confirmed by the results from actual, relevant companies, lending support to the robustness of the model. Furthermore, the importance placed on several pay system attributes in job search decisions was substantial relative to pay level. For instance, flexible benefits, fixed pay, and individual-based pay had significant effects on the attractiveness of organizations when pay level was held constant. This suggests that if pay levels between comparable positions are relatively equal (which may often be the case), other pay system attributes may have important effects on individuals' job search decisions.

The results from this study also suggested that while pay plans may have direct effects on job search decisions, these effects are strengthened by fit between individual personality traits and compensation system characteristics. Most of the fit hypotheses were supported, implying that dispositional characteristics can potentially serve as reliable

indicators of individuals' fit with certain pay systems, and that pay systems may cause consistent self-selection behavior in job seekers. This lends further support to the dispositional perspective in organizations, particularly when these dispositions are aligned with environmental characteristics (Judge, 1992). Also, if pay systems are structured according to organizations' values, goals, and cultures, individuals' fit with pay systems may provide an indication of their fit with organizations as a whole (Rynes, 1987).

Interestingly, risk-averse job seekers placed less emphasis on pay level as a criterion in their job pursuit decisions. This may indicate that individuals who evaluate risk very negatively may be willing to sacrifice pay level to achieve fixed pay, and that employees who are willing to take on more risks may demand pay premiums to do so (Gerhart & Milkovich, 1992).

### *Limitations and Strengths*

This study has a number of limitations that should be acknowledged. First, data were reported by respondents, so self-report bias may have influenced the results. For example, this study predicted organizational pursuit with perceived pay systems rather than actual pay systems, and it is possible that perceptions about organizations (e.g., reputation) influenced perceptions about those organizations' pay policies. Some evidence for this interpretation may be provided by the fact that organizations' attractiveness levels were relatively consistent across applicants ( $r = .82$ ). Thus, job seekers may have assigned certain pay attributes to companies that they preferred. Following this reasoning, it is even possible to reinterpret these results as an internal analysis of a survey, rather than assessing the effects of perceived pay systems on job search decisions. To address this potential bias, an experimental design also was employed to assess pay preferences (where company image was not possible) and to replicate the results from the organization pursuit data. Also with respect to the organization pursuit data, pay perceptions were averaged across all individuals' responses. Nevertheless, the results should be interpreted cautiously in this respect.

Due to the fact that the data in this study were reported in response to a survey, common method variance also represents a potential alternative explanation of the results. Although the order of the survey presentation was systematically controlled, it is still possible that problems with priming and consistency effects exist. For example, it is possible that collecting data about certain pay policies influenced the effects of those pay policies on job search decisions. Thus, future research (e.g., with

behavioral measures of job search) is needed to further substantiate these preliminary findings.

It also is possible that respondents perceived some of the pay attributes to be related to pay level, confounding the true effects of the pay variables on job search decisions. For instance, rigid benefits and pay level were strongly negatively correlated, implying that job seekers believed that companies with high pay levels were more likely to offer flexible benefits. Notwithstanding the facts that most of the preferred pay system attributes were either unrelated or oppositely related to pay level, and that the regression coefficients should be net the effects of the other pay variables, it may be difficult to separate the unique effect for each in the analysis.

Although policy capturing was utilized to avoid several of the problems discussed above, this method also has been criticized. Researchers argue that the mathematical representation of decision making may be inappropriate and that unrealistically large decision alternatives may be given to respondents (Schwab et al., 1987). Similarly, Soelberg (1967) has described a sequential model of job search and choice decisions where jobs are evaluated based upon other available alternatives, which is divergent from the assumptions of policy capturing (also see Schwab et al., 1987). Thus, policy capturing may not offer a realistic simulation of how job seekers make decisions. In the present study, the average  $R^2$  coefficient for the policy-capturing analysis was .68, and the results were largely supported by the organization pursuit data, providing some evidence that the experimental design accurately captured respondents' decision-making processes.

The use of policy capturing also revealed some more specific limitations in the present investigation. For instance, the policy-capturing study did not investigate several variables known to be important to the job search process (e.g., job location, company image). Therefore, the effects of these variables could not be computed relative to the pay system variables. It is also true that job seekers may not have the direct access to total pay systems found in the policy-capturing part of this study. Although the possibility that organizations may not inform applicants of their pay policies does not negate the possibility that these policies could affect job seekers if they were revealed, it would have been interesting to examine the means through which job seekers learn about organizational pay policies.

Although there are weaknesses in all studies, the limitations in the present study appear to be offset by a number of strengths. Because multiple research methods increase the confidence placed in the results, an experimental design was supported by pursuit intentions about relevant companies, and the role of individual differences in pay system

preferences was examined. Although each of these methods may have specific limitations, together they provide a rigorous test of the hypotheses. The experimental design and structured judgment situation permit stronger causal inferences while the organization pursuit data support the generalizability of the findings.

This study also gains credibility through the fact that most respondents were behaving in role because they were interviewing for positions at the time of the study and were in the process of making job search decisions. Thus, the sample is prototypic (Sackett & Larson, 1990) because respondents possessed the essential characteristics defining membership in the intended target population. Furthermore, because the sample comprised six majors in two schools, at three degree types and two degree levels, the respondents should be reasonably representative of interviewing college graduates, who now constitute a large percentage of new job entrants (Bishop & Carter, 1991).

This study also was designed to be as realistic as possible. Job search was chosen over job choice as a dependent variable because while most of the participants were involved in the interviewing—or job search—process, few had made job choice decisions. Consistent with Rynes et al. (1983), relevant average pay levels and pay variability between jobs were calculated based on placement office records of recent salary offers. Also, when responding to questions about organizations, participants only answered questions about companies for which they were eligible to interview. Each of these procedures is expected to increase the external validity of the results.

#### *Contributions and Implications for Practice*

First, this study adds to the existing literature on general pay preferences. Although some research has examined preferences for merit versus seniority pay and individual- versus group-based pay (Beer & Gery, 1972; Heneman, 1990; Lawler, 1966), very little emphasis has been placed on other important pay system considerations. To our knowledge, no studies have directly examined preferences for knowledge-based pay or flexible benefits. Furthermore, no research was available on the relative importance of different components in a total compensation plan.

This study also adds to the existing literature concerning the effects of pay systems on job search decisions. As Gerhart and Milkovich (1992) recently suggested, research to date on the staffing implications of compensation systems has focused on relative pay level at the neglect of other pay system attributes. While this literature recently has been expanding (Bretz & Judge, in press; Turban & Keon, 1993; Williams & Dreher, 1992), the present study offers the first comprehensive examination of

five strategic compensation decisions as they affect the job search process. Furthermore, this is the first study to examine the implications of contingent pay and skill-based pay on job search decisions.

Building on Bretz et al. (1989) and Judge and Bretz (1992), the present study offers the first integral test of the theoretical relationships between dispositional influences and pay preferences. Specifically, this study addresses and supports the notion that individuals may prefer organizations that better fit their dispositional orientations and may be more or less attracted to organizations based on the match between their dispositions and organizations' pay systems (e.g., Schneider, 1987). Thus, the present study provides an important addition to a research deficiency cited by compensation researchers (Gerhart & Milkovich, 1992; Rynes, 1987) and offers support for existing dispositional research (Judge, 1992) and the attraction component of Schneider's (1987) attraction-selection-attrition model.

While this study makes several contributions to the research literature, it also has substantive implications for practice. Because the results suggested that certain pay policies may affect both the quantity and the types of applicants attracted, it adds to the already-established importance of aligning compensation systems and organizational goals, culture, and business objectives. Organizations probably know what types of applicants they wish to attract, and it may be possible to tailor pay policies for target groups around an organization's compensation strategy. Those companies that desire innovative, entrepreneurial employees may be wasting resources on a fixed salary if their ideal employees desire commission and flexible hours. The fit analysis demonstrated that even within a relatively homogeneous sample (e.g., graduating college students from a large, prestigious university), there was enough variance in dispositional characteristics to predict pay preferences. Thus, organizations may be able to maximize the utility of their pay systems and compensation dollars by establishing and communicating pay policies (e.g., variable compensation, group-based pay) that are attractive to their ideal applicants.

### *Future Research*

Although the present study provided an examination of pay preferences and job search, several related relationships merit further investigation. Besides knowing that job search is affected by pay policies other than pay level, it would be useful to know the effects of total pay systems relative to other organizational attributes (e.g., location and financial condition). Further research is also necessary to establish whether

other groups of job seekers have widely different pay preferences, perhaps based on demographics (e.g., number of children) and culture. Finally, it is unlikely that the effects of pay system fit discontinue after individuals are hired; defining the relationship between pay systems, pay preferences, and such outcomes as pay satisfaction, job satisfaction, and career success would represent substantial research contributions.

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