

Role of Career Stages and Risk Attitudes in the Relationship Between Pay Mix and Motivation

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Abstract: The main purpose of this research is to find the moderating role of career stages and risk attitudes on the relation between pay mix and motivation. Valence, expectancy and instrumentality are dependent variable, career stage and risk attitude are moderating variables, pay mix is independent variable. Data collection is done through primary resource i.e. questionnaire which is adopted from Pappas and Flaherty (2005). It contains three questions about valence, two about expectancy and three about instrumentality. To find career stages four scenarios are presented and to find risk attitudes two scenarios are presented from which respondent will choose one of them. All the variables are analyzed through correlation. To find the impact of career stages a split group analysis is performed and then regression is applied. To find the moderating role of risk attitudes regression analysis is done in which a combine effect of pay mix and risk is also checked.

Key words: Career stages • Risk attitudes • Pay mix • Valence • Expectancy • Instrumentality

Key Points:

1. Career stages and risk attitudes moderate the relationship between pay mix and motivation.
2. A risk seeker person is more attracted towards variable pay as compared to risk averse person.
3. In exploration and disengagement stage of career a person is motivated when he is offered more fix pay.
4. In establishment and maintenance stage a person is motivated when he is given more variable pay.

INTRODUCTION

The reason of existence of life insurance companies is to provide safety and security to people that in case of any mishap they will be financially secure. The employees of these companies encourage people to get these insurances. So it is very important to keep these employees motivated because they tell people the importance of insurance in their life. In this research, we will try to find out that how a pay mix affects the motivation level of these employees when he/she is at different career stages and have different risk preferences.

Motivation level is analyzed with the help of its three components i.e. valence (value the individual places on the reward based on his needs), expectancy (belief that one's effort will lead to a desired outcome) and

instrumentality (belief that a person will receive a reward if performance expectation is met) [1].

Pay mix is a combination of various types of rewards such as base pay, performance incentives, stock options and benefits that an individual receives. Different types of jobs have a different pay mix and the pay mix varies from company to company [2].

Career is a combination of different types and stages of jobs through which a person passes during his/her life span. There are four stages of career i.e. exploration, establishment, maintenance and disengagement. Exploration is the initial stage where a person is looking at different options of the job. Establishment is the stage where a person starts getting committed to certain job. Maintenance stage is the one in which a person is at good position at work and wants to keep it or maintain it that

way. Disengagement is the part where people are not committed to that job anymore and they are either near retirement or switching to another job [2]. [3] work people in the exploration stage are most concerned with finding a job where they feel comfortable. Commitment to the job is likely to be low because a person is still exploring career options. Performance is also likely to be low at this time. People in establishment stage begin to make a commitment to certain occupation. They are now concerned with securing a solid position in that particular occupation. As such, they tend to be higher performers and they are also concerned with promotion opportunities. In maintenance stage, people continue to perform at a high level [4] although desire for promotion diminishes [5]. Finally, people in disengagement stage are characterized as “psychologically separating” from the job. They are no longer committed to the career and tend to be lower performers [5].

Different people have different risk attitudes. A person may be risk seeker i.e. he/she is willing to take risk or perform new and challenging tasks with the purpose of achieving better results. Or a person can be risk averse i.e. he/she is not willing to take any challenge or risk and he/she prefer to perform his usual tasks instead of trying something new and risky [5].

The paper is structured in the following way. First there is literature and work of different authors is discussed, then the hypothesis of research and its conceptual framework is stated, after that its methodology and results are discussed. In the end conclusion and recommendations for future are given.

Literature Review: Insurance companies provide security to the people i.e. in case of any mishap they will be having financial support. Sales representatives (SR) are a source of competitive advantage for many insurance companies. They are in direct contact with the customers. Also they are a kind of resource which is difficult to imitate and more durable than other resources [6].

As sales representatives play an important role in the success of an organization so it is very important to keep them motivated [7, 8]. In order to do so organizations have set up their strategies and policies in such a way that they can keep their employees motivated.

Recently the trend of compensation research has shifted and now the researchers are focusing on the factors which are moderating the relationship of pay mix and motivation. However these studies are corporate level or business level, none of them is aimed at individual level variables.

Motivation is very old concept in the field of business. Many researchers and analyst are using the concept of motivation to explain and analyze the behavior of employees since 20th century.

[9] presented an expectancy theory in order to increase and organize the knowledge present and delivered by previous scholars in the field of motivation. This theory explains different sides of individual's behavior and also the factors of motivation that influence and motivate the employees at work. Many people criticized expectancy theory but individual motivation is very clearly and accurately explained with the help of Vroom's expectancy theory (Robbins, 1983).

According to Vroom's expectancy model there are three main components of motivation i.e. valence, expectancy and instrumentality.

- Expectancy means that a person believes that his efforts will affect his performance.
- Instrumentality measures that how expected performance will lead to reward.
- Valence represents the value a person places on that reward

These three elements collectively affect the motivation level of sales representatives [10, 11].

Expectancy is a person's belief followed by a particular outcome [9]. Expectancy ranges from zero to one. It is a person's belief that he will gain a reward for his performance. It is actually an individual's expectation that if he behaves in certain way then he will gain or achieve certain thing in return [12]. A definition of valence given by Vroom is that it is an affective orientation towards particular results [9]. When a person prefers to attain something instead of not attaining it then that outcome has positively valence, an outcome has zero or nil valence when a person is indifferent about achieving it or not achieving it [9]. However, there is a difference between expected satisfaction from an outcome i.e. valence and the actual satisfaction achieved from an outcome i.e. value.

Career is basically a series of jobs that a person performs during his life time. In the past, people used to believe that career usually transforms with one or two firms however this trend is changed completely now. Change in marketplace requirements for success and change in different environmental factors have made organizations very flexible and that's why people are comfortable in switching jobs and changing their career paths [13].

[14] gave a theory in which he suggest that individual's interpretation of their career stage can be categorized in four stages i.e.

- Exploration
- Establishment
- Maintenance
- Disengagement

[4] explained the four stages of career as:

- Exploration is the initial career stage in which people try to find comfortable jobs. Commitment level to the job is not very high because a sales representative is still exploring his options and looking at different jobs. That is the reason because of which the performance of a person is not very high either.
- Establishment is the second phase of career in which a sales representative starts getting committed to his job. He tries to achieve a good position at his work place. In order to do so they work very hard that's why their performance level is high and also they are very concerned with promotion opportunities.
- Maintenance is a third stage. It is kind of maturity period where a person has gained a solid position at his work and he wants to retain it. In order to do so he will perform at his best level and will try to keep his position safe. However the craving of promotion diminishes here [5].
- Disengagement is the last stage in which the person is no longer committed to his job. It may be due to his retirement or switching of the job. Actually the people in this phase are psychologically separated from their work. And this is the main reason because of which their performance is very low at this stage [5].

One of the biggest success factors of an organization is that its employees are motivated. Companies are always looking for ways to keep their employees motivated. It is mostly done by providing them different incentives and rewards. Compensation is one of the major tools that influence the performance and motivation level of employees [12].

In previous years companies were used to the idea of fixed pay and that was the only standard which was being used in the firms. Now a day's companies are well aware with the concept of "variable pay" and also they know its pros and cons [13].

Variable pay is an important tool to enhance the performance and motivation of employees. It is mainly due to the effect variable pay has on employee behavior [13] Marks, 2001). Also variable pay enhances the profit earning of the company [16].

On the other hand there are many disadvantages that are associated with implementing variable pay alone. [16] stated that when a proportion of variable pay will increase in pay structure employees will demand more fixed pay as they are taking more risk. Employees may not be risk seekers and eventually the turnover of company can increase due to increase in variable pay (Caroli and Garcia-Penalose, 2002).

Risk can be defined as a probability of any kind of loss or damage that is expected to occur. Employees usually have different attitudes toward risk. A sales representative may choose to take risk and expects to get some reward in return. Or he may choose to play safe and instead of taking risk he prefer to perform his regular job with certain fix incentives.

So two types' of behaviors can be captured in sales representatives related to risk i.e. they may be "risk seekers" or they may be "risk averse".

Risk seeker is a person who will choose risky tasks and jobs and he will expect to gain something in return. If this person is given a choice between risky and non risky project then there is a high probability that he will choose the risky one (Hirschey, 2009).

A person who is risk neutral focus only on expected values and not on the degree of risk associated with it (Hirschey, 2009).

A person is said to be risk averse when he is not willing to take any kind of risk and also he prefers to perform safe tasks instead of risky ones (Hirschey, 2009).

Hypothesis: Following hypothesis are made in order to find the moderating role of career stages and risk attitudes on pay mix and motivation. Hypothesis of study are:

- H1a: During exploration, an increase in variable pay will be negatively associated with expectancy estimates.
- H1b: During establishment, an increase in variable pay will be positively associated with expectancy estimates.
- H1c: During maintenance, an increase in variable pay will be positively associated with expectancy estimates.
- H1d: During disengagement, an increase in variable pay will be negatively associated with expectancy estimates.

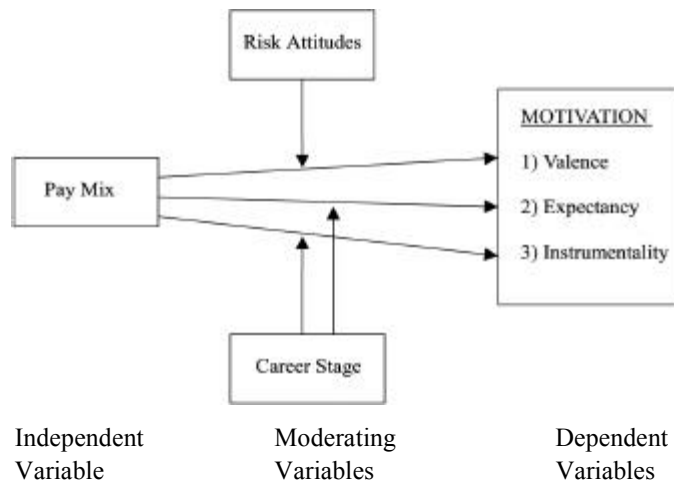


Fig. 1: Theoretical Framework adopted from (Pappas and Flaherty, 2005)

- H2a: During exploration, an increase in variable pay will be negatively associated with instrumentality estimates.
- H2b: During establishment, an increase in variable pay will be positively associated with instrumentality estimates.
- H2c: During maintenance, an increase in variable pay will be positively associated with instrumentality estimates.
- H2d: During disengagement, an increase in variable pay will be negatively associated with instrumentality estimates.
- H3a: When a person is a risk seeker, increased variable pay is positively associated with valences for pay increases.
- H3b: When a person is risk averse, increased variable pay is negatively associated with valences for pay increases.

Conceptual Framework

Dependent Variables: Valence, Expectancy and Instrumentality

Independent Variable: Pay Mix

Moderating Variables: Career stage and Risk Attitudes

MATERIALS AND METHODS

Data collection is done through primary resource. Questionnaires were distributed in State Life Insurance Company Abbottabad branch to employees serving at different career stages. The questionnaire used for this study is adopted from research paper of [1]. It contain questions about dependent variable i.e. expectancy,

instrumentality, valence, independent variable i.e. pay mix and moderating variables i.e. career stages and risk attitudes.

Sample for data collection is taken from State Life Insurance Company. Total number of employees in Abbottabad branch is 120. By using data sample calculator the size of sample is calculated which is 63. Questionnaire adopted from [1] is given to these 63 employees so that they can provide the required information for this study.

Basic tool that is used for data collection is questionnaires [1]. Questionnaire has covered all the dimensions of this research. It contains three questions for valence, two for expectancy and three for instrumentality.

Risk attitudes are measured using job preference inventory scale [17]. Two situations are presented in which one is for risk seekers and other one is for risk averse people. The respondent chooses one of the situations to show his risk attitude.

In order to find career stages, the respondents are asked to read four passages which define the four stages of career [5] and then they will choose the most suitable stage according to their present career scenario.

Data is collected from 63 employees of State Life Insurance Company. All the employees are from different career stages and have different risk preferences. Gathered data shows that out of 63 there are 29 employees who are at exploration stage, 14 are from establishment stage and 20 are from maintenance stage. The response rate of last stage i.e. disengagement is very low that is why it is difficult to study it further.

Expectancy is basically an effort performance relationship according to which a person put effort in something and expects to achieve the desired result or performance. Expectancy is taken as dependent variable here in order to find that how change in pay mix will affect the expectancy of sales representatives.

Variables	Factors	Questions
Expectancy	1. Exceed objectives	1) If I spend 10 percent more time during the next 12 months contacting existing customers I will exceed my objectives.
	2. Increase in sales volume	2) If I spend 10 percent more time during the next 12 months contacting existing customers my total dollar sales volume will increase.

Instrumentality: Instrumentality is also a dependent variable. It is performance outcome relationship. A person believes that he will get a reward if he meets the expected performance. Influence of pay mix on the instrumentalities of employees is checked in this study.

Variables	Factors	Questions
Instrumentality	1. Job security	If I exceed my objectives:
	2. Merit pay 3. Promotion	<ul style="list-style-type: none"> • My job security will increase • My merit pay will increase • I will be promoted.

Valence: Valence is a value that a person relates with the reward e.g. a sales representative may have more value for increase in pay then a recognition ceremony. In this research valence of employees related to pay mix is studied.

Variables	Factors	Questions
Valence	• Satisfaction with pay	1. If you were to receive an increase in pay, to what extent would your satisfaction with your overall pay increase?
	• Satisfaction with job	2. If you were to receive an increase in pay, to what extent would your satisfaction with your job increase
	• Satisfaction with company	3. If you were to receive an increase in pay, to what extent would your satisfaction with the company you work for increase?

Results and Analysis: In order to analyze the data to measure the hypothesized relationship between variables, the data is first converted into a uniform sample. It is done by taking average of all data. In this way data becomes mean centered.

To test the influence of career stages on pay mix and motivation (valence, expectancy and instrumentality) a split group analysis is performed. In this regression is done twice, once for each group and then the regression coefficients are compared. Career stages are divided into two groups. First group includes establishment and maintenance stage. Second group includes exploration and disengagement stage.

This grouping is done on the basis of the fact that establishment and maintenance stage have same preferences i.e. increase in variable pay will positively influence their expectancies and instrumentalities. Similarly exploration and disengagement have same preferences i.e. increase in variable pay will negatively influence their expectancies and instrumentalities. So reverse coding is done during analysis of data, main reason of this reverse coding is a negative relationship between pay mix and motivation. In reverse coding different codes are given in different career stages i.e. in exploration and disengagement 1 = strongly agree and 5 = strongly disagree. In maintenance and establishment 1 = strongly disagree and 5 = strongly agree. Disengagement stage is not studied further because the response rate for this stage is very low so it is not possible to continue its analysis. To check the influence of risk attitudes on pay mix and motivation regression is applied on it. Dependent variables (valence, expectancy and instrumentality) are first regressed with risk as independent variable then with pay mix and then with the combine effect of both risk and pay mix as independent variable.

In the first table mean and standard deviation are given. In Table 2 correlation is done. Result of split group analysis for career stages is given in Table 3. Results of regression analysis for risk attitude are given in Table 4.

In correlation table it is obvious that career has strongest relationship with instrumentality as ($r = 0.687$, $p = 0.000$). The main reason behind this is that as an employee excels in his career his skills keep improving he gains more experience so naturally his instrumentality with his job is increased.

According to the results shown in table I risk has strongest relation with expectancy ($r = 0.207$, $p = 0.104$). When a person takes some kind of risk his main motivation is to improve his performance and gain some kind of reward for that. So his expectancy increases with increase in risk level.

Table 1: Mean and Standard Deviation of variables

	Descriptive Statistics		
	Mean	Std. Deviation	N
Career	46.4286	21.93150	63
Risk	99.2063	6.29941	63
Pay Mix	74.2857	22.55561	63
Valence	81.5873	8.00665	63
Expectancy	80.3175	18.74861	63
Instrumentality	76.0841	30.18775	63

Table 2: Correlations among variables

		Correlations					
		Career	Risk	Pay Mix	Valence	Expectancy	Instrumentality
Career	Pearson Correlation	1					
	Sig. (2-tailed)						
Risk	Pearson Correlation	.125	1				
	Sig. (2-tailed)	.329					
Pay Mix	Pearson Correlation	.610**	.195	1			
	Sig. (2-tailed)	.000	.126				
Valence	Pearson Correlation	.217	.025	.325**	1		
	Sig. (2-tailed)	.088	.843	.009			
Expectancy	Pearson Correlation	.630**	.207	.195	.004	1	
	Sig. (2-tailed)	.000	.104	.126	.977		
Instrumentality	Pearson Correlation	.687**	.012	.643**	.288*	.245	1
	Sig. (2-tailed)	.000	.928	.000	.022	.053	

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Table 3: Moderating effect of career stage, standardized regression coefficient

Dependent variable		Standardized coefficients		Adjusted R ²	Hypothesis
		Beta	Significance		
<i>Exploration</i>					
Expectancy	Pay mix	-0.238	0.215	0.022	H1a
		-0.280	0.142	0.044	H2a
<i>Establishment</i>					
Expectancy	Pay mix	0.418	0.137	0.106	H1b
		0.367	0.197	0.063	H2b
<i>Maintenance</i>					
Expectancy	Pay mix	0.344	0.137	0.069	H1c
		0.287	0.220	0.031	H2c

Table 4: Results of moderated regression analysis for risk

Independent Variables	Valence		Expectancy		Instrumentality	
	Beta	Significance	Beta	Significance	Beta	Significance
Risk Attitudes	0.250	0.843	0.207	0.104	0.012	0.928
Pay Mix	0.325	0.009	0.195	0.126	0.643	0.000
Risk x Pay mix	0.305	0.015	0.232	0.067	0.587	0.000
R ²	0.078		0.038		0.334	
F	6.246		3.474		3.105	

Pay mix and instrumentality show strongest relation with value ($r = 0.643$, $p = 0.000$). When a sales representative is capable of selling the insurance policies efficiently then he is aware of the fact that he has the required skills to do the job properly so his instrumentality will increase when proportion of variable pay will increase in his pay mix/ Results of Table 3 shows that career stages moderate the influence of pay mix on expectancies and instrumentalities of sales representatives.

As expected, in exploration stage a pay mix having more proportion of variable pay will negatively affects the expectancies ($\beta = -0.238$) and instrumentalities ($\beta = -0.280$) of sales representatives. So hypothesis 1a and 2a are proved here. However, in establishment stage an increase in variable pay positively affects the expectancies ($\beta = 0.418$) and instrumentalities ($\beta = 0.367$) of employees which proves hypothesis 1b and 2b. Similarly in maintenance stage expectancies ($\beta = 0.344$) and instrumentalities ($\beta = 0.287$) will be positively influenced by increase in variable pay which proves hypothesis 1c and 2c.

In this study we hypothesized the relationship between risk attitude and valence for variable pay increase.

The results of research in table IV show that there is a positive relation between risk attitude and valence. When a person is risk seeker his valence for variable pay increases. Also a combine effect of risk and pay mix is applied and its results are almost equal to the regression results of pay mix. The impact of risk is small but it is there so it is proved that risk attitudes moderate the relationship of pay mix and motivation.

Analysis of the data shows that career stage and risk attitudes moderate the relationship between pay mix and three components of motivation. These results suggest that compensation alone does not increase or decrease the motivation level of employees, there are other moderating factors as well that influence the components of motivation. So organizations need to be more strategic while designing the pay mix structure i.e. they need to consider the moderating or individual differences variables as well.

Employees have different individual characteristics and that is why their preferences are different regarding different pay packages. Some sales representatives will be motivated when given more fix pay while others will be motivated when they have more variable pay in their pay package.

This study also shows that risk attitudes moderate the influence of pay mix on motivation of employees. A sales representative can be either risk seeker or risk averse.

Past research in this area is unable to build any connection between individual differences variables and compensation however the results of this study have opened a new dimension which it is clear that individual difference variables have influence on the structure of pay packages and components of motivation e.g. Krafft (1999) studies state that there is no correlation between individual difference variables and company's pay mix strategy. On the other hand this present study shows that individual difference variables (career stages and risk attitudes) play an important role in influencing the pay mix strategy of the firm and motivation level of sales representatives.

So organizations should keep in mind the importance of individual difference variables and structure the compensation policy according to it.

CONCLUSION

The main purpose of this study is to find the role of career stages and risk attitudes on the relationship of pay mix and components of motivation. Pay mix is an independent variable. Valence, expectancy and instrumentality are dependent variables. Career stages and risk attitudes are moderating variables.

The study supports most of the hypothesized relationships that were developed in the beginning of this research. The analysis of data proves that in exploration stage of career increase in variable pay negatively influence the expectancies and instrumentalities of sales representatives. On the other hand increase in variable pay positively influences the expectancies and instrumentalities of employees in establishment and maintenance stage of career. So it is proved that career stages moderate the relation of motivation and pay mix.

Sales representative in the exploration stage are looking at different jobs and evaluating a different option that is why their expectancies and instrumentalities decline when variable pay increases in the pay mix. However in establishment and maintenance stage their commitment is high and they are doing well on the job that is why their expectancies and instrumentalities increase with increase in variable pay.

Also it is proved that risk attitudes moderate the relationship of pay mix and motivation. Whether a person is risk seeker or risk averse it affects the influence of pay mix on motivation level of employees.

When a sales person is risk seeker his valence for variable pay increases as he expects to gain more reward by taking risk.

Recommendations: Following recommendations can be considered for future study in this area:

- The management of state life insurance company should keep the proportion of variable pay less in the pay mix, for those employees who are beginners or at the initial stages of their career.
- The management of state life insurance company should keep the proportion of variable pay high in the pay mix, for those employees who are more experienced than others or at the peak of their career.
- Also the management should analyze the risk behaviors of their employees and for risk seekers they should offer high proportion of variable pay.

Future Study:

- The data collected for this study is from one branch of State Life Insurance Company; in future the sample size or population size can be increased by including other branches of the company.
- Here career stages and risk attitudes are taken as moderating variables. For future study other individual differences variables can also be taken as moderating variables.
- Future researchers should keep in mind the importance of career stages and risk attitudes while conducting further study in this area.
- Disengagement is an important career stage, in this research due to insufficient data we are unable to study the role of this career stage however future research should include this career stage in their study.

Limitations: There are few limitations of this study as well i.e. the sample is collected from a specific group of employees. The results may not be applied on the employees of other industries.

Also the moderating variables and types of compensation included in this study are limited. So these limitations should be dealt properly in future.

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Appendix:

Role of career stages and risk attitudes

Questionnaire

The research intends to study the role of career stages and risk attitudes in the relationship between pay mix and motivation. This survey is part of my MBA Degree Research Project. Don't be afraid to tell the truth. Your information will be dealt with confidentiality.

Instructions: When filling out this form, please indicate, the option to which you agree with the following statements.

Name (Optional): -----

You may complete this questionnaire anonymously, if you like.

Job Title/ Designation: -----

Work Location/ Department: -----

Gender: ☐ Male ☐ Female
Age: ☐ 20-30 years ☐ 31-40years ☐ 41-50 years
☐ 51 and above
Marital Status: ☐ Single ☐ Married
Education Level: ☐ Undergraduate ☐ Graduate ☐ Postgraduate
Length of Service: ☐ 5-10 years ☐ 10-15 years ☐ 15-20 years

If you were to receive an increase in pay, to what extent would your satisfaction with your overall pay increase?

(i) Not at all (ii) Very little (iii) Indifferent (iv) To some extent (v) Very much

If you were to receive an increase in pay, to what extent would your satisfaction with your job increase?

(i) Not at all (ii) Very little (iii) Indifferent (iv) To some extent (v) Very much

If you were to receive an increase in pay, to what extent would your satisfaction with the company you work for increase?

(i) Not at all (ii) Very little (iii) Indifferent (iv) To some extent (v) Very much

Percentage of total pay that you receive in the form of incentives (compensation, bonus, reward etc).

(i) 10 to 20 % (ii) 20 to 30 % (iii) 30 to 40 % (iv) 40 to 50 % (v) 50 to 60 %

If you spend 10 percent more time during the next 12 months contacting existing customers you will exceed your objectives.

(i) Strongly Disagree (ii) Disagree (iii) Neutral (iv) Agree (v) Strongly Agree

If you spend 10 percent more time during the next 12 months contacting existing customers your total sales volume will increase.

(i) Strongly Disagree (ii) Disagree (iii) Neutral (iv) Agree (v) Strongly Agree

In your opinion, if you increase your objectives your job security will increase.

(i) Strongly Disagree (ii) Disagree (iii) Neutral (iv) Agree (v) Strongly Agree

In your opinion, if you increase your objectives your merit pay will increase.

(i) Strongly Disagree (ii) Disagree (iii) Neutral (iv) Agree (v) Strongly Agree

In your opinion, if you increase your objectives you will be promoted.

(i) Strongly Disagree (ii) Disagree (iii) Neutral (iv) Agree (v) Strongly Agree

Choose the job you would most prefer to perform.

Job where you are almost always on your own

Job where there is nearly always someone available to help you with problems you do not know how to handle

From the following four passages choose the one that best describes your current career concerns.

- You are most concerned with finding an occupation in which you can succeed and grow as an individual. A fundamental question that you are dealing with is: "What do I want to do for the rest of my life?"
- You are most concerned with earning stability within your occupation. You want to secure a place in the working world. Achieving professional success is of utmost importance to you. You strongly desire promotion.
- You are most concerned with retaining your current position, status and performance level in your career. You are less concerned with future promotion opportunities and more concerned with keeping current with new developments in your field.
- You are most concerned with reducing your workload. You are looking to cut down on your working hours and are more concerned with developing hobbies to replace work interests and planning for your retirement.