



# Performance-enhancing compensation practices and employee productivity: The role of workplace bullying



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## ABSTRACT

Performance-enhancing compensation practices are designed to increase employee productivity through greater accountability, while highlighting performance differentials across employees. While productivity increases may occur, these practices can also stimulate an unintended consequence: workplace bullying. In this paper, we present a typology and conceptual model that explore the boundary conditions under which performance-enhancing compensation practices may result in bullying behavior with differential effects on target and perpetrator productivity. We propose the mediating roles of individual competition and stress between zero-sum pay systems and workplace bullying. In our model, we propose that perpetrators will realize increased productivity. This increased productivity will be generated through instilling fear in the targeted employee to compete for output, which will increase the perpetrator's relative ranking. As a result, targets will tend to suffer decreased productivity. We conclude with a discussion of the theoretical contributions, practical implications, and offer directions for future research.

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## 1. Introduction

An organization's compensation policies and practices are integral to its success (Gomez-Mejia, Berrone, & Franco-Santos, 2010; Huselid, 1995; Lawler, 2003). Compensation plays a number of key roles in organizations including signaling employee worth, attracting potential job incumbents, and retaining existing employees (Gerhart & Rynes, 2003). Furthermore, while intrinsic motivators are important, extrinsic motivators such as pay continue to represent a central role in explaining why individuals are productive in the workplace (Dulebohn & Werling, 2007). In sum, compensation systems represent a critical influence and driver of employee attitudes and behaviors (Rynes, Gerhart, & Minette, 2004; Sweins & Kalmi, 2008). The effectiveness of a compensation system, however, depends, to a large degree on how it is designed, among other factors.

In what is now considered a "classic" in the *Academy of Management Journal*, Kerr (1975) illustrates a number of cases in which the behavior hoped for is not the behavior that is actually rewarded. Kerr's illustrations highlight the importance of carefully designing compensation systems in order to avoid rewarding the wrong behaviors. Moreover, Kerr's article illustrates how undesirable behaviors may in fact be the ones that are unintentionally rewarded. Using politics as an example, Kerr describes how voters want candidates to be frank about the specific sources and use of funds for their proposed programs; however, they punish candidates who in fact do so. Consequently, this leads candidates to be vague about their goals and speak in general terms about how they intend to achieve their proposed programs. Candidates will be inclined toward these latter behaviors because the reward system punishes those who articulate operative goals, while in turn rewarding those who speak about these programs vaguely (Kerr, 1975). Compensation systems in organizations can generate behaviors that are similarly counterproductive.

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Moreover, those employees who engage in these counterproductive work behaviors may derive rewards in doing so, while those who do not can find themselves being punished.

As the above entails, compensation can have particularly complicated effects on employee behavior. More specifically, the behavior that is rewarded can be accompanied by unintended consequences. For instance, researchers have reported that employees who are paid based on the volume of sales generated will devote less attention toward helping behaviors such as training of new hires (Morrison, 1996; Wright, George, Farnsworth, & McMahan, 1993). Similarly, team efforts may be ignored when individual performance is measured and highly rewarded (Campbell, Campbell, & Chia, 1998). Notably, research has demonstrated that employees will typically engage in those behaviors that they perceive the organization to be rewarding (e.g., Beer & Cannon, 2004; Campbell et al., 1998). However, there may be a number of intermediate mechanisms that shape how employees may achieve these rewarded goals.

In many organizations, employers may directly measure certain aspects of performance. In such instances, employers may set a considerable portion of employee pay to be based on levels of employee productivity (Chien, Lawler, & Uen, 2010). When HRM systems, such as compensation, are used to differentially affect employee performance through increased expectations (Batt & Colvin, 2011), these are referred to as performance-enhancing (or expectation-enhancing) practices (Shaw, Delery, Jenkins, & Gupta, 1998; Shaw, Dineen, Fang, & Vellella, 2009; Tsui, Pearce, Porter, & Tripoli, 1997).

As defined by Batt and Colvin (2011; p. 698), "Performance-enhancing practices are short-term incentives designed to respond to immediate competitive pressures to improve performance". In the context of compensation, these incentives take the form of short-term plans that link individual pay to employee performance, such as commission pay, individual bonuses, merit pay raises, and other individual incentive pay (Batt & Colvin, 2011; Shaw et al., 2009). While incentive plans typically produce higher performance outcomes (Chien et al., 2010), as mentioned earlier, the means by which these performance increases are achieved may be associated with unintended and undesirable consequences. One of these unintended consequences may be bullying behavior. Workplace bullying refers to repeated and ongoing negative acts that one or more employees perpetrate on another employee (Fox & Stallworth, 2010).

In theorizing on the relationship between performance-enhancing compensation practices and workplace bullying, this paper makes several contributions to the literature. First, we illustrate the potential unintended consequences associated with performance-enhancing compensation practices in the form of bullying behavior. While performance-enhancing compensation practices may result in increased productivity, the means by which this is achieved may be harmful to co-workers. Second, we explore how a compensation system can represent a predictor of individual competition and stress, while specifying the key boundary conditions. In this regard, we present a typology that reflects the interaction of three aspects of reward systems (compensation design, rewards' value/costs for non-achievement of rewards, and scarcity of rewards) that have not been previously explored together in the literature. Based on this typology, we present a testable model for the potential effects of bullying on employee performance. Third, we extend the workplace bullying literature by investigating the role of pay systems as an antecedent. While Salin (2003) mentioned that reward structures may play a role in stimulating bullying, we explore how this may in fact occur. Finally, we extend expectancy theory to help explain the unintended consequences of compensation systems, especially when they are not complete and poorly designed (Kominis & Emmanuel, 2007; Lawler & Jenkins, 1992; Lawler & Rhode, 1976).

Overall, while there have been several studies examining the relationship between performance-enhancing practices and turnover levels (e.g., Batt & Colvin, 2011; Batt, Colvin, & Keefe, 2002; Shaw et al., 1998, 2009), there is relatively little research on how such practices may result in interpersonal forms of conflict. We believe that an important consequence of the pressures associated with performance-enhancing compensation practices may be the indirect encouragement of bullying behavior. With studies reporting a high prevalence rate and negative consequences of bullying in organizations (e.g., Fox & Stallworth, 2005; Lutgen-Sandvik, Tracy, & Alberts, 2007), the possible unintended consequences of performance-enhancing compensation practices on bullying represent an important avenue for investigation.

We first provide an overview of performance-enhancing compensation practices and theoretical explanations why these may produce both positive and negative, unintended consequences. We follow with a review of the workplace bullying literature, which highlights findings related to the role of work design and stress in predicting bullying behavior. Second, we present a typology and model that illustrate how performance-enhancing compensation practices can trigger bullying behavior. Third, we discuss the mediating roles of individual competition for rewards and stress between zero-sum compensation systems (which we discuss shortly) and workplace bullying, and how bullying behavior can lead to differential productivity outcomes for targets and perpetrators. Finally, we conclude the paper with a discussion of theoretical and practical contributions, while offering avenues for future research.

## 2. Performance-enhancing compensation practices

Performance-enhancing practices include HRM practices that are intended to increase employee performance, such as employee monitoring, individual pay-for-performance plans, and performance appraisals (Shaw et al., 2009). In this paper, we focus on the pay system in the organization. We focus specifically on the role of pay systems because of the paucity of research investigating how pay practices may result in interpersonal forms of conflict. This paucity continues to exist despite speculation in prior research that reward structures may contribute to workplace bullying (e.g., Salin, 2003). Because of the important direct role that pay has on employee behavior (Rynes et al., 2004; Sweins & Kalmi, 2008), we believe that investigating the role of pay practices in stimulating interpersonal forms of conflict can be particularly fruitful.

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