

Conference Paper

Generation X and Millennials: Perception Toward Pay for Individual Performance

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Abstract.

Generational differences will cause different effects on the way employees view and perceive the policies designed by their organizations to motivate them, one of which is performance pay. The study aims to examine the differing perceptions of pay for performance between employees from Generations X and Millennials. This study was conducted by using a survey of which the respondents were from private and public sector organizations. The total number of respondents in this research is 355 employees, which are made up of 156 respondents from Generation X and 199 Millennial respondents. In this study, t-test and Linear regression models were used for hypotheses testing. Results of the t-test showed that there are differences in perceptions of pay for performance between Generations X and Millennials ($p < 0.05$). Generation X gives a higher positive evaluation on pay for performance compared with Generation Millennials. Results of the regression test showed that pay for performance had a significant effect on employee work motivation for both Generations X and Y ($p < 0.05$). The results of this study provide insights to organizations into designing appropriate compensation programs based on the demographics of their employees.

Keywords: generation differences, motivation, external regulation, performance-contingent rewards

1. Introduction

The ways employees perceive and view an object or a situation differs from one social generation to another. These differences dependent on each generation's historical background. Employees who were born into the baby boomer, X, and millennials generations have various historical backgrounds. The baby boomer generation was born in the time of the World War II and when the first astronauts landed on the moon. These historical background is the reason why the baby boomer generation have high self-confidence and perceive themselves as heroes who can change the world, and their work goal is more on career achievements rather than merely on salary or financial exchange [1]. The historical backgrounds of Generations X and Millennials differ from that of the baby boomer generation. The influence of information and

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technology was high on Generation X, wherein they were introduced to video games, personal computers, and the internet, which led them to give high priority to freedom and flexibility at the workplace instead to financial rewards [1]. The last generation is Generation Millennials, which is made up of people who hold their own opinions strongly since they were raised by parents who taught them to achieve high targets, avoid risks, use every opportunity presented to them. This historical background is the cause of generation Millennials' self-confidence, strong belief in their decision-making ability, as well as in their control over the future [2].

Diverse employee perceptions toward working environment driven by differences in generation can lead to dissimilar motivations as employee perceptions shape their hopes and expectations from their jobs, which in turn motivate them to give high performances and receive good salaries [1]. Compensation is one form of reciprocal benefits which is expected by employees from their companies as rewards for their efforts put into the companies. Nevertheless, the effect of compensation on employee motivation is contingent on personality, trust, personal values, and other factors perceived as important by employees to motivate themselves [3]. Employees who belong to the Baby Boomer, X, and Millennials expect compensation to be mutual relationships, but the essential role of monetary value received by these three generations will vary in terms of enhancing work motivation. A generation who regards freedom and flexibility highly like Generation Millennials is not motivated by high compensations if their freedom is restricted when they work in a company [1]. Compensation will increase employee motivation if the compensation given is perceived as feeling of competence [4].

This study aims to look for empirical evidence on different effects of compensation (pay for individual performance) based on differences in generation. Previous empirical research findings have found that the influence of compensation on motivation is dependent upon employees' interpretations of the meaning of compensation [3-8]. These interpretations are formed based on various needs of individual freedom, meaning that compensation is not a tool to control employees' work behavior; various needs of autonomy, competency, and justice perception. There are still few studies that specifically examine differing effects of pay for individual performance caused by generation differences. The purpose of this study is to find empirical data on effects of pay for individual performance on work motivation to the X and Millennials generations. The results of this research are intended to give contributions to the development of motivational theories from the cognitive approach, and also to provide insights to organizations into designing appropriate compensation programs based on the demographics of their employees.

2. Literature Review

Several researchers previously found that Generation X and Millennials differ in life values and work attitudes [1,2,9-11]. Stimulus designed by an organization (e.g. compensation) to increase work motivation and positive work behavior will result dissimilar effects due to the different life values and work attitudes. A literature review conducted by Johnson and Ng [12] concerning on Millennials provides information that Millennials have high preferences for both quality of work life and monetary reward, hence the Millennials tend to possess higher intention to change job and/or to change organization sector rather than generation X. Individual characteristics of Millennial are egoistic, self-absorbed, narcissistic, entitled and low altruism value [9,12].

Unlike the Millennials, generation X will retire from an organization when they do not achieve personal satisfaction and job satisfaction. They tend to be loyal to their skills or works [13]. The most important values for generation X are the sense of belongingness, team work, ability to learn new things, autonomy, entrepreneurship, security, flexibility, feedback, and short-term rewards [14]. The importance value of affiliation for generation X is lower than for Millennials, hence one consideration for choosing workplace is an organization with low-level hierarchy which can help them to build networking [9].

The Millennials expect other people working with them to be flexible time scheduling conflict [2]. Although Millennials unrealistically expect career progression and compensation, but their optimistic level is lower than generation X [9]. Therefore, they often change job and change organization sector due to their anxiety about the future is higher than generation X. The Millennials often find their parents fail to achieve life goals, hence they have higher awareness of failure and more pragmatic in life [9].

2.1. Hypotheses development

Cognitive evaluation theory states that the effect of compensation (monetary reward) is contingent upon information generated from the compensation system. When the compensation system designed by an organization produces positive information of individual competency, then the compensation will improve individual's intrinsic motivation [8]. Performance-contingent reward is organizational intervention to improve work motivation and employee performance when the organization creates a classification of performance levels associated with the reward received by the employees. The higher the monetary reward provides information, the higher competency or employee performance are achieved [15]. However, the effect of performance-contingent reward

on generation X and Millennials will differ since they have different perspectives which definitely lead to the different interpretations. The different interpretations toward reward will produce different effects from the reward itself [16].

The individual interpretation will be influenced by individual perception toward particular object, condition, or event. Generation X and Millennials hold dissimilar personal values and individual characteristics so that the way of these two generations to interpret the same object or event will differ one another. When individual perceives monetary reward as an important exchange form which must be provided by organization for the employee as the reward of their effort, competency, knowledge, and experience, then the monetary reward will play a crucial role in influencing employee motivation and work behavior. However, when individual does not prioritize monetary reward as an exchange form of individual and organization relation, then the monetary reward will not significantly affect employee motivation and work behavior. The employees who do not perceive monetary reward as primary motive to work will not interpret the compensation as the indicator of personal satisfaction and job satisfaction. This view is consistent with the explanation that compensation will only significantly affect when it is interpreted as an important object [16]. Millennials which are highly materialistic very much expect compensation increment. The Millennials also hold pragmatic view hence they will perceive compensation as a crucial exchange form. The study conducted by Johnson and Ng [12] found that Millennials working in non-profit sectors move to the for-profit sectors due to the compensation in non-profit sector is lower than for-profit sector. Although they achieve a meaningful life in non-profit sector, but they do not expect the lower salary rather than for-profit sector. Another finding of the study is that Millennials expect average salary increase about 63% for 5 years period.

Although previous studies found that job dissatisfaction is the motive of generation X to move from particular organization [11], but it does not mean that generation X does not perceive the monetary reward as an important reason to work. Jurkiewicz and Brown [14] found that generation X expects short-term rewards. Performance-contingent reward is one of short-term reward. Their research also found that autonomy is one of the most important values for generation X. Thus, performance-contingent reward will significantly affect the generation X. Performance-contingent reward received by generation X will be an indicator of autonomy progression. When generation X perceives that organization recognizes employee competency by providing performance reward, then they will expect autonomy improvement in the organization. Thus, generation X will achieve personal satisfaction and job satisfaction.

Referring to notion of Ryan et al. [15] about performance-contingent reward, the monetary reward received by employees as the result of work performance will be associated as the employee competency levels. Thus, the employees who receive high performance-contingent reward from the organization will perceive that monetary reward is the indicator of organization recognition of employee competency. Eventually, high-level competency will provide the employees the greater autonomy. Millennials are materialistic generation, but they put higher priority on opportunity to build networking. They are also greatly pragmatic and possess high future anxiety, hence performance-contingent reward they have received only consists of monetary values. It means that monetary reward they have received is interpreted as competency and opportunity levels to achieve autonomy improvement from the organization. Unlike generation X, Millennials prioritize short-term reward and autonomy. For generation X, performance-contingent reward as the indicator of competency level leads to the opportunity to improve the autonomy. Thus, researchers propose the following hypotheses:

Hypothesis 1a: Pay for performance (performance-contingent reward) affects work motivation of generation X

Hypothesis 1b: Pay for performance (performance-contingent reward) affects work motivation of Millennials

Hypothesis 2: There are different positive perceptions toward pay for performance between generation X and Millennials. Generation X provides higher positive perception toward pay for performance rather than Millennials.

3. Research Design

3.1. Participants and procedure

This research was conducted by using survey of which the respondents were from private and public sector organizations. Printed questionnaires were given to the leaders of organizations or the heads of human resource departments. The respondents returned the questionnaires to the leaders of the organizations. Then, the leaders of the organization returned the questionnaires to the researchers. The questionnaires were distributed to 500 employees, but only 355 questionnaires which were returned to the researchers. Among 355 respondents, 156 respondents (43.94%) were generation X and 199 respondents (56.06%) were Millennials. The educational background of generation X consists of 53 high school graduate, 7 associate degree, 63 bachelor's degree, and 33 master's degree. Educational background of the Millennials consists of 79 high school graduate, 20 associate degree, 81 bachelor's degree, and 19 master's degree. The majority of respondents' educational background was bachelor's degree for both generation X and Millennials.

3.2. Measurement

To measure the variables, seven-point Likert Scale was used in this study: 1= strongly disagree, 2= disagree, 3= more or less disagree, 4= neutral, 5= more or less agree, 6= agree, and 7= strongly agree.

The instrument to measure work motivation variable was adopted from the instrument built by Gagné and Forest [6]. Gagné and Forest [6] built a multidimensional instrument based on self-determination theory to measure work motivation which includes six dimensions: (1) amotivation, (2) extrinsic regulation - social, (3) extrinsic regulation – material, (4) introjected regulation, (5) identified regulation, and (6) intrinsic motivation. The researchers set the limitation particularly for testing the work motivation dimension of extrinsic regulation (material) since the focus of this research was to examine the effect of compensation toward work motivation comes from external stimulus. There were three items for testing work motivation dimension of extrinsic regulation (material). For example, “Because others will reward me financially only if I put enough effort in my job.”

The instrument Pay-For-Performance-Perception (PFIP) built by Henenman et al. [17], used in this research to measure PFIP, consists of four items. For example, “If I perform especially well on my job, it is likely that I will get a pay raise”.

4. Result and Discussion

4.1. Means, standard deviations, correlation

The results of the correlation analysis and descriptive statistical analysis (mean and standard deviation) of generation X are presented in Table 1. There is a positive correlation between pay for individual performance and work motivation ($r = .359, p < 0.01$) in the generation X data category. A positive correlation between pay for individual performance and work motivation is also found in the Millennials data category ($r = .396, p < 0.01$).

TABLE 1: Means, standard deviations, and correlations.

Item	M	SD	1
Generation X			
Pay for Individual Performance	5.1597	1.0841	.359**
Motivation (extrinsic regulation)	4.6303	1.2374	-
Generation Millennials			
Pay for Individual Performance	4.9117	1.0262	.396**
Motivation (extrinsic regulation)	4.7989	0.9788	-

N = 156 (Gen X) & N = 199 (Gen Millennials); * $p < .05$, ** $p < .01$, *** $p < .001$

4.2. Hypotheses testing

The result of data analysis on the first hypothesis test shows that: (1) pay for individual performance significantly affects the work motivation of generation X, so hypothesis 1a is supported ($\beta = .359; p < 0.001$); (2) pay for individual performance significantly affects the work motivation of Millennials, so that hypothesis 1b is supported ($\beta = .396; p < 0.001$). The result of t-test on positive perception toward pay for individual performance between generation X and Millennials show that generation X and Millennials differ in preference for pay for individual performance.

Generation X provide higher preference value (Mean = 5.1597) to pay for individual performance than Millennials (Mean = 4.9117). Thus, Hypothesis 2 is supported. There are different positive perceptions toward pay for individual performance between generation X and Millennials. Specifically, the results of the study support that positive

perception of generation X toward pay for individual performance is higher than Millennials. Information about regression and statistical difference test (t-test) results are presented in Table 2 and Table 3.

TABLE 2: Result of H1a & H1b testing.

Hypothesis	Independent Variable	Dependent Variable	Standardized Coefficient	R ²	t statistic	Sig	Result
H1a	Pay for Individual Performance	Motivation – Gen X	.359	.129	4.768	.000	Supported
H1b	Pay for Individual Performance	Motivation – Gen Millennials	.396	.123	6.053	.000	Supported

TABLE 3: Result of H2 testing.

Hypothesis	Group	Mean	Std. Deviation	t statistic	Sig	Result
H2	Gen X Gen Y	5.1597 4.9117	1.0841 1.0262	2.205	.028	Supported

4.3. Discussion

This study aims to investigate the effect of pay for individual performance on work motivation of generation X and Millennials. Moreover, this study also aims to examine the differences between generation X and Millennials in positive perceptions toward pay for individual performance. The results of this study confirm that pay for individual performance demonstrably affects work motivation of generation X and Millennials. The highest mean value of work motivation of generation X and Millennials is job security (...because others offer me greater job security if I put enough effort in my job. E.g., employer, supervisor). The mean values of this statement are 5.59 on generation X and 5.54 on Millennials. The data show that job security is the motive of generation X and Millennials to be motivated to work in the workplace. Intervention designed by an organization to increase work motivation of generations X and Millennials should be interpreted by both generations as a tangible form of job security from the organization. The results of this study are consistent with the previous findings of several studies on the characteristics of generation X and Millennials. Jurkiewicz and Brown [14] found that for generation X, job security is one of the most important values, whereas for Millennials, job security is the main motive to be motivated in workplace since they are highly anxious and pessimistic toward the future [9].

For both generation X and Millennials, the highest mean value of pay for individual performance is on the statement "...the pay raises that I receive on my job make me

work harder...". Nevertheless, the mean value of generation X (mean value = 5.52) is higher than Millennials (mean value = 5.42). This is consistent with the results of previous studies that financial reward is an important factor in motivating generation X and Millennials to work harder. Generation X is short-term reward-oriented generation [14], whereas Millennials are materialistic generation [12].

The mean values also indicate that the effect of pay for individual performance on work motivation of generation X is more substantial than on Millennials. Millennials are highly materialistic, but monetary reward is not a single factor which affects their work behavior. They also expect best quality of life and affiliation. When they get a high monetary reward but do not achieve a meaningful of life, they will not motivate to work in an organization since their goals to work are the meaningful of life and the monetary reward [12]. Millennials expect an organization which can help them build a networking [9]. In contrast to Millennials, generation X give a higher preference for salary increase to make them more motivation since they perceive that performance-based reward (pay for individual performance) is a tangible indicator to measure their competence. When the organization provides salary increase for their performance achievement, they will interpret the information about the salary increase as a measure of job competency and opportunity for promotion (autonomy). This is consistent with Deci [16] opinion that compensation will only provide significant effect when compensation is interpreted as an important object. Ryan et al. [15] explains that when performance-contingent reward is associated as the employee competency levels, the employees who receive high performance contingent reward from the organization will perceive that the monetary reward is the indicator of organization recognition of employee competency.

The different positive perceptions toward the items of pay for individual performance between generation X and Millennials are also supported by the results of this study which show significant difference between generation X and Millennials in work motivation. Work motivation of generation X is higher than Millennials hence the effect of pay for individual performance on work motivation will be bigger on generation X rather than on Millennials. These findings contribute to the compensation literature, especially the literature of performance-contingent reward, and to the organization during the process of designing performance-contingent reward program. Although the work motivation of both generations can be increased through a performance-contingent reward program, but the logical mechanisms of the relationship between pay for individual performance and work motivation differ between generation X and Millennials. When an organization designs a performance-contingent reward program, the organization needs to consider

the communication process between organizational and organizational members so that the program can fulfill the needs of generation X and Millennials.

This study contributes to the theories of work motivation across generations and performance-contingent reward. Cognitive evaluation theory states that the effect of compensation (monetary reward) is contingent upon information generated from the compensation system [8]. Contingency factors which support that theory are the generational differences. Generational differences as the product of different historical backgrounds causing differences in perceptions or interpretations toward information of external sources. These perceptions will cause differences in work values and work behavior.

Practically, the results of this study could help the organizations during the process of designing pay for individual performance program. The organizations should be aware that generation X and Millennials differ in perception toward pay for individual performance program. Therefore, the mechanisms of the effect of pay for individual performance program on work motivation are also different. The organizations need to pay more attention to the communication process of pay for individual performance program to the employees and link this program to other human resource programs such as career program. By linking pay for individual performance program to other human resource programs, the perceptions of job security of generation X and Millennials can be increased since both generations provide high preference toward job security

5. Conclusion

This study examined the differences between generation X and Millennials in perceptions toward pay for individual performance and investigated the effect of pay for individual performance on work motivation of generation X and Millennials. The results of this study empirically support that the effect of pay for individual performance depends on contingent factors, particularly the employee perceptions toward the information generated from the pay for individual performance program. The employee perceptions are influenced by historical background. The data of this study show that generation X provides a higher positive perception toward pay for individual performance and the differences in perceptions toward pay for individual performance cause the differences in work motivation. Work motivation from external regulation source (material regulation) of generation X is higher than Millennials. The result of this study contribute to cognitive evaluation theory and compensation theory, particularly the theory of performance-contingent rewards.

Our study has some limitations. The respondents of this study were the employees of non-profit organizations and for-profit organizations, but the data were not analyzed based on the organizational types for each generation. The authors did not classify the data based on organizational types to avoid small data which can affect the statistical power. Also, the authors did not classify the data based on the tenure of respondents. For future research, the authors suggest a research to examine the effect of pay for individual performance on generation X and Millennials based on organizational types analysis of non-profit organizations and for-profit organizations and the tenure of employees.

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