

## Article

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*Relations industrielles / Industrial Relations*, vol. 32, n° 3, 1977, p. 449-452.

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DOI: 10.7202/028807ar

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## EMPLOYEE PAY AND BENEFIT PREFERENCES AT CANADIAN NATIONAL: NEW EVIDENCE

Harish C. JAIN

In a previous article in this journal,<sup>1</sup> we indicated that fringe benefits amounted to nearly thirty percent of an average employer's payroll cost. A recent survey reveals that there has been a continuing enlargement of benefits in Canada (to 31.1 percent of payroll costs).<sup>2</sup> In our article, we had suggested that despite such a continuing growth of benefits, few employers had any definite knowledge of what benefits employees really preferred. In order to assist employers to find out employee preferences, the article outlined a methodology and reported the results of a study which attempted to measure employee preferences for alternative forms of compensation in six organizations located in Ontario. In our concluding note, we remarked that «In order to generalize the results of this study, we need comparative studies over space, time and industry so that the results can be of use to personnel and industrial relations practitioners in designing an appropriate mix of compensation package.»<sup>3</sup>

In this research note new evidence, consistent with the results of our previous study, based on a nation-wide survey at the Canadian National (CN) is presented.<sup>4</sup>

### METHODOLOGY

This (CN) survey was conducted in 1972 and covers a sample of Canadian National employees throughout Canada. A total of 581 employees responded to the questionnaire. The questionnaire provided four options: wages, pensions, sickness benefits, and job security. The respondents were asked «What part of each \$100.00 increase you receive would you put into these benefits?» The questionnaire also

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<sup>1</sup> Harish C. JAIN and Edward P. JANZEN, «Employee Pay and Benefit Preferences,» *Relations Industrielles*, vol. 29, No. 1, 1974, pp. 99-110.

<sup>2</sup> *Employee Benefits Costs in Canada, 1975-1976*, Toronto, Ont.: Thorne Riddell Associates Ltd., 1976. The survey covered 437, 635 employees (155 employers) in non-manufacturing sectors of the Canadian economy. The relative benefits figures for the U.S. are 35.4 percent, according to the survey. In its first survey in 1954 the percentage (of benefits in Canada to payroll costs) was only 15.1.

<sup>3</sup> Harish C. JAIN & Edward P. JANZEN, *op. cit* p. 109.

<sup>4</sup> The author is grateful to the CN management for providing the computer printouts from this study. However, responsibility for the presentation and interpretation of this data is assumed by the author.

requested information on demographic and other variables such as age, length of service, rates of pay, etc.

### SURVEY RESULTS

*Overall Results:* The results shown in table 1 are consistent with the results of the Jain and Janzen study of six organizations in Ontario. The compensation most preferred is a pay increase. Non-monetary forms of compensation, therefore, receive lesser priority in the scale of preferences of the CN employees.

*Results by Demographic Variables:* Results in table 2 indicate that with increasing age, value attached to the pension benefits goes up.

Data in Table 3 suggest that with length of service, value attached to pension benefits also goes up. Needless to say, age and length of service are positively related. As people grow older, they get more and more concerned about old age financial security. Likewise, with greater number of years with the company, they build up greater pension funds for themselves and consider the funds as an investment of greater value.

The data in table 4 show that, in general, wages decrease in importance or value with higher pay rates, length of service (Table 3) and to some extent with age (Table 2). All the three demographic variables would be positively related. The reason for a decreasing preference for wages as a function of pay rate, length of service and age may lie in the fact that getting more wage (for older people with seniority or with higher rate) may satiate the need for money and thereby may reduce its importance for the employees.

### IMPLICATIONS

These results, both from the Jain and Janzen study as well as from the CN study suggest that management ought to provide employees the choice of deciding what benefits they should receive instead of making these decisions behind closed doors. Recent behavioural research<sup>5</sup> has demonstrated the possibility of practical alternatives to the conventional procedures used in setting pay systems. These alternatives include the possibility that employees can take a strong part in setting their own pay and benefit package. Employees are more likely to trust a pay and benefit system of their own design because they have more control over it.

The Management's insistence that they have to make sure that employees have the proper mix of benefits and get these benefits at least cost to both the company and the employees and hence the same benefits for all employees results in many employees receiving benefits they neither want nor need. As suggested in the Jain and Janzen paper,

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<sup>5</sup> Edward E. LAWLER, *Pay and Organizational Effectiveness*, New York: McGraw Hill, 1971.

employee needs differ according to their individual characteristics and family situation. This is why employees should be allowed to choose the benefits they want. A limited amount of evidence suggest that when given this opportunity, employees behave responsibly, picking benefits that fit their family situation. In the case of one large West Coast electronics company in the U.S., this meant taking lower salaries in order to increase the benefit coverage.<sup>6</sup>

As Lawler<sup>7</sup> points out, participation in pay and benefits decisions has led to greater trust and responsible behaviour among employees. It is important to realize, however, that the participative approach may not work in all situations for all organizations. For compensation plans to be successful in attracting and retaining employees, they must create feelings of satisfaction with pay and benefits.

**TABLE I**

**Mean Worker Preferences**

Fringe Benefits	N-58k
Wages	34.40
Pensions	23.44
Sickness Benefits	20.61
Jobs Security	12.25

**TABLE 2**

**Mean Worker Preferences by Age (N=581)**

	<i>Under 35</i> N=125	<i>35 - 44</i> N=120	<i>45 - 54</i> N=207	<i>55 +</i> N=129
<i>Fringe Benefits</i>				
Wages	41.26	30.17	35.56	30.87
Pensions	15.70	22.19	24.61	32.64
Sickness Benefits	22.21	24.83	20.11	19.83
Job Security	13.16	17.75	11.50	11.61

<sup>6</sup> Edward E. LAWLER, «Workers can set their own wages responsibility,» *Psychology Today*, February, 1977.

<sup>7</sup> *Ibid.*

TABLE 3

**Mean Worker Preferences by length  
of service (N = 581)**

	<i>Under 10</i>	<i>10 - 19</i>	<i>20 - 29</i>	<i>30 +</i>
	N = 137	N = 87	N = 224	N = 133
<i>Fringe Benefits</i>				
Wages	38.74	36.00	33.56	33.38
Pensions	16.57	19.43	25.11	32.33
Sickness Benefits	22.93	23.10	22.53	16.80
Job Security	13.76	16.05	13.22	9.19

TABLE 4

**Mean Worker Preferences by Pay Rates  
(N = 581)**

	<i>Under 3.00</i>	<i>\$3.00 - 3.44</i>	<i>\$3.50 - 3.99</i>	<i>\$4.00 +</i>
	N = 27	N = 148	N = 127	N = 279
<i>Fringe Benefits</i>				
Wages	42.33	34.89	35.44	34.01
Pensions	20.94	22.20	24.24	24.73
Sickness Benefits	19.38	22.39	22.53	19.72
Job Security	13.78	13.22	13.57	11.94

## INDEXATION

Earl F. BEACH

How good is our economic analysis? The subject of indexation supplies an illustration. The effects of inflation are being better understood as more attention is being given to analyzing them. The growing literature on adjusting for the effects of price increases illustrates the strengths and weakness.

The fine analysis of Belzile (1976) teaches us some of the technique of adjustment. The papers by Ascah and Ingerman explain the politics of adjustment. The Economic Council of Canada has commissioned a number of papers that fill in factual background.<sup>1</sup> In all of these six

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<sup>1</sup> See COUSINEAU et LACROIX (1976) and (1977) and also LACROIX et MONTMARQUETTE (1975).