

## THE ROLE OF COMPENSATION IN INCREASING MOTIVATION AND JOB SATISFACTION IN ORGANIZATIONS" : A LITERATURE STUDY

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Article Information	Abstract
Article History: Received: Agustus 2024 Accepted: Agustus 2024 Published: Agustus 2024	This research is a literature study that discusses the role of compensation in increasing job satisfaction in organizations. Compensation plays a very important role in improving employee performance based on a lot of research and thinking by experts as well as on its application in the organizational world. The research method uses literature studies. Article searches are done by accessing the website of each page that uses the keyword "compensation and job satisfaction". The article to be analyzed focuses on the publications of the last ten years. Journal articles identified will be researched based on their suitability to the topic raised. The synthesis process is carried out in selected journals to find the core findings of the latest research related to employee compensation. The results of this study state that from many literature studies that discuss compensation that plays an important role in increasing employee motivation and job satisfaction. Companies need to pay attention to the importance of offering competitive compensation packages and clear career development opportunities as part of their corporate strategy.
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### INTRODUCTION

One of the biggest keys to success in an organization is human resources. To obtain and maintain quality human resources, various things are done by organizations. The study of human resources is an issue that is never finished to be discussed, because humans who are objects are very special creatures with all unlimited needs and desires have a very important existence and are a determining factor for the productivity and continuity of an organization.

Improving good employee performance can be done in many ways, including training activities, providing compensation, providing motivation and so on (Dessler in Haryadi, et al 2016). Increased job satisfaction will result in

improving employee performance and creating job satisfaction, because with the creation of employee job satisfaction the organization's goals will be achieved. It should be realized that organizations will find a rather complicated problem in providing compensation to individuals because they must consider the principles applicable to a country that must be in accordance with the standard of living in the area in accordance with the background of human resources which include skills, education, social status and so on.

The study attempts to generate insights on how to improve employee job satisfaction based on efficient compensation policies. Employee satisfaction is a key target of an organization's compensation system (Ducharme et al. 2005) because it affects employee motivation and outcomes such as job satisfaction. As a result, compensation, motivation and employee job satisfaction are three valuable things in the management toolbox to contribute to organizational effectiveness. Compensation has a beneficial relationship with employee desires and expectations. The remuneration package offered by the company has a significant impact on how long employees are willing to stay on the job (Armstrong, Bilyk and Sheremet, Mitsel et al. 2021). Job satisfaction is said to be a consequence of several different satisfactions and dissatisfactions arising from different aspects of an employee's experience with work (Bustamam et al. 2014). Job satisfaction is a significant issue for companies as it affects staff performance and productivity, absenteeism, and attrition (Onukwube 2012; L̄iduma and Lkitaena-Ezera alysheva and Hurova 2021). According to Boerhaneoddin and Ibrahim (2010), compensation motivates people to keep working, resulting in job satisfaction, commitment, and dedication. In addition, it seems to be a fact that the compensation system gives money to employees and is a significant cost to the organization.

Many reasons point to the importance of employee compensation. To begin with, salary and compensation are among the most important influences regarding the quality and effectiveness of human capital. The compensation factor is crucial, from the hiring phase to engagement and retention. If the right package is not offered, then the best candidates will not be hired, the best employees will not be motivated to do their best, nor will the most qualified workers stay in the company, and in the worst-case scenario, the turnover rate will increase. All of these negative impacts translate into additional costs for companies, and that's why it's so important for policymakers to take their time and develop the best programs for employees (Michael et al. 2016; Portuguese 2018). But despite its tremendous importance, the element of compensation and benefits is one of the least researched components of Human Resources (Gupta and Shaw 2014; Portuguese 2019). Not only is it under-researched as a topic, but in 2019 there are still employees who are not fully informed about the components of the Compensation and Benefits Package, and the problem is the Human Resources Department, which is supposed to and is responsible for providing clear and thorough explanations of what types of compensation and benefits they receive. Not only that, but employees are offered fewer benefits compared to what they want. For such reasons every company should conduct research regarding compensation and benefits packages, they offer to understand where they stand

and what to do to improve the situation. Despite their strategic importance, compensation and benefits continue to receive little attention in research.

## **LITERATURE REVIEW**

### **1. Definition of Compensation**

For decades, the issue of compensation has plagued several researchers globally, as compensation is considered to have many dimensions and affect the position and effectiveness of the board of directors. Compensation is considered one of the deterrents of good governance minants charged to shareholders as a cost (Al Amosh 2022), and it can serve as an incentive for managers to carry out their responsibilities efficiently and to improve company performance to maximize shareholder value (Al Amosh and Khatib 2021 in Saleh F. A. Khatib 1,\* , Hamzeh Al Amosh 2,3,\* and Husam Ananzeh 4 , 2023.

Hasibuan in Dahlia & Fadil, 2022 states that compensation is all income in the form of money, direct or indirect goods received by employees in exchange for services provided to the company. According to Werther Jr. & Davis (in Sutrisno et al., 2022) *compensation is what employees receive in exchange of their work. Whether hourly wages or periodic salaries, the personnel department usually designs and administers employee compensation* (Werther Jr. & Davis in Sutrisno et al., 2022 means that motivation is something that employees receive in return for the work they have done, either in the form of hourly wages or periodic salaries designed and managed by the personnel department. Compensation is everything that employees receive in return for their work (Handoko in Kurniawan, 2022). In addition, compensation can also be interpreted as a counter achievement to the use of labor or services that have been provided by the workforce to the company. (Wibowo in Kurniawan, 2022)

#### **1.1. Compensation System**

All returns that employees receive because of their employment are referred to as employee compensation (Dessler 2015; Cabanas, et al., 2020). The literature on self-determination theory (SDT) claims that the compensation system serves as a significant external trigger (Ryan and Deci 2017; Tepluk et al. 2021). There is no doubt that compensation is an important component of the management control system (Hong 2017; Terepshchyi and Khomenko 2019).

In addition, compensation is the total amount provided to employees for services rendered Economy 2022, 10, 290 4 out of 16 with respect to specific occupations (Eliopoulos, Bangun, Sutrisno, Görgényi-Hegyes et al. 2021). The compensation system encourages employees to concentrate on individual and group goals (Chakrabarty 2021). Employees can be compensated in two ways, according to their input or output. Input-based compensation of employees focuses on their abilities and potential, and output-based compensation focuses on their productivity. In neoclas Sisal agent principal theory, it should be noted that the alignment effect is also achieved with performance-based or equity-based payments (Obermann and Velte, Aranibar et al. 2022). Although most studies support compensation based on output, some have highlighted challenges in measuring productivity (Türk, Stashevsky and Weisberg, McClunne, Holbach 2017.

## **1.2. Elements of the Compensation System**

The compensation system consists of payments such as housing rent, transportation, relative benefits, overtime, risk payment allowances, etc. Rewards consist of performance Rewards, employee benefits, year-end bonuses for perfect attendance, and Bonus proposals. The compensation package covers four aspects, namely: salary, benefits, gratuities, and pensions (Salisu et al. 2015). Employee salaries, benefits, and bonuses such as paid vacation, insurance, parental leave, free tour opportunities, provident funds, and others are provided as compensation (Pepra-Mensah et al. 2017). In other words, salaries and benefits are included in the basic remuneration package. Cascio (2006) states that the broad goal of designing payment systems is to assign money a value (standard rate) to each position in the organization and a mechanism for increasing the standard rate (e.g., based on merit and inflation). However, individual and group incentive schemes, if designed well, can be powerful motivators. Vacation, life insurance, personal accident insurance, work vehicle schemes, mobile phone packages, and voucher stores are often included in benefit packages (Bateman and Snell 1996; Beech et al. 2006). Thus, compensation is classified into monetary and non-monetary benefits (Baqi and Indradewa 2021).

### **1.3. Compensation Indicators**

Simamora in Darodjat (Hazmanan in Suhendri, 2018) elaborates that compensation has the following indicators:

1. A reward system is said to be flexible if it is tailored to the unique characteristics of the individual, and if the rewards are provided depending on a particular level of performance of an employee.
2. That is, the rewards given by the company will not affect if what they do or what they feel if it is not felt important to the employee.
3. Visibility, the meaning of visibility here is the relationship of performance to the rewards obtained and can be seen by others.
4. Frequency, which is the duration of time that describes the frequent rewards or compensation given, the performance produced by employees will also be more influential.
5. Cost, cost is an important component in which there is an element of consideration of the rewards included in the compensation system itself.

There are five compensation indicators according to Mangkunegara (Hazmanan in Suhendri, 2018), including:

1. Payment strata. The strata or level of payment can be given depending on the condition of the company. It can be given high, average or low.
2. The decision on the determination of individual compensation payments. Decisions on individual compensation pay need to be based on length of service, job performance, average level of pay, and level of education.
3. Payment structure. This relates to the level of pay, average pay, and classification of positions in the organization.
4. Payment control tools. Payment control tools can function as direct and indirect control control of work costs.
5. Payment methods.

There are two ways or techniques of payment, namely payment techniques based on units of time (per hour, per day, per week, per month). While the second is a payment method based on revenue sharing.

## **2. Understanding Job Satisfaction**

Employee satisfaction is described in a variety of ways, and there cannot be a unified definition for the phrase. Employees are an important resource in any company because they are the ones who carry out goals (Rodzo's 2019; Egerová and Rotenbornová2021). Employees will give a good attitude when they are happy with their work. As a result, intense job satisfaction will increase organizational productivity and overall performance (Rynkevich 2020; Petrova et al. 2020). The main resource of the company is its workforce (Ali et al. 2021). According to Hashim and Mahmood (2011), job satisfaction is an emotional response to one's work conditions. As a result, job satisfaction refers to how employees content with their jobs (Furnham et al. 2009; Alwali and Alwali 2022). "Job satisfaction" is another name for "employee satisfaction" (Wang 2005). According to For Locke (1976), employee satisfaction is related to wants, wants, or people's values rather than needs. Employees will be satisfied if they are adequately compensated, work in a pleasant atmosphere, and have prospects for advancement that align with their values. However, employees' capacity to perform formally assigned activities is strongly driven by their level of job satisfaction or enthusiasm for their work (De Clercq et al.; Rayton and Yalabik, Jiang et al, Sun and Pan 2012). One of the main reasons for a company to achieve a respectable level of performance in the workplace is collective satisfaction (Oteshova et al. 2021). Job satisfaction is defined as an employee's evaluation of the job context (McShane, S.L. *Canadian Organizational Behaviour*,) in Thielmann, Beatrice, Robin Schwarze and Irina Boeckelman (2022).

### **2.1. Compensation, Employee Motivation and Employee Satisfaction**

Compensation is a parameter for measuring employee motivation and job satisfaction. A person's mindset regarding their tasks in order to feel satisfied with their output is known as motivation (Herzberg 1966). One of the most complicated topics, it covers a wide range of emotions and circumstances. Job satisfaction in the workplace is influenced by compensation, motivation, an efficient chain of command, and general working circumstances (Uddin et al. and Bilge et al. 2021). Employee job happiness is influenced by wages, benefits, and motivation as they are often cited as the top two three elements affecting employee job satisfaction (Society for Human Resource Management 2012). Several aspects influence employee motivation, especially salary for work and opportunities for self-development, interpersonal interaction, in particular successful communication (Stachowska and Czaplicka-Kozłowska 2017; Miri and Macke 2022). Motivated employees directly impact employee happiness at work (Klopotan et al. 2018). In addition, extrinsic and intrinsic motivation results in positive job satisfaction, organizational commitment, and employee activity, according to previous research (Çinar et al.

Silic et al, Peñalba-Aguirrezabalaga et al. 2021). Furthermore, compensation and benefits seem to have a beneficial relationship with employee job satisfaction from this perspective (Leonova et al. 2021). According to empirical research, well-designed compensation and incentive systems can also increase satisfaction and

recruit and retain exceptional people, resulting in a competitive advantage (Elrehail et al. 2019). Perhaps the most useful outcome for decision makers and educators has to do with pay packages that affect motivation for one's job and job satisfaction (Ashraf 2020). Employees are happier when they are encouraged by receiving the expected salary from the company. However, a negative correlation between compensation and job satisfaction undoubtedly exists. Individual income is inversely proportional to job satisfaction and is used to calculate relative compensation (Clark and Oswald 1996; Song and Whang 2020). Although there is debate, compensation provided by employers, such as salaries or benefits, and other work facilities, such as motivation for their welfare, can be considered in the discussion of job satisfaction (Darma and Supriyanto 2017). Compensation is one of the most important variables influencing employee motivation (Kubo and Saka 2002; Chinyio et al. 2018). In addition, investigations are rare regarding the relationship between motivation and satisfaction in relevant subject areas. However, the perception of the motivational features of such recognition programs is the third lens through which companies assess satisfaction with their HR initiatives (Kotlyar and Karakowsky 2014).

Job satisfaction is a positive feeling about a job as a result of **evaluating their performance**. International Journal of Economics, Business and Accounting Research (IJEBAR)

**Table 1. Previous Research**

<b>Author</b>	<b>Definition</b>
Werther Jr & Davis (dalam Sutrisno et al., 2022)	What is received by employees as acceptance of the results of the work that has been done. This can be in the form of wages received per hour or regular salaries.
Hezberg (1966) dalam Nurul Mohammad Zayed 1 , MD. Mamunur Rasyid 2 , Saad Darwish 3 , MD. Faisal-e-Alam 4 , Vitaly Nitsenko 5,6,* & K. m. Anwarul Islam 7, The Power of Compensation System (CS) on Employee Satisfaction (ES): The Mediating Role of Employee Motivation (EM), Bangladesh 2020	Compensation is a parameter for measuring employee motivation and job satisfaction. A person mindset regarding their task in order to feel satisfied with their output is known as motivation
Dessler, Gary. 2007. Manajemen Sumber Daya Manusia. Edisi Kesepuluh. Jilid 2. Jakarta: PT. Indeks.	Compensation is all a form of payment or reward given to employees and arising from their employee.

Armstrong, Michael. 2016. <i>A handbook of Human Resource Management Practice</i> , 11th ed. Philadelphia: Kopan Page Limited	Compensation is a link between profit and desires that are in the line with an employee's expectation
W. Y. Degbey, P. Rodgers, M. D. Kromah, and Y. Weber, 2020,	Job satisfaction is how a satisfied people are with their works.
Anton Saman, 2020 " <i>Effect of compensation on employee satisfaction and employee performance</i> " International Journal of Economics, Business and Accounting Research (IJEBAR) Peer Reviewed – International Journal Vol-4, Issue-1, 2020 (IJEBAR) E-ISSN: 2614-1280 P-ISSN 2622-4771	Job satisfaction is a defined as an employees feelings or attitude in viewing his or her work as a feeling of being happy or unhappy with the rewards received, the work itself, the attitude of the supervisor, the attitude of co workers and the work environment.
Salisu, J. B., Chinyio, E., & Suresh, S. (2015). The impact of compensation on the job satisfaction of public sector construction workers of jigawa state of Nigeria. <i>The Business &amp; Management Review</i> , 6(4), 282.	Job satisfaction is a positif feeling about work as a result of evaluation their performance

From some of the definitions above, the author can define that compensation is a description of employee attitudes towards their work which is supported by the overall form of benefits received by employees in return for the company's services for the effort, time and sacrifices given by employees during their time as part of an organization.

## RESEARCH METHOD

The method used is the study of literature. All journal articles analyzed in this study were taken from Emerald and SAGE Journals. Emerald and SAGE Journals are leading journal publishers widely recognized for their credibility. Article searches are done by accessing the website of each page that uses the keyword "compensation and job satisfaction". The article to be analyzed focuses on the publications of the last ten years. Journal articles identified will be researched based on their suitability to the topic raised. The synthesis process is carried out in selected journals to find the core findings of the latest research related to employee compensation. In research on factors affecting job satisfaction, various research methods can be used. The use of questionnaires to collect data from employees about factors that affect job satisfaction, such as compensation, career development, company culture etc. These surveys can be conducted online or through paper and can include Likert scales, open-ended questions, or closed-ended. Interviews: Conduct interviews with employees or managers to gain a deeper understanding of their experiences, views, and perceptions of factors affecting retention. Interviews can be conducted face-to-face or over the phone, and can be a powerful means of unearthing complex and in-depth information.

Collecting and analyzing secondary data from sources such as company reports, employee performance data, or previous research to gain additional insight into factors affecting employee retention. These secondary data can provide important context for compensation studies and their effect on employee job satisfaction. Case Studies: Using a case study approach to study specific cases in specific organizations or industries that were successful in increasing employee job satisfaction.

## **RESULT AND DISCUSSION**

Yaseen (2013) conducted a study entitled "The Effect of Compensation on Employee Satisfaction Factors-A Study on Doctor Dissatisfaction in Punjab revealed that the impact of compensation has a significant effect on job satisfaction. In addition, research conducted by Salisu et al. (2015) with the research title "The impact of compensation on job satisfaction of public sector construction workers of the State of Nigeria" also revealed that job satisfaction has a positive and significant effect on job satisfaction. This is reinforced by the opinion of Rabie Mahssouni 1 , Mohamed Nouredine Touijer 2,\* and Mohamed Makhroute 1 (2022) that compensation is a common practice to place emphasis on the importance of salary as a component in determining total job satisfaction. If the morale of the workforce has improved, and Employees are in a position to give their best effort when they work, then the company's reputation will be improved as a result, and will be in a better position to satisfy the short and long-term needs of the organization.

Based on previous research that has been presented, hypothetical studies can be compiled as follows:

H1: Compensation has a significant effect on job satisfaction.

Human Resource Management is the belief that organizational performance is influenced by Human Resource functions and practices (Huselid et al. 1997). Empirical evidence supports this assumption, affirming that the role of Strategic Human Resource Management influences company performance by implementing innovative practices, as stated by Mitchell et al. (2013) and Peráček (2020). Chopra (2017) along with Delery and Roumpi (2017) also found this positive correlation emphasizing the importance of researching such topics. The steps to having the best employees involve developing and implementing a strategic human resources plan, among them offering compensation and benefits packages that satisfy employees (Dessler 2019) and make them go the extra mile for the company. There are also many considerations to consider before drawing up a payment plan: corporate strategy, equity, applicable laws, and unions (Anthony et al. 2009; Pynes 2013). In addition to them, the employer must consider other factors, such as whether his employees like higher wages or receive additional benefits. A survey by SHRM (2018) showed an important correlation between compensation and benefits and job satisfaction, where 92% implied compensation and benefits were crucial for their job satisfaction; as well as compensation and benefits and employee retention where 29% indicated that the compensation package and benefits offered would influence their choice to find another company to work for, while 32% stated that the reason why they like to work in the company



These results suggest that factors such as compensation play an important role in increasing employee job satisfaction. Companies need to pay attention to the importance of offering competitive compensation packages and clear career development opportunities as part of a corporate strategy. In addition, research by Smith, Jones, Brown, and colleagues highlights the importance of an employee-focused approach in human resource management.

## **CONCLUSION**

Compensation is important to create employee job satisfaction. Research shows that competitive compensation plays a key role in retaining employees in a company. Providing an attractive compensation package can help companies retain valuable, high-performing talent. This means that it is very important for companies to manage and pay attention to important factors that affect job satisfaction because it will have a direct impact on the success of the organization. By adopting strategies that fit and support the needs of employees, companies can retain valuable talent and improve their overall performance.

Many studies have highlighted the fact that employee motivation affects job satisfaction, whereas the level of motivation has an impact on productivity and therefore on company performance. Employees' perceptions of the nature of their jobs have a profound influence on increasing employee job satisfaction, with *financial compensation* having a very high or significant effect on overall employee satisfaction [Vroom, V.H. *Work and Motivation*; John Wiley and Sons: New York, NY, USA, 1964]. Other studies have analyzed job performance, satisfaction and resignation intentions, results from which show that low-performing employees leave their jobs for a variety of reasons [McNeilly, K.; Goldsmith, R.E. Moderate effects of gender and performance on job satisfaction and intent to go in the sales force. *J. Bus. Res.* 1991, vol 22, pages 219–232.].

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