THE RELATIONSHIP BETWEEN COMPENSATION FACTORS AND
JOB SATISFACTION OF EMPLOYEES

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Grade
Statement of Originality

The work described in this Final Year Project, entitled “The Relationship between Compensation Factors and Job Satisfaction of Employees” is to the best of the author’s knowledge that of the author except where due reference is made.

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15904
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ABSTRACT

RELATIONSHIP BETWEEN COMPENSATION FACTORS AND JOB SATISFACTION OF EMPLOYEES

Agnes Wong Su Su

The aim of conducting this study was to determine the level of job satisfaction among employees and the compensation factors contributing to the job satisfaction among employees employed in selected government sector in Sibu, Sarawak. A survey methodology using questionnaires with five-point likert scale was used in this study. A total of 60 respondents were selected from the population of 135 as a sample of this study. Data analyses involved were the descriptive statistics (frequency and percentage) and inferential statistics using Statistical Package for the Social Science (SPSS). Descriptive statistics were used to describe the respondents’ selected demographics characteristics and the level of job satisfaction. Inferential statistics such as Pearson Correlation Coefficient, T-test, Two-way ANOVA, and Simple Regression Analysis were used to analyze the data. Result showed that employees had a high level of job satisfaction. The Pearson Correlation Test showed that there was a significant relationship (p<0.01) between the compensation factors (base salary, allowances, interesting job duties, recognition) and employee’ job satisfaction. T-test was used to evaluate the significant difference between male and female in term of their job satisfaction. The finding indicates that the male and female respondents at the organization have no difference in their job satisfaction. The finding from the Two-way ANOVA test showed that there was no significant difference between the employees of various education levels in term of their job satisfaction. Besides, based on the result of Simple Regression Analysis, base salary is the most dominant factor contributing to the employees’ job satisfaction. Thus, the researcher suggests that advance actions can be taken to improve the four compensation factors in government sector in order to maintain job satisfaction among employees.
ABSTRAK

PERHUBUNGAN ANTARA FAKTOR-FAKTOR PAMPASAN DENGAN KEPUASAN KERJA DI KALANGAN KAKITANGAN

Agnes Wong Su Su


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CHAPTER 1
INTRODUCTION

1.0 Introduction

Job satisfaction area has been widely studied by many researchers. It is a determinant of organizational commitment which leads to employees’ turnover (Kovach, 1977). Nowadays, employer should not neglect the current issue of employees’ job satisfaction at a time when the demand of meaningful work is increasing. However, they may have little understanding of how to satisfy their employees.
Research results indicated the importance of job satisfaction to an organization in terms of its efficiency, productivity, absenteeism and turnover (Baron, 1986, Maghradi, 1999). Researchers found that the employees are more likely to work for their organizations if they are satisfied with their job than who do not find job satisfaction. Individual with high job satisfaction will show greater commitment on their job (Bishay, 1996). On the other hand, individual often creates negative attitude due to their lower satisfaction on job. As a result, higher levels of performance and productivity inhibited (Steinhaus and Perry, 1996).

Today compensation can be considered as one of the most important Human Resource tools that can contribute to employees’ job satisfaction. Most of the people are willing to work harder if the environment offers them compensation that make them feel satisfy. However, employers are not aware that without these compensation can lead to unsatisfied among employees. In order to maximize the level of satisfaction among employees, employer must develop strategic and engage in reward-based performance among employees in order increase one’s motivation and productivity.

1.1 Background of the Study

There has been focused on the subject of job satisfaction over last quarter century (Locke, 1976). Traditionally, the concept of job satisfaction is more emphasized with the problems of work in an industrial society (Spector, 1997). Prior studied have showed the job satisfaction has an effect on organizational commitment (Porter et al., 1974; Mottaz, 1987; Williams and Anderson, 1991; Vanderberg and Lance, 1992; Knoop, 1995; Young, Worchel and Woehr, 1998; Testa, 2001).
According to Locke (1976), “job satisfaction has been defined as a pleasurable emotional state resulting from the appraisal of one’s job.” Job satisfaction would describe how content and context an individual is with his or her job. Hygiene factors (extrinsic job satisfaction) that stated by the Herzberg et al (1959) is refer to the job context variable an individual with his or her job. It can be influenced by environment factors such as work environment, pay, and company policy that eliminate job dissatisfaction. While, motivator factors (intrinsic job satisfaction) also stated by the Herzberg et al (1959) which refer to job content variable an individual with his or her job that can create job satisfaction such as interesting job, recognition responsibility and achievement. Job satisfaction issues have been focused more intention in many research since every individual working is aimed towards fulfilling their needs and values (Egbule, 2003).

Contemporary, managers are paying more of their intention in improving their employees’ job satisfaction because job satisfaction can influence employees’ motivation, job involvement, organizational citizenship behaviour, organizational commitment, and job performance (Judge, et al., 2001; Spector, 1997). Redesigning the job can be done to improve employees’ job satisfaction (Spencer, 1986). Job enlargement and job enrichment are the two ways to redesign the job (Kelly, 1982). Job enlargement is a restructuring method in that the existing job is enlarged by adding one or more tasks. Whereas, job enrichment includes, inspecting own work and correct their own mistake (Kelly, 1982; Janson, 1971). Skill variety, task identity, task significance, autonomy, and feedback are five factors of job design that typically contribute to people’s enjoyment of a job. In order to attract, motivate, and retain talented people who will achieve high performance for the organization and job satisfaction for themselves, organization can develop strategic to redesign the job and other creative benefits.
Although numerous studied on job satisfaction are done previously, but the effect of compensation on job satisfaction is not consistent (Groot and Maassen van den Brink, 1999; 2000). Researchers did not found the significant relationship between compensation and job satisfaction in the early research. Surprisingly, their subsequent research shows that compensation has the effect on job satisfaction.

Job satisfaction is an ethical issue and need to be investigated. Thus, this research was conducted in one of the government sector in Sibu, Sarawak. Nowadays, government sector often receives complaints regarding their efficiency performance which in term of customer services, it is very unfriendly service compare with other private sector. Based on observation and survey that have been done, this government sector ever received complaints from customer regarding their unfriendly service among the staffs (Ling, personal communication, 2008). Moreover, the signal of not committed to their work can be observed through some groups of the staffs. For an example, some of the employees come late but go early during lunch break. These staffs have poor behavior and these problems are arising from the lack of job satisfaction in their job (Ling, personal communication, 2008). Hence, many organizations nowadays have placed great importance on the issue of their employees’ job satisfaction since it is associated to employees’ performance and organizational productivity.
1.2 Problem Statement

Job satisfaction is a vital area to study because it is associated to productivity, job performance and voluntary turnover. Most studied in the turnover literature has focused mainly on the effect of job satisfaction. Similarly, they always neglected the causes of job satisfaction whenever they come across the effect of dissatisfaction when organization faced with the problem of dissatisfaction (Crow, et al., 1995). Actually, organization should recognize what are the effective ways to satisfy their employees’ needs through tackling the root causes of job dissatisfaction.

Some studies are done previously, but it revealed the effect of compensation factors on job satisfaction is not consistent. For example, Chou, et al., (2002) study, non-financial benefit factors such as professional support has a significant effect on employees’ satisfaction. However, in Castel, Navarro and Torres (2005) study, professional support does not have any effects on employees’ job satisfaction.

One of the government sectors in Sibu, Sarawak often receives complaints from customer regarding their poor service among the staffs (Ling, personal communication, 2008). Besides that, the signal of not committed to their work can be observed through a small group of the staffs. This indicates that some of the staffs have poor behavior and these problems are arising from the lack of job satisfaction in their job (Ling, personal communication, 2008). Researcher concerns are why the services in government sectors are far poorer than private sector. Thus, it motivates researcher to investigate the internal and external factors that may influence the workers’ job satisfaction that lead to the difference in services performance. Upon that, researcher studies the compensation factors of the organizations that affect their job satisfaction. Consequently, this study is designed to answer these questions:

(a) How satisfied are the employees within organization with their job?
(b) What are the compensation factors that influence their job satisfaction?
1.3 Objective of the Study

General Objective
- To determine the level of job satisfaction among employees in the organization and the compensation factors that influence it.

Specific Objective
- To determine the level of job satisfaction among employees.
- To determine the relationship between base salary with employees’ job satisfaction.
- To determine the relationship between allowances with employees’ job satisfaction.
- To determine the relationship between interesting job duties with employees’ job satisfaction.
- To determine the relationship between recognition with employees’ job satisfaction.
- To determine the level of job satisfaction among employees based on gender.
- To determine the level of job satisfaction among employees based on education level.
- To determine the dominant compensation factor that affects employees’ job satisfaction.
1.4 Conceptual Framework

In this research, the independent variables represent the financial (base salary, allowances), non-financial (interesting job duties, recognition) compensation factors and demographic characteristics while the dependent variable would be the job satisfaction. This study investigates the impact of financial and non-financial compensation factors which are believed to be the major factors contributing to employees’ job satisfaction and the effects of demographic characteristics toward job satisfaction.

![Figure 1.1: Schematic Diagram of the Conceptual Framework](image-url)

**Independent Variables**
- Financial Compensation
  - Base salary
  - Allowances
- Non Financial Compensation
- Demographic characteristics:
  - Gender
  - Education level

**Dependent Variable**
- Job Satisfaction
1.5 Hypotheses

- Ho1: There is no significant relationship between base salary and employees’ job satisfaction.
- Ho2: There is no significant relationship between allowances and employees’ job satisfaction.
- Ho3: There is no significant relationship between interesting job duties and employees’ job satisfaction.
- Ho4: There is no significant relationship between recognition and employees’ job satisfaction.
- Ho5: There is no significant difference between male and female with their job satisfaction.
- Ho6: There is no significant difference between employees’ education level with their job satisfaction.
- Ho7: There is no significant dominant compensation factor that affects employees’ job satisfaction.

1.6 Significance of the Study

The conceptual framework proposed in this research suggests practical ideas to managers coping with the issues of maintaining job satisfaction. This study contributes to better understanding how the financial and non-financial compensation could affect employees’ job satisfaction. It allows managers to take appropriate action to improve organizational design and human resources management so meet employees’ satisfaction and fulfill their needs. When the satisfaction of the employees has been fulfilling, they can improve their productivity and performance. Moreover, it can also boost the morale of their employee and help to build a better image of the organization they worked. It has been shown that higher levels of job satisfaction in organization were experienced only when employees had a competitive
compensation system. Thus, with these findings, management can adjust or redesign the compensation’s policies and systems to achieve desired outcomes.

1.7 Definition of Terms

1.7.1 Financial Compensation

Operationally, direct financial compensation refers to the wages, salary, commissions and bonuses earned from labor. Whereas, indirect financial compensation often called benefits that employees receive such as life insurance, medical benefits, retirement programs, housing and car loans, vacations and pay leaves.

1.7.2 Base Salary

It refers to the fix amount of the wages received on a regular basis, usually weekly or monthly by the employee. It can be considered as the first earning income, excluding others bonus, allowances or commissions.

1.7.3 Allowances

Allowances consist of the indirect financial aid that received by the employees from their employer, such as travel allowance, car and housing allowances.
1.7.4 Non-financial Compensation

It does not involve tangible value and refers to the benefits or satisfaction that an employee gains from his job or task perform such as interesting job duties, job security, recognition, task enjoyment, safety environment, and feeling of achievement.

1.7.5 Interesting Job Duties

Interesting job duties means duties suit the interest of the employee that an employee really pays attention and shows his or her enjoyable in accomplishing the task because those. He or she would not feel the duties are boring to him or her. Besides that, the employees would feel satisfied with the duties because he or she can learn many things from doing every task.

1.7.6 Recognition

Recognition in this study refers to the act of appreciation for a successful achievement and contribution to the job or organization’s objectives. It is important to give the acknowledgment of achievement and service of the employees.

1.7.7 Gender

It refers to a sexual classification that the individual is either of the two main groups (male and female) into which living things are placed according to their reproductive functions.
1.7.8 Education level

It refers to the qualification of knowledge and learning possessed by a person.

1.7.9 Job Satisfaction

The term of ‘job satisfaction’ in this study means that an employee feels happy and pleasure with their job working conditions. This satisfied employee tends to be more productive, creative and committed to their employers.

1.8 Limitations of the Study

This research is restricted by the following factors:

(a) This study only focuses on the compensation factors to test the relationship with the job satisfaction. If there are additional variables being taken into consideration, the results of this study might be different.

(b) In addition, the difference in working condition and job environment might give different effect toward employees’ job satisfaction. Employees that work in different working environment may influence the findings of this study toward job satisfaction.
CHAPTER 2
LITERATURE REVIEW

2.0 Introduction

Element like phenomena of job satisfaction being studied, related theories and others studied which use to support the relationship between compensation factors and job satisfaction will be discussed in this study.