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RESEARCH ARTICLE

ROLE OF COMPENSATION IN MOTIVATING THE EMPLOYEES- A CONCEPTUAL STUDY

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ABSTRACT

Human Resource play a vital role in bringing about the process of production/business. Compensation is a major function in Human resource management that helps in maintaining a satisfied workforce. Effective administration of compensation makes the employees feel that they are a valued. This study investigates the effects of compensation and its components such as payment, promotion, recognition, working condition and benefit in motivating the employees. Various articles were taken initially and studied, out of which 30 articles were shortlisted to be reviewed for this study. These 30 articles were reviewed thoroughly to understand the discussions of the various authors about compensation and motivation. The learning of the article review process was used to form implications of the study and later the conclusion which indicates compensation as a crucial aspect of performance as it fuels the motivation of the employees

INTRODUCTION

Every action that we take is backed by a motivation to reach a particular goal. Such goals set by us ultimately define our very own life in the end. The quality of our life hence depends very much on our goals. Given the way how the world works, it is important to understand the philosophy in the context of our study. In the current situation across the world, where competition among various organizations across various fields have become extremely high due to technological advancements, globalization and political stability, it has become important to use resources more optimally to succeed better. One such resource is humans which is inevitable no matter how much automation is done. To maximize the juice out of the workforce, it has become necessary to give them back in return that they desire. This is called compensation. The main goal of an employee would be to earn more and to earn more; he climbs up the ladder by performing better. Given the goal of the employee is to maximize his earnings; he would work hard towards achieving it. But when he is denied of his reward even after performing the necessary, he would lose the motivation to do it again or proceed further. Hence it very much makes sense that compensation and employee performance levels totally depend on each other strongly affecting the performance of the whole organization at large.

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Review of Literature

Some of the conceptual understanding of the key terms of the study has been explored through the reviewing of various articles taken for the study. The essences of the understanding through the eyes of the authors of the reviewed articles have been laid down below.

Employee Performance: Mathis and Jackson (2000), states that the performance is what is done or not done by employees. Robbins (2006) found that employee performance is a function of the interaction between ability and motivation. Employee performance refers to one's achievement as measured by criteria established by the organization. Measurement of the performance of employees is affected by job performance, obedience, honesty, cooperation and initiatives (Elias, 2001).

Job Satisfaction: Job Satisfaction Human resource management experts and organizational behavior give definition or concept about job satisfaction with the expression of language and review from different perspectives but the meaning contained from the definition which they express at the same meaning that is job satisfaction is attitude and the general feeling from a worker to his work. Various definitions of job satisfaction are, among others, Gibson et al. (1996), job satisfaction is the attitude that individuals have about their work.

Compensation: One way to improve performance management, motivate and improve employee performance is through compensation (Mathis, 2000). Dessler (2010), states that the employee compensation refers to any form of payment or reward for employees and derived from their work. Veitzhal, Rival and Ella (2010) say that the compensation can be divided into two, the first direct compensation that is compensated directly perceived by the recipient, in the form of salaries, wages, incentives that are vested and it is the company's obligation to pay it. Second indirect compensation, compensation cannot be felt directly by employees, the benefits and services (support services). Benefits and services are additional compensation (financial or non-financial) provided by the company's policy to all employees in an effort to improve their welfare, such as holiday allowances, pensions, uniforms, sports and excursions.

Job Motivation: Jones and George (2008) state that motivation is the central management, for explaining how people behave and how they do work in the organization. Uno (2012) says that motivation is the impulse contained in a person to try to establish behavioral changes that better meet their needs. Dimensions of motivation by McClelland (1987) which, motivation is the emergence of behavior because it is influenced by the needs that exist in human beings. First, Need for achievement is the need to achieve success, as measured by the standard of excellence in a person. These needs, closely linked with employment and direct behavior in an attempt to achieve some degree. Second, the need for affiliation, the need for warmth and support in relationships with others. This needs to hold direct behavior in intimate relationships with others and third, need for power, the need for control and influence over others. This requirement causes the person concerned less or not care about other people's feelings. Various theories of motivation were also studied through the literature studies of the reviewed articles and condensed to the key highlights of each theory and given below.

The hierarchy of needs theory by Abraham Maslow: Motivation is the set of forces that initiate, directing and keep people in their efforts to achieve goals. Hierarchical Motivation Theory according to Maslow (Luthan, 2003), "Motivation is a process that starts from the needs of physiology and psychology that drive behavior or encouragement that leads to goals or incentives". Motivation includes 3 (three) interacting elements, namely: (1) Needs, needs to be created when there is physiological and psychological imbalance; (2) Encouragement, created to meet the needs; (3) Incentives, everything that can meet the needs and decrease encouragement. Maslow divides an important need for humanity into 5 (five) levels: (1) Physiological needs, is a basic need that humans need to survive. This need must be fulfilled before one wants to meet the above needs; (2) The need for safety (security), once the physiological needs are met then the need to protect oneself becomes the motivation of the next behavior. These needs include stability, freedom from fear and job security; (3) social needs (love and social needs) and once the needs of the body and security are met, new needs arise: ownership and belonging and the need to be accepted in social groups. Humans need others to relate and interact; (4) Needs of appreciation, after the three previous needs are met, there arises the need for rewards or the desire to excel; (5) Self-actualization, arises after all needs are met. It is a necessity to continue to grow and realize its full capacity and potential.

Achievement theory by David McClelland: Motivation by Ivancevich et al. (2008) in McClelland's theory of Achievement Theory, that motivation is a relationship with the concept of learning. He believes that many needs are derived from culture. Thus the key to understanding the process of motivation is interdependence on understanding and the relationship between needs, drives and incentives.

Expectancy theory by Victor Vroom: In the opinion of Kreitner and Kinicki (2009), by arguing that the Expectancy theory of Victor. H. Vroom, namely: Motivation boils down to the decision of how much effort to exert in a specific task situation. Motivation shortens the decision on how much effort is being made in a specific assignment situation. This Vroom Theory has the assumption that behavior derives from conscious choices among alternatives aimed at enlarging pleasure and minimizing suffering, at least 3 (three) different components, namely: (1) Direction, relates to what an individual chooses when he is confronted with a number of possible alternatives; (2) Intensity, refers to the strength of the response when the direction of motivation has been chosen; (3) Perseverance, referring to the length of time a person will continue to give their efforts. This theory argues that the high motivation of a person is determined by 3 (three) components, namely: (1) Expectancy, success in a task; (2) Instrumentality, namely the assessment of what will happen if successful in doing a task; (3) Valence (valance), i.e. response to outcomes such as positive feelings, neutral, or negative. High motivation if effort produces something that exceeds expectations, on the contrary motivation is low if the effort produces less than expected (Widodo, 2014).

Goal setting theory by Locke: Furthermore, the theory of goal setting of motivation by Williams is: Motivation is the set of forces that initiates, directs and makes people persist in their effort to accomplish a goal. Motivation is an effort in the form of initiative, directing and making people commitment in trying to achieve goals. From several definitions of concepts that have been expressed by experts, it can be synthesized that the motivation of work is a process of behavior in moving oneself starting from the fulfillment of physiology and psychology needs and the drive to meet certain needs or to achieve goals, with dimensions and indicators: (1) Needs; (a) Achievement, (b) Authority, (c) Affiliation; (2) Encouragement; (a) Achieving success, (b) Opportunities to grow, (3) Incentives; (a) Individually, (b) Together.

ERG motivation theory by Clayton Alderfer: This theory is an improvement of Maslow's hierarchy of needs (Wukir, 2013) according to this theory humans have 3 (three) levels of need, namely: E (Existence: existence), refers to the need for the existence of basic materials, such as shelter, healthy physical and psychological safety. In Maslow's hierarchy this need is a physical and security requirement; R (Relatedness: relevance), refers to the desire to have interpersonal relationships and social interactions similar to social needs and external components of the need for appreciation in Maslow's hierarchy; G (Growth: growth); refers to the desire to grow and develop its full potential. Usually this desire is met with the involvement of individuals within the organization. In Maslow's hierarchy, this need is similar to the intrinsic component of reward needs and self-actualization.

Theory of two factors by Fredrick Herzberg: According to Widodo (2014), this theory concerns the things that directly

and indirectly affect the motivation of work, that there are 2 (two) important factors that must be considered in encouraging the motivation of members, namely: (1) maintenance factor/hygienic; and motivator factors. Maintenance factors or hygienic is factors that cause dissatisfaction in the work and are extrinsic.

Theory X and theory Y by Douglas McGregor: Theory X and Theory Y according to McGregor in his book *The Human Side of Enterprise* (Wukir, 2013) states that people in an organization can be managed through 2 (two) ways, namely: (1) More negatives, which fall within category X and (2) More positive, which falls within category Y. Presents 2 (two) views of man, to the assumption held by the manager, namely: Theory X, there are 4 (four): (a) Employees are inherently embedded in their dislike of work; (b) Employees disliking their work to be monitored or threatened with punishment for achieving goals; (c) Employees will avoid responsibility; (d) Most employees put security above all work-related factors, while the Theory Y is 4 (four): (a) Employees may view cooperation as reasonably as rest and play; (b) People will exercise self-direction and self-supervision if they commit to the target; (c) The average person will accept responsibility; (d) The ability to make innovative decisions.

DISCUSSION

Motivation has been defined as the driving force which guides the human actions. According to Baron (1983), motivation is a combination of various processes that influence the human behavior, in order to achieve specific goals. Cascio (2003) assumes that motivation contains "those psychological processes that cause the arousal, direction and persistence of voluntary actions that are goal directed." Motivation depends on certain intrinsic, as well as, extrinsic factors which in collaboration results in fully committed employees. According to Dalal (2005), tangible incentives are effective in increasing performance for task not done before, to encourage "thinking smarter" and to support both quality and quantity to achieve goals. Incentives, rewards and recognitions are the prime factors that impact on employee motivation. Motivated employees are generally considered as a competitive advantage for any organization, as their performance enables an organization to achieve its goals in an effective and efficient manner. In the past few years, several researchers have argued that amongst the various 'resources' available to the organization, Human Resources are more vital as they can provide a company with a competitive edge over others. Armstrong and Brown (2001) commented that the commitment level of all employees working in an organization is dependent upon the business strategy of the organization, which should include a balanced reward and recognition system. Heath field (2004) has also presented the same argument i.e. the motivation and productivity level of employees can be enhanced by providing them with effective recognition system. Subsequently, the success of a modern organization is based upon how an organization maintains the motivation level of its employees and how effective is the performance evaluation system. Amongst the various challenges faced by modern organizations, meeting the goals and obligations take prime importance, hence the performance of employees has a crucial impact on overall organizational achievement. Demotivated staff members are unable to practice their skills, abilities, innovation and full commitment to the organization needs (Rizwan and Ali, 2010).

Apart from monetary gains, employees consider recognition and appreciation as a valuable feeling that boosts up their morale, ultimately increasing their productivity and commitment towards the organization. Subsequently, it becomes easier for organizations to retain motivated employees, thereby reducing extra costs associated with hiring. According to Colvin (1998), reward and recognition programs is an effective mechanism that keeps high spirits among employees, boosts up their morale and establishes a relationship between performance and motivation. Reward and Recognition systems, if transparent can induce feelings of ownership in the employees towards their organization, in general and their tasks/responsibilities in particular. An established fact present in many research studies is that rewards are linked to performance which ultimately leads to job satisfaction. Employees feel motivated, when their needs are met. Level of motivation amongst employees increased, when employees get increase in recognition, appreciation and pay (Stajkovic and Luthans, 2003).

Motivation levels are also dependent upon the organizational environment, culture and relationships between the employees and their supervisors. Employees' relation with employees and with supervisor is a key ingredient of the inner strength of the organization (Bandiera, Barankay, Rasul, 2007). Rewards enhance the motivation level of employees, whether they are given for the first time or are given on a regular basis. As far as organizations, with a long term perspective are concerned, they cannot afford to lower the morale of their employees, as it can have a direct negative impact on productivity levels. Jamil and Raja (2011) concluded in their study that intrinsic (internal) motivation generally leads to creativity and has a long term impact on the employee, whereas the extrinsic (external) motivation is often short lived. In Management Sciences, the term 'Compensation' is one of the most comprehensively researched term. There are contrasting views about the term, due to which the researchers generally do not agree upon a uniform definition. According to Milkovich and Newman (1999), there are at least four different views about compensation i.e. society views compensation as a measure of justice and that it enables employees to understand that they are being rewarded for their efforts. Stockholders consider compensation as a tool that creates a sense of ownership amongst employees and they link high executive salaries with high return on investments. Managers, on the other hand view compensation as an expense, which can be used to 'influence' the behavior of employees. For employees, compensation is a major source of financial security and an entitlement for being an employee of the company. Thus, compensation can be referred to "...all forms of financial returns and tangible services and benefits employee receive as part of an employment relationship" (Dessler, 2004). According to Decenzo et al. (1999), compensation is related with every type of reward that employees receive in exchange of performing a job. Armstrong and Murlis (2005) argues that compensation is not a gift, but a 'pay' or a 'reward' that an employee receives during employment. According to Belcher (1997), compensation influences the motivation level of employees. Performance based compensation systems are regarded as one of the effective tool, for achieving organizational goals and objectives (Andrews and Henry, 1963). In order to attract and retain the competent workforce, like other organizations, universities also offer competitive level of compensation to their faculty and recognize their achievements (Sial et al., 2011).

Such employee friendly policies in universities enhance job satisfaction amongst faculty members and improve academic quality (Comm and Mathaisel, 2003). Armstrong and Brown (2001) have defined compensation as “an adequate and equitable remuneration for employees due to their contributions in achieving organizational objectives”. Navita et al. (2004) has also focused on establishing a linkage between compensation policies and employee motivation and that it helps in improving overall organizational effectiveness. Compensation practices generally vary from organization to organization, depending upon a number of macro and micro environment factors. Organizations, including universities design their compensation packages based upon factors such as length of employment, employment type, research and academic contributions etc. Even the retirement benefits are dependent upon age and years of service in the institution. Several research studies in this domain (Heathfield, 2011; Zingheim and Schuster, 2008; Navita et al., 2010) have included bonuses, overtime payments, profit sharing, recognition and appreciation awards, commissions, health and medical benefits, company- paid cars, fuel cards, house rents and other non-monetary but taxable income items as part of a comprehensive compensation package.

Implications

The ranked importance of motivational factors of employees at the organizations provides useful information for the director and employees. Knowing how to use this information in motivating organizations' employees is complex. The strategy for motivating organizations' employees depends on which motivation theories are used as a reference point. If Herzberg's theory is followed, management should begin by focusing on pay and job security (hygiene factors) before focusing on interesting work and full appreciation of work done (motivator factors). If Adams' equity theory is followed, management should begin by focusing on areas where there may be perceived inequities (pay and full appreciation of work done) before focusing on interesting work and job security. If Vroom's theory is followed, management should begin by focusing on rewarding (pay and interesting work) employee effort in achieving organizational goals and objectives.

Regardless of which theory is followed, interesting work and employee pay appear to be important links to higher motivation of organizations' employees. Options such as job enlargement, job enrichment, promotions, internal and external stipends, monetary, and non- monetary compensation should be considered. Job enlargement can be used (by managers) to make work more interesting (for employees) by increasing the number and variety of activities performed. Job enrichment can be used to make work more interesting and increase pay by adding higher level responsibilities to a job and providing monetary compensation (raise or stipend) to employees for accepting this responsibility. These are just two examples of an infinite number of methods to increase motivation of employees at the organizations. The key to motivating organizations' employees is to know what motivates them and designing a motivation program based on those needs. The results presented in this paper also have implications for the corporate System. The effectiveness of Extension is dependent upon the motivation of its employees (Chesney, 1992; Buford, 1990; Smith, 1990). Knowing what motivates employees and incorporating this knowledge into the reward system will help Extension identify, recruit, employ, train, and retain a

productive workforce. Motivating Extension employees requires both managers and employees working together (Buford, 1993). Extension employees must be willing to let managers know what motivates them, and managers must be willing to design reward systems that motivate employees. If properly designed reward systems are not implemented, however, employees will not be motivated.

Conclusion

Based on the results of paper reviews of previous research and discussion that have been described in the previous chapters and with reference to some theories, it can be concluded as follows:

- Compensation has a positive and significant effect on work motivation. This means that if the compensation received is higher than the employee's motivation will be better in carrying out the tasks assigned.
- Compensation has a positive and significant effect on job satisfaction. This means that if the compensation received is better or higher then it will increase employee job satisfaction.
- The Motivation of work has a positive and significant impact on job satisfaction. This means that if the motivation of work increases it will increase employee job satisfaction.
- Compensation has a positive and significant effect on employee performance. This means that if the compensation received is higher than the employee's performance will be better.
- Job satisfaction has a positive and significant impact on employee performance. This means that if employee job satisfaction increases then employee performance will be better.

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