

Compensation Management as a Determinant of Job Satisfaction

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ABSTRACT

The aim of this research is to assess the relationship between compensation management and job satisfaction. A survey method was employed to gather self-report questionnaires from employees at one of the public sector agencies in Malaysia. The data were arranged and analysed using SPSS program. The results of linear regression analysis shows three important findings: first, communication was significantly correlated with job satisfaction. Second, involvement was significantly correlated with job satisfaction. Finally, performance appraisal was significantly correlated with job satisfaction. These result shows that the ability of management to appropriately implement communication, involvement and performance appraisal in managing compensation programs may act as important predictors of job satisfaction in the studied organization. The findings of this research could be used by researchers to strengthen the existing theory in the area of compensation management, the employers to enhance their existing compensation models, the practitioners to effectively plan and administer a suitable compensation programs which helps to improve the organizational competitiveness and performance.

Keywords: Compensation management, job satisfaction, linear regression analysis, Malaysia

INTRODUCTION

In a recent economic situation, many small-medium and domestic organizations have been transformed to become global and international organizations. This transformation has motivated them to enhance the organizations competitiveness, performance and sustainability through compensation management system. They have chosen compensation system as an important vehicle to attract, retain and motivate employees to reach the predetermined strategies and goals. From organizational behaviour perspective, compensation is known as salary and wage, remuneration, reward and/or pay scheme (Aimi et al., 2014; Newman et al., 2017), which often viewed as a crucial human resource management function. It covers two major types of compensation: financial compensation and non-financial compensation. These types of compensation are provided by employers as recognitions for their employee's services, efforts and/or contributions (Martocchio, 2016; Newman et. al., 2017). Recognizing the importance of compensation to the continuity of organization's operation, most organizations design compensation systems based on two major variables: internal alignment (e.g., corporate strategy, management philosophy, types of job and level of productivity) and external competitiveness (e.g., economic compressions, government policies and procedures) (Martocchio, 2014; Newman et al., 2017). These variables have been used by employers to plan and implement two essential compensation schemes: pay for job (e.g., tenure, length of service and/or seniority) and pay for performance (e.g., merit pay, variable pay, incentive and/or profit sharing). By doing this, they believe that the capability of administrators of human resource management function to appropriately implement pay for job and pay for performance may strongly motivate employees to improve organizational competitiveness and performance in a global economy condition.

Reflecting of this global movement, a large growing body of strategic human resource management literatures published in the 21st century has recognized the importance of compensation system in achieving organization's goals. Many studies claimed that the effective compensation management will encourage employees to become more productive in producing a better product or service quality. As a result, this situation may boost the organizational productivity and competitiveness levels (Milgo *et al.*, 2014; Ismail & Siti, 2015). For examples, a study conducted by Takao and Naomi (2017) revealed that the awareness of Japanese organizations about the

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importance of good compensation management has increased by 30% since 2000. Most importantly, the study found that the implementation of good compensation management has successfully increased employee's productivity between 26% to 30%. Supporting this point, the research conducted by PayScale (2017) on the Compensation Best Practices Report 2017 reported that from 54 million respondents throughout the world, 57% organizations believed that compensation management is important to their employees, 25% organizations are planning to change their compensation strategy to accommodate millennials, 51% organizations pay differently for competitive jobs and 49% organizations moving for pay transparency (i.e., sharing more about compensation policy, procedure and practices with their employees).

Consistent with that, the recent research on human resource management reminds that a well-designed compensation systems will not achieve the organization's goals if management does not able to appropriately manage the compensation systems (Pacheco & Webber, 2016; Newman *et al.*, 2017). Regarding this, some of them highlight that the effective compensation management normally focuses on three major dimensions: communication, involvement and performance appraisal (Azman *et al.*, 2011; Mahdiah Darehzereshki, 2013; Tariq, 2013; Siti Salwa *et al.*, 2015; Newman *et al.*, 2017). Rather than independent dimension, some scholars view these dimensions have different meanings, but interconnected. The first dimension, communication. In a compensation management viewpoint, communication is frequently executed in two major types: communication from employees to the organization and communication from the organization to employees (Colquitt *et al.*, 2013; Siti Salwa *et al.*, 2015). In practice, communication from employees to the organization is recognized when employees deliver and share broad information, feedback and suggestions to organization (Henderson, 2009; Newman *et al.*, 2017). In a meanwhile, communication from the organization to employees is usually refers to the extent of compensation information were circulated by the organization in order to improve employees understanding about the value of compensation, compensation policy and its detail procedures (Henderson, 2009; Martocchio, 2014). If this communication is openly and honestly practiced within the organization, it will reveal the importance of the compensation package quantitatively and qualitatively. This will also encourage the employer to provide the correct information about compensation and performance relationship, allow the employees to voice out their idea in the compensation system as well as increase the employee's ability to understand organization's compensation system. As a result, the two way communication can enhance the credibility of compensation systems implemented by the organizations (Ismail *et al.*, 2014; Milkovich *et al.*, 2014; Salim *et al.*, 2015).

Secondly, the involvement. The involvement in compensation management system is commonly described as employees participation in the process of making decisions particularly regarding the establishment and the detail operation of compensation systems (Aimi *et al.*, 2014; Siti Salwa *et al.*, 2015; Newman *et al.*, 2017). This is to help the organization to achieve the main objectives of compensation systems, stakeholder's aspirations and/or organization's strategies and goals. Such involvement in compensation systems will strongly motivate employees to become more honest in sharing individual perceptions and uphold the organization's compensation management package (Colquitt *et al.*, 2013; Aimi *et al.*, 2014). Thirdly, the dimension of performance appraisal. This dimension is often related to assessment methods used by management to determine performance ratings. The performance ratings will be used by the administrators in human resources department to recommend the appropriate type, level and/or amount of pay for employees who have achieved job targets and/or high performing employees (Azman *et al.*, 2011; Mahdiah Darehzereshki, 2013). If administrators are able to sufficiently allocate compensation according to the actual performance of the employee, this process will strongly stimulate the employee to support the organizational compensation goals (Milkovich *et al.*, 2014).

Although many studies emphasized that the role of compensation management as an important predictor for job satisfaction, the research found that this issue is insufficiently discussed in the compensation management research literature (Tariq, 2013; Pacheco & Webber, 2016). Most of them argued that this situation occurred due to several reasons. First, previous studies has largely discussed on the characteristics of the compensation management in general. Second, they have employed a simple relationship model to analyze the correlation between certain features of the compensation management and general individual attitudes and behavior. Third, some studies ignored to measure the effect size of compensation management towards specific individual attitudes and behavior. As a result, these studies had failed to provide satisfactory outcomes and did not offer much help to practitioners in understanding the complexity of compensation management, and formulating affirmative actions in order to enhance organizational competitiveness and performance especially in the era of globalization, where the competition among the organizations within the same industry become more tough than before (Anuar *et al.*, 2014; Ismail *et al.*, 2014). Inspiring by that limitations, this research will further discover the nature of job satisfaction by focusing its relationship with three important independent variable. First, to assess the relationship between communication and job satisfaction. Second, to assess the relationship between involvement and job satisfaction, and finally to assess the relationship between performance appraisal and job satisfaction.

This paper is structured as follows: the next section provides the reader the insights from literature. Thereafter, the research methodology employed are presented, followed by a discussion about the research findings. The paper ends with a conclusion along with the study limitations and suggestions for future research.

REVIEW OF LITERATURE

Prior studies claimed that the capability of management to appropriately implement communication openness, willingness to encourage employees involvement and fairly implement performance appraisal in managing compensation systems may have a significant impact on employee outcomes, especially job satisfaction (McClausland *et al.*, 2005; Azman *et al.*, 2014). From organizational behavior viewpoint, job satisfaction is often evaluated from cognitive and/or affective. This perspective indicate that pleasurable emotions and/or positive attitudes of employees resulting from the process of their work's evaluation may enhance the notion of job satisfaction (Colquitt *et al.*, 2013, Azman *et al.*, 2014). Therefore, Bednarska & Szczyt (2015) argued that job satisfaction plays an important role in fostering many work-related values such as productivity, job performance, turnover and absenteeism.

The role of compensation management as an important predictor of job satisfaction is consistent with the idea of organizational behavior theory. For example, Vroom's (1964) expectancy theory explainsthatemployees will behave incertain ways if he/she understands the value of outcomes. If employees clearly understand the policies, procedures and compensation packages implemented by the organization, these will motivate them to demonstrate positive behaviors. Besides expectancy theory, Lawler's (1971) discrepancy theory posits that employees usually make a comparison between the amount of compensation that they receive with others (e.g., effort and/or contribution). If they find that the actual compensations that they receive are equally allocated based on their actual performance and expectations, this situation will inspire them to show positive behavior in fulfilling their duty in future. In a similar vein, Folger and Cropanzano's (1998) procedural justice theory suggest that receiving adequate information about reward distribution procedures may strongly evoke positive behavior to a employees. If employees feel that the method of compensation allocation implemented by organization is fair then they will further support the strategies and objectives of the organization's compensation system. This situation in turn will increase the feelings of satisfaction among employees in that organization. Based on the recommendations from these theories, it can be concluded that organization's capability to effectively manage compensation systems will affect employee's behavior positively. The main idea of these theories was subsequently supported by several research compensation's literature.

The idea of the above theories was subsequently supported by many recent literatures on compensation management. Numerous of them examine the compensation management system using a direct effects model at various organizational settings covering developed to less developed countries and public sector to private sector environments. For example, the surveys about perceptions of 20,000 employees in manufacturing companies in Singapore and China (Tariq, 2013), 22,547 employees in European countries (Pacheco & Webber, 2016), 331 employees in private higher education organizations in Malaysia (Aimi *et al.*, 2014), 133 employees at multinational companies in Malaysia (Mahdieh Darehzereshki, 2013), and 50 employees at a district council in Malaysia (Azman *et al.*, 2014). Although at different settings, most of them shared the similar outcomes. Some of them reported that the capability of management to openly communicate the information about pay systems will significantly influence the job satisfaction. In particular, they found that the organizations were trying to achieve that through an active discussions, clarifications and negotiations between the employee and employer. Similarly, some others highlighted that the active involvement of employees in making pay decisions (e.g. by providing suggestion and feedback) could lead to higher job satisfaction. Besides that, many claims that the appropriate use of performance appraisal systems in determining pays according to employee's performance had been important predictors of job satisfaction in the respective organizations (Maddeh Darehzereshki, 2013; Tariq, 2013; Aimi *et al.*, 2014; Azman *et al.*, 2014; Pacheco & Webber, 2016).

From the above discussion, the study hypothesized that:

- H1: Communication was positively correlated with job satisfaction.
- H2: Involvement was positively correlated with job satisfaction.
- H3: Performance appraisal was positively correlated with job satisfaction.

RESEARCH METHODOLOGY

In gaining the data for the above-mentioned three hypotheses, the research employed a cross-sectional research approach. According to Sekaran & Bougie (2013), this approach will allow the researchers to incorporate the compensation literature, the semi-structured interview and the real survey altogether as a main procedure of gathering the data for this research. Elaborating this point, Creswell (2014) claimed that by utilising the cross-sectional approach it will assist the researcher to collect precise data, reduce bias and enhance the value of the data. Consistent with that, the cross-sectional research approach was performed by this study by focussing at one of the Malaysian public sector agencies. This agency were chosen for a detailed investigation because it is one of the Malaysian public organizations in which the research within this context are still limited to date.

At the initial stage of this research, the survey questionnaire was drafted based on the literature review. Second, the semi-structured interview was conducted with four officials who had working experience of more than 10 years in the organizations. The interview was conducted in order to assist the researcher to obtain background information about the nature and features of compensation management system, as well as its relationship with job satisfaction and other potential variables in the organization. In this process, each interview were conducted at the convenience time of the informants. During the interview session, the informants had the opportunity to stop and continue the session according to their willingness. Based on the recorded interview, the researchers transcribed and began the initial analysis of data even after the first interview by building the categories and themes before the next interview session start. Transcription of each interview session were reviewed and examined for several times and not less than twice to ensure the consistencies and all of the important information has been taken into account. Next, the researcher triangulate the data gathered through the interview with the related literature. The information were constantly compared in order to obtain a clear understanding of the particular phenomena under study and put the research results in a proper context. The results of the triangulated process were used as a guideline to develop the content and format of survey questionnaires for an actual study. According to Denzin and Lincoln (2005), triangulation method is another technique used to establish dependability in the study and involves the use of a variety of sources to provide a deep understanding of the events and the research process. In applying such technique in this study, the interviewed information was used to improve the format and content of survey questionnaire for an actual study. In other words, the researcher used the results gained from the interviews as a basis to develop another finding through survey questionnaire. The data collected in this process were continued until the research achieve saturation point of information.

Subsequent to interview sessions, the survey questionnaires were distributed among 400 employees at the headquarters of the organizations. A purposive sampling was utilized to distribute the survey questionnaires to all employees in different divisions/departments through the administration office of the organization. This sampling technique was chosen because the management of the organizations was unable to provide the record of their employees for confidentiality reasons. This circumstances did not allow the researchers to apply a random sampling method in selecting respondents for this research. After one month of distributing the survey questionnaires, the administrative office of the organizations had returned 179 (44.75 percent of the total number) useable survey questionnaires to the researchers. In this case, the respondents answered the survey questionnaires based on their consent and a voluntary basis.

The survey questionnaire used in this research consisted of four main parts (see **Appendix A**). First, the communication dimension consisted 7 questions listed in Section 2A, which improvised the variable highlighted by the three prior literature on performance based compensation management (Sharon Kaur & Garib Singh, 2009; Aimi *et al.*, 2014; Newman *et al.*, 2017). For the second part, it is focussing on the involvement dimension which comprised of 5 items introduced by Brown *et al.* (2010), Azman *et al.*, (2011) and Newman *et al.* (2017), which listed in Section 2B. In a third part, the 5 items as listed in Section 2C relating to performance appraisal had been asked to the respondents. These questions are based on the findings highlighted in the research conducted by Azman *et al.*, (2011) and Newman *et al.*, (2017). Finally, the part examining the job satisfaction in Section 3, covering both the extrinsic and intrinsic satisfaction. For extrinsic satisfaction, 3 questions were asked and for the intrinsic satisfaction, 5 related questions in this section. The questions in this part were adopted from the study by Warr, Cook and Wall's (1979) on job satisfaction scale. All items were rated using a 7-item scale ranging from "strongly disagree/dissatisfied" (1) to "strongly agree/satisfied" (7). Demographic variables were utilized as controlling variables because their roles of predicting variables in the research model were not supported by the compensation management research literature.

In analyzing the data gathered from the survey questionnaire, this research utilized the Statistical Package for Social Science (SPSS) version 23.0. The process involved in this approach involve three main steps. As a first step, the research implements exploratory factor analysis to evaluate the validity and reliability of instrument (Hair *et al.*, 1998). In a second step, Pearson correlation analysis and descriptive statistics were performed to verify the collinearity problems and assess levels of all constructs used in this research (Tabachnick *et al.*, 2001; Yaacob, 2008). Finally, linear regression analysis was used to investigate the significant relationships between the independent variables (communication, involvement and performance appraisal), and dependent variable (job satisfaction) based on beta standardized value (β) and significant level ($p < 0.05$; $p < 0.01$; $p < 0.001$). As suggested by Cohen (1988), R^2 values for exogenous latent variables are assessed as based on the baselines: 0.26 (substantial effect), 0.13 (moderate effect), 0.02 (weak effect).

In order to ensure the data of this study is reliable and possess trustworthiness, the researchers has considered four main aspects of validity, which covers credibility, transferability, dependability and conformability. Throughout the data collection and analysis process, the researchers compares between the description and explanation, and whether or not these explanations fit perfectly to the description. This is aligned with the suggestion made earlier by Janesick (2000). In addition, Guba and Lincoln (1994) and Creswell (2014) has recommended that the validity and reliability can be assured through the use of audit trail, member checks and peer examination. For this purpose, the interview sessions and the questionnaires answers in this study have been assessed in depth and ensured whether the findings are accurate from the standpoint of the researchers and respondents. Besides that, the researchers examined every step, from the early stages, the preparation of proposal, construction of interview protocol and questions, data collection as well as the process of analyzing data. In order to confirm the data interpretation, the informants of the study were contacted for clarification of the facts that they had provided. At the same time, the researchers also seek feedbacks and consultation from a specialist for peer examination technique.

FINDINGS

Respondents Profile

Based on the data gathered, the research summarised the respondents profile in **Appendix B**. As indicated in **Appendix B**, the majority of respondents were female (65.4%), age between 25 to 34 years old (62.6%), employees who held diploma (41.3%), clerical and support staff (57.5%), working experiences between 5 to 14 years (63.1%), monthly gross salary between Malaysian Ringgit RM2500 to 3999 (45.8%), monthly household expenses between Malaysian Ringgit RM1000 to 2499 (42.5%) and married (69.3%).

Validity and Reliability of Instrument

As highlighted earlier, the research focus on three independent variables using exploratory factor analysis. **Table 1** below shows the results of this analysis. Consistent with that, the survey questionnaires consisted of 25 items, which associated to three independent variables and one dependent variable: communication (7 items), involvement (5 items), performance appraisal (5 items) and job satisfaction (8 items). The factor analysis with the varimax rotation was done for all variables. The outcomes of factor analysis and Kaiser-Meyer-Olkin tests displayed that: first, the values of Kaiser-Meyer-Olkin for all variables were greater than 0.6, and were significant in Bartlett's test of sphericity. This result indicates that all variables meet the standards of sample adequacy (Hair *et al.*, 1998). Second, the items for each variable had factor loadings more than 0.40, and all variables had eigenvalues larger than 1. This result indicates that all items which representing each variable and all variables meet the standards of validity analysis (Hair *et al.*, 1998). Third, the values of Cronbach alpha for all variables were greater than 0.70, indicating that all variables had high internal reliability (Nunnally & Bernstein, 1994). These statistical outcome display that the instrument used in this study meet the criteria of validity and reliability analyses.

Descriptive Statistics and Pearson Correlation Analysis

In verifying the collinearity problems and assess the levels of all constructs used in this research, the study perform the Pearson correlation analysis and descriptive statistics. The outcome of this test is display in **Table 2**. As shown in **Table 2**, means for the variables ranged from 4.2 to 5.1, indicating that the levels of communication, involvement and performance appraisal ranging from high (4) to highest (7). The correlation coefficients for the relationship between the independent variable (i.e., communication, involvement and performance appraisal) and the dependent variable (i.e., job satisfaction) were less than 0.90, signifying the data were not influenced by

serious collinearity problem. This interpretation is consistent with Hair *et al.*'s (1998) guideline. This result further proves that the instrument has met the criteria of validity and reliability analyses.

Table 1: Validity and Reliability of Instrument

| Construct | Item | Factor Loadings | KMO | Bartlett's Test of Sphericity | Eigenvalue | Variance Explained | Cronbach's Alpha |
|-----------------------|------|-----------------|-------|-------------------------------|------------|--------------------|------------------|
| Communication | 7 | 0.566 to 0.959 | 0.776 | 1045.338 | 4.790 | 59.876 | 0.882 |
| Involvement | 5 | 0.669 to 0.865 | 0.839 | 656.932 | 3.646 | 72.912 | 0.899 |
| Performance appraisal | 5 | 0.576 to 0.801 | 0.856 | 522.610 | 3.508 | 70.164 | 0.886 |
| Job satisfaction | 8 | 0.569 to 0.927 | 0.827 | 555.879 | 3.543 | 70.862 | 0.896 |

Table 2: Descriptive Statistics and Pearson Correlation Analysis

| Variables | Mean | Standard Deviation | Pearson Correlation (r) | | | |
|--------------------------|------|--------------------|-------------------------|--------|--------|-----|
| | | | 1 | 2 | 3 | 4 |
| 1. Communication | 5.0 | .79 | (1) | | | |
| 2. Involvement | 4.2 | 1.11 | .405** | (1) | | |
| 3. Performance Appraisal | 4.9 | .90 | .478** | .516** | (1) | |
| 4. Job Satisfaction | 5.1 | .85 | .405** | .561** | .652** | (1) |

Note: Correlation Value is significant at * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$
Reliability estimation is shown in a diagonal (value 1)

Results of Testing Hypotheses 1, 2 and 3

In a final stage of analysis, the research performed linear regression analysis to investigate the significant relationships between the independent variables and dependent variable. **Tables 3, 4 and 5** show the outcomes of testing research hypotheses using a linear regression analysis in Step 2 of the tables. For the first hypothesis, the research found that the communication was significantly correlated with job satisfaction (See **Table 3**: $\beta = 0.381$; $p < 0.001$), therefore H1 was supported. For the second hypothesis, the result shows that the employee's involvement was significantly correlated with job satisfaction (see **Table 4**: $\beta = 0.547$; $p < 0.001$), therefore H2 was supported. Regarding the third hypothesis, the performance appraisal was significantly correlated with job satisfaction (see **Table 5**: $\beta = 0.643$; $p < 0.001$), therefore H3 was supported. In terms of explanatory power, **Table 4** shows the contribution of communication in enhancing job satisfaction was 29 percent, indicating that it provides a substantial effect. Meanwhile, the result summarized in **Table 5** shows that the contribution of involvement in enhancing job satisfaction was 43 percent. This indicate that it provides a substantial effect. **Table 6** shows the contribution of performance appraisal in enhancing job satisfaction was 45 percent, indicating that it provides a substantial effect. Although these variables have different amounts of effect, the results of testing the research hypotheses confirm that compensation management able to act as effective predictors of job satisfaction in the studied organizations.

As an extension of the testing the research hypothesis in **Table 3**, the value of variance inflation factor for the relationship between communication and job satisfaction was 1.092. This value was less than 10.0, indicating that the relationship was not affected by a collinearity problem (Hair *et al.*, 1998).

Table 3: Linear Regression Analysis Results Showing the Relationship between Communication and Job Satisfaction

| Variables | Dependent Variable (Job Satisfaction) | |
|---|---------------------------------------|-----------------|
| | Step 1 | Step 2 |
| <u>Control Variables</u> | | |
| Sex | -.189** | -.168 |
| Age | -.207 | -.190* |
| Education | -.003 | -.089 |
| Position | .427*** | .306 |
| Length of service | .150 | .157 |
| Income | .273** | .195* |
| Expenses | -.128 | -.067 |
| Marital Status | .037 | .020 |
| <u>Independent Variables</u> Communication | | 0.381*** |
| <i>R Square</i> | 0.160 | 0.293 |
| Adjusted R Square | 0.120 | 0.255 |
| R Square Change | 0.160 | 0.133 |
| F | 4.042*** | 7.7779*** |
| F Δ R Square | 31.815*** | 31.815*** |

Note: *p<0.05, **<0.01, ***p<0.001 β = Standardized Beta

Table 4: Linear Regression Analysis Results Showing the Relationship between Involvement and Job Satisfaction

| Variables | Dependent Variable (Job Satisfaction) | |
|---|---------------------------------------|-----------------|
| | Step 1 | Step 2 |
| <u>Control Variables</u> | | |
| Sex | -.189** | -.111 |
| Age | -.207* | -.291*** |
| Education | -.003 | -.069 |
| Position | .427*** | .287*** |
| Length of service | .150 | .171** |
| Income | .273** | .305*** |
| Expenses | -.128 | -.114 |
| Marital Status | .037 | .020 |
| <u>Independent Variables</u> Involvement | | 0.547*** |
| <i>R Square</i> | 0.160 | 0.431 |
| Adjusted R Square | 0.120 | 0.401 |
| R square change | 0.160 | 0.271 |
| F | 4.042*** | 14.225*** |
| F Δ R Square | 4.042*** | 80.560*** |

Note: *p<0.05, **<0.01, ***p<0.001 β = Standardized Beta

As an extension of the testing the research hypothesis in **Table 4**, the value of variance inflation factor for the relationship between involvement and job satisfaction was 1.104. This value was less than 10.0, indicating that the relationship was not affected by a collinearity problem (Hair *et al.*, 1998).

Table 5: Linear Regression Analysis Results Showing the Relationship between Performance Appraisal and Job Satisfaction

| Variables | Dependent Variable (Job Satisfaction) | |
|------------------------------|---------------------------------------|-----------------|
| | Step 1 | Step 2 |
| <u>Control Variables</u> | | |
| Sex | -.189** | -.189** |
| Age | -.207* | -.207* |
| Education | -.003 | -.003 |
| Position | .427*** | .427*** |
| Length of service | .150 | .150 |
| Income | .273** | .273** |
| Expenses | -.128 | -.128 |
| Marital Status | .037 | .037 |
| <u>Independent Variables</u> | | 0.643*** |
| Performance Appraisal | | |
| <i>R Square</i> | 0.160 | 0.453 |
| Adjusted R Square | 0.120 | 0.424 |
| R Square Change | 0.160 | 0.294 |
| F | 4.042*** | 15.580*** |
| F Δ R Square | 4.042*** | 90.731*** |

Note: * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$ β = Standardized Beta

As an extension of the testing the research hypothesis in **Table 5**, the value of variance inflation factor for the interactions between performance appraisal and job satisfaction was 1.409. This value was less than 10.0, indicating that the relationship was not affected by a collinearity problem (Hair *et al.*, 1998).

DISCUSSION AND IMPLICATIONS

Based on the findings reported above, this research indicate that the communication, involvement and performance appraisal are important predictors of job satisfaction. The management of this organisation has taken proactive actions in planning and implementing compensation systems according to broad policies and procedures as set up by the stakeholders. Most respondents view that the levels of communication, involvement, performance appraisal and job satisfaction as high. This situation explains that the ability of managers to openly and honestly communicate about compensation system, willingness of manager to encourage employees involvement in compensation decision making activity (i.e., design and administration compensation system) and the ability of manager to conduct fairly performance appraisal, as well as use the outcomes from performance appraisal to determine employees compensation may lead to higher job satisfaction in the organization.

This research provides two important implications: theoretical contribution and practical contribution. In terms of theoretical contribution, the data of this research has highlight that communication, involvement and performance appraisal are important predictors of job satisfaction in the organizations. This finding is consistent with the notion of Vroom's (1964) expectancy theory, Lawler's (1971) discrepancy theory and Folger & Cropanzano's (1998), which reveals the capability of management to appropriately implement communication, involvement and performance appraisal systems in handling compensation systems may lead to greater job satisfaction in organizations (Boardman & Sunquist, 2009; Azman *et al.*, 2011, 2014; Mahdieh Dareehzereshki, 2013).

In terms of practical contribution, the outcomes of this research can be utilized to improve the management of compensation systems in public organizations particularly in Malaysia. This objective can be achieved if management considers the following aspects: first, the type, level and/or amount of compensation packages should be revisited according to present demands and challenges of job structure. This effort will help employees to receive adequate pays and this may retain and motivate them to perform better and achieve job targets, as well as fulfil key performance indicators (Martin & Ottemann, 2015; Shin, 2016). Second, the type, level and/or amount of compensation packages based on performance should be revised according to current organizational expectations and needs. This change will enhance high performers' feelings of recognitions and this feeling may motivate them to achieve the organizational goals (Gomez-Mejia, Berrone & Franco-Santos, 2014; Azman, Ismail, Zalina, Leng & Kiong, 2016). Third, relationship based training such as mentoring, coaching and counselling should be promoted to management employees because they can enhance the capability of management employees to appropriately deliver accurate and honest pay information, handle diverse employees' complaints and demands, and facilitate employees to enhance their job performances (Mone & London, 2014; Van, Mathafena & Ras, 2017). Finally, performance appraisal systems should be used as a developmental tool where management can use performance ratings to improve employees' weaknesses in doing daily job, recommend alternatives in enhancing employees' future careers, and determine suitable training programs to inspire employees using their intellectuals in performing daily tasks (Martocchio, 2016; Newman *et al.*, 2017). These suggestions should be given more attention as this could strongly motivate employees to support the organizational compensation strategies and goals.

CONCLUSION

This research used a conceptual framework developed by prior scholars on the workplace compensation system (Maddeh Darezhereshki, 2013; Tariq, 2013; Aimi *et al.*, 2014; Azman *et al.*, 2014; Pacheco & Webber, 2016). The instrument employed in this study met the criteria of validity and reliability analyses. The outcomes of this study reveal that communication, involvement and performance appraisal were important predictors of job satisfaction in the studied organization. These results supported and extended previous studies which as mostly published in the Western countries. It further suggests that the present research and practice in workplace compensation needs to consider communication, involvement and performance appraisal as fundamental dimensions of compensation management domain.

This research provides several suggestions for future research. First, other potential organizations and individual features such as gender, age, position and departments/divisions should be further investigated, where it will probably show a more significant results in understanding on how individual similarities and dissimilarities can affect the implementation of compensation systems in organization. Second, other research designs such as longitudinal studies should be considered because it may describe the shapes of change and the trend and degree of causal interactions between variables of interest. Thirdly, to enhance understanding about the effect of compensation management on job satisfaction, more than one organizational sectors could be included. Fourth, a bigger sample size of respondents may be used to better represent the population features and this may reduce the response bias and common-method variance. Fifth, other particular components of compensation management such as leadership style and managerial responsibility should be considered by future research because they are found to become important determinants of job satisfaction in recent economic situation (Pacheco & Webber, 2016; Newman *et al.*, 2017;). Sixth, two major components of job satisfaction facets, such as intrinsic and extrinsic job conditions should be given more attention because they are widely recognized as important outcomes of compensation management (Siti Salwa *et al.*, 2015; Newman *et al.*, 2017;). The importance of these issues needs to be further investigated in future research.

However, the usage of the findings of this study has several limitations. First, this research used a cross-sectional method to collect the data once within the period of this study. Second, this research has not tested specific indicators for the independent variable and the dependent variable. Third, the statistical tools utilised in this study only predict the strength of hypothesized model based on the variables of interest. Fourth, this research only focussed in one organization in public sector environment. Finally, a purposive sampling technique employed in this study may not avoid response bias. All of these limitations may decrease the ability to generalize the results of this study to other organizational settings.

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SURVEY QUESTIONNAIRE

SECTION 1: PERSONAL DATA

Please answer the questions below by **TICKING (/)** in the appropriate bracket or by writing your answer in the space provided.

1. I am:

| | |
|-------------------------------|---------------------------------|
| <input type="checkbox"/> Male | <input type="checkbox"/> Female |
|-------------------------------|---------------------------------|

2. My age:

| | | | |
|---|---|---|---|
| <input type="checkbox"/> Less than 25 years old | <input type="checkbox"/> 45 to 54 years old | <input type="checkbox"/> 25 to 34 years old | <input type="checkbox"/> 55 years old and above [<input type="checkbox"/> 35 to 44 years |
|---|---|---|---|

3. My highest education level:

| | |
|----------------------------------|---------------------------------------|
| <input type="checkbox"/> LCE/SRP | <input type="checkbox"/> Degree |
| <input type="checkbox"/> MCE/SPM | <input type="checkbox"/> Other: _____ |
| <input type="checkbox"/> HSC/STP | |
| <input type="checkbox"/> Diploma | |

4. My position:

| | |
|--|--|
| <input type="checkbox"/> Management & professional group | <input type="checkbox"/> Supervisory group |
| <input type="checkbox"/> Technical st | <input type="checkbox"/> Clerical and Supporting Staff |
| <input type="checkbox"/> Others: _____ | |

5. My length of service:

| | |
|--|---|
| <input type="checkbox"/> Less than 5 years | <input type="checkbox"/> 5 to 14 years |
| <input type="checkbox"/> 15 to 24 years | <input type="checkbox"/> 25 years and above |

6. My gross monthly salary (Ringgit)

| |
|---|
| <input type="checkbox"/> Less than 1000 |
| <input type="checkbox"/> 1000 to 2499 |
| <input type="checkbox"/> 2500 to 3999 |
| <input type="checkbox"/> 4000 to 5499 |
| <input type="checkbox"/> 5500 to 6999 |
| <input type="checkbox"/> 7000 and above |
7. Monthly Household Expenses (Malaysian Ringgit)

| |
|---|
| <input type="checkbox"/> Less than 1000 |
| <input type="checkbox"/> 1000 to 2499 |
| <input type="checkbox"/> 2500 to 3999 |
| <input type="checkbox"/> 4000 to 5499 |
| <input type="checkbox"/> 5500 to 6999 |
| <input type="checkbox"/> 7000 and above |

8. Marital Status

| |
|----------------------------------|
| <input type="checkbox"/> Single |
| <input type="checkbox"/> Married |

Use the scale below to answer questions in all sections. Please **CIRCLE** the most appropriate response for the following statements.

1=Strongly Disagree/Dissatisfied
2=Disagree/Dissatisfied
3=Slightly Disagree/Dissatisfied
Sure/Neutral

5=Slightly Agree/Satisfied
6=Agree/satisfied
7=Strongly Agree/Satisfied 4=Not

SECTION 2: PERCEPTION ON THE ADMINISTRATION OF REWARDSYSTEM

| 2A | I clearly understand: | Strongly Disagree | Disagree | Slightly Disagree | Not Sure/Neutral | Slightly Agree | Agree | Strongly Agree |
|------|--|-------------------|----------|-------------------|------------------|----------------|-------|----------------|
| 2.1A | The salary level for my position. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 2.2A | The annual pay increment is based on employee performance. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 2.3A | The types of reward offered to high performer | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 2.4A | The criteria for excellent service award. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 2.5A | The high performer has better promotion opportunity | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 2.6A | The performance based reward is consistent with my organization's goals and strategy | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 2.7A | The performance based reward motivates employees' creativity and innovations | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 2B | I am given the opportunity to: | Strongly Disagree | Disagree | Slightly Disagree | Not Sure/Neutral | Slightly Agree | Agree | Strongly Agree |
| 2.1B | Ask questions pertaining to the performance-based reward practiced. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 2.2B | Express my opinion regarding the amount of salary I received relative to my performance. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 2.3B | Be involved in determining the candidates for excellent service awards. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 2.4B | Ask questions about the reward level received by staff who has different performance level | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 2.5B | Involve in the planning of recognitions | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

| 2C | In the administration of reward system in my organization, my immediate supervisor uses performance appraisal systems as an instrument to: | Strongly Disagree | Disagree | Slightly Disagree | Not Sure/Neutral | Slightly Agree | Agree | Strongly Agree |
|------|--|-------------------|----------|-------------------|------------------|----------------|-------|----------------|
| 2.1C | Choose deserving employees for excellent service awards | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 2.2C | Determine appropriate reward level | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 2.3C | Determine higher annual pay increment. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 2.4C | Provide better promotion opportunities | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 2.5C | Provide better training opportunities | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

SECTION 3: LEVELS OF YOUR SATISFACTION

| 3. To what extent are you satisfied or dissatisfied with your job: | | Strongly Dissatisfied | Dissatisfied | Slightly Dissatisfied | Not Sure/Neutral | Slightly Satisfied | Satisfied | Strongly Satisfied |
|--|--|-----------------------|--------------|-----------------------|------------------|--------------------|-----------|--------------------|
| 3A | Extrinsic Satisfaction | | | | | | | |
| 3.1A | The physical working condition. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 3.2A | Your fellow employees. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 3.3A | Your immediate supervisor. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 3B | Intrinsic Satisfaction | | | | | | | |
| 3.1B | The recognition you get for good work. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 3.2B | The freedom to choose your own method of working | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 3.3B | The amount of responsibility you are given. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 3.4B | Your opportunity to use your abilities. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 3.5B | The attention paid to suggestions you make. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

APPENDIX B

Table 1: Respondent Profiles (n = 179)

| Respondents | Sub | Percentage |
|----------------------------------|---------------------------------|------------|
| Gender | Male | 34.6 |
| | Female | 65.4 |
| Age | < 25 | 2.2 |
| | 25 – 34 | 62.6 |
| | 35 – 44 | 23.5 |
| | 45 – 54 | 10.1 |
| | > 55 | 1.7 |
| Level of Education | LCE / SRP / PMR | 0.6 |
| | MCE / SPM | 25.1 |
| | HSC / STPM | 11.2 |
| | Diploma | 41.3 |
| | Degree | 17.9 |
| | Others | 3.9 |
| Position | Management & professional group | 15.1 |
| | Supervisory group | 13.4 |
| | Technical staff | 2.2 |
| | Clerical & support staff | 57.5 |
| | Other | 11.7 |
| Length of service (years) | < 5 | 22.9 |
| | 5 – 14 | 63.1 |
| | 15 – 24 | 11.7 |
| | > 25 | 2.2 |
| Gross monthly salary (MYR) | < 1000 | 0.6 |
| | 1000 – 2499 | 44.1 |
| | 2500 – 3999 | 45.8 |
| | 4000 – 5499 | 5.0 |
| | 5500 – 6999 | 1.1 |
| | > 7000 | 3.4 |
| Monthly household expenses (MYR) | < 1000 | 14.5 |
| | 1000 – 2499 | 42.5 |
| | 2500 – 3999 | 20.1 |
| | 4000 – 5499 | 15.1 |
| | 5500 – 6999 | 2.8 |
| | > 7000 | 5.0 |
| Marital status | Single | 28.5 |
| | Married | 69.3 |
| | Divorced | 2.2 |