

Literature review on compensation and benefits



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CHAPTER 1

INTRODUCTION

Overview

This chapter serves as the introduction part of this research, which addresses the core value of the research. Here, the overview of the relationship between the compensation and benefits and the job satisfaction among the university staff will be discussed in the well-manner.

Background of Study

Forty years ago, University of Malaya is the only one university in Malaysia. In today fast moving world, education is become very crucial for the young generation. Nowadays, there was many new public or private universities occur in the market. There were twenty public universities and eighteen private universities in Malaysia. There are become more and more competitors in the higher education industry and students have more choices when they want to enter to the university. The current trends for students choosing the universities are not depended on the outlook but they will choose the universities which have good academics performance and quality. Therefore, to attract more students and compete with others universities, each university must increase their competitive advantages.

Thanks to the internet and the accompanying high speed of communications, nowadays technological and services differentiation is no longer a key to competitive advantage in higher education industry. So, what the main reasons to make some university more successful than others? What is the key competitive advantage in today globalize world? The answer is employees. In a university, university staff is played an important role to run

the day to day operation of the organization. University with talented and motivated staffs will offer outstanding service to their students. This will increase the university performance and likely to pull the university ahead the competitors, even if the services offered are similar to those offered by their competitor.

According to Tang, Roberto, Toto & Tang (2004) from United States and Spain, job satisfaction is an affective reaction to a job that results from the incumbent's comparison of actual outcomes with those that are desired or expected. Job satisfaction of the employees is just as important as customer satisfaction in terms of the organizational performance. Therefore, employers must make sure all their employees are satisfied with their job. But, how to make sure the staffs are motivated? How to ensure the staff are satisfied with their job? Here, the compensation and benefits is the key to those questions.

Nowadays, compensation and benefits are one of the fastest changing fields in Human Resources, as many company are continue to investigate various ways of rewarding employees for increase their job satisfaction and their performance. Here, compensation refers to all forms of financial return and tangible services and benefits employees receive as part of an employment relationship, which includes topics in regard to wages or salary programs; for example, salary ranges for job descriptions, merit based programs, bonus based programs, commission based programs, long term or short terms incentives programs, and etc. Besides, employee's benefit includes the allowances, income protection, life insurances, life balance, vacation, and etc. Benefits are forms of value, other than payment, that are provided to

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the employee in return for their contribution to the organization, that is, for doing their job.

Why the compensation and benefits is so important for all the employees?

The answer is compensation is the main sources of employee's financial security. As we know, everyone is works in expectation of some rewards; employees may see compensation as a return in an exchange between employer and themselves, as an entitlement for being an employee of the company and as a reward for a job well done. Besides, compensation is a motivator for employees. Now, people look for a job that not only suit their interested and talent, people also look for the salary and the other benefits which the company will be offer, for example, life insurance, incentive, allowances, SOSCO, EPF and etc.

Besides, in the economic downturn, based wages is become very important sources to employees for living. Therefore, if the employers give higher salary to their staff, this will be motivates them to perform well and they will more satisfy with their job. By doing so, the employees will know that the company is appreciate their contribution and their efforts are noted by management.

Problem Statement

As mention earlier, there are many new public or private universities occur in market. To compete with other competitor, each university must increase their competitive advantage. The key competitive advantage is employees. Therefore, the issues of the employee job satisfaction become very important for the employer. There are many factors which can influence job

satisfaction among university staff, for example, job security, compensation and benefits, opportunities to use skills and feeling safe in the work environment. But, this research just will investigate the influence of compensation and benefits towards job satisfaction among university staff.

For a university, there are many staffs to cover and the employer does not really understand what their staffs need. It is impossible for taking all employees' compensation and benefits throughout the firm into consideration to set up the reward system. This is because different department staffs have different needs. For example, for lecturer the flexible working hours and higher bonus will be more favoured by them. But, for the marketing department the flexible working hours and more incentives and allowances will be favoured by them.

Compensation and benefits is a primary motivator for employees. Nowadays, people look for a job not only suit their creativity and talents, but compensate them- both in term of salary and other benefits-accordingly.

(Enotes. com, 2008) Therefore, when the problems occur to the compensation and benefits of the staffs are going to have impact on employee's job satisfaction. When the staffs receives the salary less than he or she expected, he or she will feel that he or she is not appreciated by the university and what he or she did is meaningless. So, the staff will feel job dissatisfaction and less motivated by the university. According to the Society for Human Resources Management report, job dissatisfaction can contribute to multiple organizational problems and has been associated with increased levels of turnover and absenteeism, which ultimately cost the organization in terms of low performance and decreased productivity. (SHRM, 2009) Thus, <https://assignbuster.com/literature-review-on-compensation-and-benefits/>

employer must ensure that the compensation and benefits system is fair and equitable to all the staffs and understanding the system. By doing so, employer can create a real job satisfaction and motivate their employees.

Besides, research has shown that both getting less than you want and getting more than you want leads to large discrepancies between desires and outcome and eventually leads to low job satisfaction thus to low quality if working performance. (Rice, Bennett, & McFarlin, 1989) Hence, desires play an important role in assessing if increasing income impacts an individual's job satisfaction and work performance. Moreover, if the desires of the individual are already met, then an increase in income will not increase satisfaction as well as working performance. (Solberg, Diener, Wirtz, Lucas, & Oishi, 2002) In other words, increasing compensation and benefits may not always lead to employee's job satisfaction.

Besides, employers must design an appropriate compensation and benefits system to their staff. This is because inappropriate compensation and benefits will have negative effect to employee job satisfaction. For example, assume that university staffs have received one thousand and fifty ringgit (RM) each month, no allowances and overtime claim and his or her still need to work 8 hours per day. Will you believe this staff will satisfy with his or her jobs? The answer is absolutely no. Therefore, an appropriate compensation and benefits system is very significant to an organization.

As a conclusion, in today fast moving world, the issue of the compensation and benefits are getting more and more important. This is because it is have much influence on an employee's life, for example, health, personality,

mentality and thus lead to employee's job satisfaction. Therefore, employers must ensure themselves understand the way of how compensation and benefits influence the employees job satisfaction.

Objectives of the Study

The objectives of this study are as following:

1. To explore the influence of compensation and benefits towards job satisfaction among University staff
2. To examines the awareness of the importance of compensation and benefits
3. To investigate the importance of job satisfaction among university staff in Malaysia
4. To identify about the opinion of the university staff about compensation and benefits on job satisfaction

Scope of Study

The scope of this study is all about the relationship between the compensation and benefits with the job satisfaction among university staff. This study will conduct a survey to support the finding. The respondents of the survey are the administrative staff among the university. The reason of choosing these respondents is because administrative staffs represent an important component in the university. They are played an important role to run the day to day operation of the organization. By choosing administrative staffs as survey object, this research can be strengthened by the survey results.

Significance of Study

The information gain from this research will be able to provide valuable insight

on the influence of compensation and benefits towards job satisfaction among university staff.

The aim of the research is to investigate and understand the relationship between compensation and benefits and job satisfaction. This research is conducted in a local public and private university is needed to gather the university staff basic information of salary, basic need of compensation and benefits, ideas of improving the total reward system of the university. From the result of the research, we can have a clear picture and concept of the relationship between compensation and benefits and job satisfaction among the university staff. Besides, we also can identify clearly the variable of the job satisfaction among the university staff.

In addition, the significance of the study is to provide an opportunity to the university staff to express their opinions and thus the grievances on the compensation and benefits they receive. By doing so, this can help the employer to get a better understand on what their employees need. This research also enhances the understanding of both the employer and the university staff on managing and designing the compensation and benefits of staff. Therefore, the communication gap between the employer and the staff can be removed indirectly. From the information obtained, the employer can able to design an appropriate compensation and benefits system for their employees. As a result, the employer can increase the employee's job

satisfaction more effectively and efficiently by using appropriate compensation and benefits.

Compensation and benefits are obviously crucial to either the employer or the university staff. Appropriate compensation and benefits will address fairness, openness and clarity. This can help employees to increase their job satisfaction, encourage and motivate them to devote themselves to the university thus improve the performance of the whole university.

Organization of the Study

In this Final Year Project 1 will be constructed into five different chapters. The following is the detail of each chapter.

Chapter 1: Introduction

This chapter will provide the core value and a clear image of the study and also a briefing of the whole study. This chapter will include background of study, problem statement, objectives of the study, scope of study, and the significance of the study.

Chapter 2: Literature Review

The second chapter is related to the literature review. In this chapter, all the main points will be summarized and related information of the articles and journals will be used which are related to the research.

Chapter 3: Research Methodology

This chapter for the research is the method of investigation on the influence of compensation and benefits towards job satisfaction among university

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staff, which include theoretical framework, research design, sampling and data collection and so on.

CHAPTER 2

LITERATURE REVIEW

Overview

As discussed and highlighted in the previous chapter, this research examines the relationship between compensation and benefits and job satisfaction among university staff. In order to gain a better understanding about this issue, an examination of literature on related study were carried out. This chapter will consist of six sections. First, key terms definitions of the job satisfaction, compensation and benefits are provided on the following sections. For thoroughly capturing the significances of compensation and benefits, the selection related literature is explained in detail. And, the relationship between compensation and benefits and job satisfaction among university staff is being discussed and explored in the following sections by using some nations and different industry for examples. Last, the comprehensive review of all the related studies will be provided.

The Definition of Job Satisfaction

Job satisfaction has been explored in a variety of ways, and is defined differently by various researchers. It is also a heavily researched area of inquiry. Locke (1976) estimated that, as of 1976, about 3350 articles or dissertations had been written on the topic. Cranny (1992) indicated that more than 5000 studies of job satisfaction have been published. Job satisfaction defines as a worker's sense of achievement and success, is generally perceived to be directly linked to productivity as well as to

personal wellbeing (Answer, 2008). Job satisfaction is a measure of the degree to which the employee is satisfied and happy with the job. Prince and Patche (1972) defined job satisfaction as the degree to which the members of a social system have positive and affective orientation towards membership in the system. Smith (1969) perceived job satisfaction as the “ extent to which an employee expresses a positive orientation towards a job”.

Oshagbemi (2003) stated that job satisfaction is an affective reaction to a job that results from the comparison of actual outcomes with those that are desired. Job satisfaction is a pleasurable and emotional state resulting from the perception of one's job as fulfilling or allowing the fulfilment of one's important job values, provided these values are compatible with one's needs (Locke, 1976). Katzell (1964) argues that if there is consensus about job satisfaction, it is the verbal expression of an incumbent's evaluation of his or her job. On this basis, it is an affective or hedonic tone, for which the stimuli are events or conditions experienced in connection with jobs or occupations. Job satisfaction refers to an employee's overall affective evaluation of the job situation. There is increasing interest in the job satisfaction of frontline employees, given their prominent role in developing relationships (Schneider, Benjamin & Bowen, 1993).

Besides, according to Stephen and Mary (2004) a person with a high level of job satisfaction has a positive attitude towards the job, while a person who is dissatisfied with the job has a negative attitude. When people speak of employee attitude, they usually are referring to job satisfaction. Job satisfaction is a very crucial issue in higher education industry; even less evidence is available related to job satisfaction in higher education for non-
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western nations. However, there has been a growing interest in job satisfaction in higher education over past several years mainly due to the realization that higher educational institutes are labour intensive and their budgets are predominantly devoted to personnel and their effectiveness is largely dependent on their employees (Kusku, 2003), both academic and administrative.

The Importance of Job Satisfaction in an Organization

Job satisfaction is a very important attribute which is frequently measured by organizations. The topic of job satisfaction is also important because of its implications for job related behaviours such as productivity, absenteeism or turnover (Oshagbemi, 2000). Besides, it is also can be an important indicator of how employees feel about their jobs and a predictor of work behaviours such as organizational citizenship, absenteeism, and turnover. Further, job satisfaction can partially mediate the relationship of personality variables and deviant work behaviours (Answer, 2008).

Extensive study has shown that job satisfaction has a direct impact on the performance of employees in different levels of profession. It is related to employee motivation and performance (Ostroff, 1992). For the organization, job satisfaction of its workers means a work force that is motivated and committed to high quality performance. On the other hand, to the worker, job satisfaction brings a pleasurable emotional state that often leads to a positive work attitude. A satisfied worker is more likely to be creative, flexible, innovative, and loyal (Answer, 2008). Therefore, the issue of job satisfaction among employees must be explored and discussed in the well-manner.

The Definition of Compensation

Compensation has been defined in a variety of ways. In English, “compensation” is defined as something that counterbalances, offsets, or makes up for something else’s. However, if we look at the origin of the word in different languages, we can get a sense of the richness of the meaning, which combines entitlement, return, and reward (Atul, Matt & George, 2002; Mark, 2002; Mansour, Peter, Mary, & Robert, 2006). In Japanese, compensation is defined as *kyuyo*, which is made up of two separate characters (*kyu* and *yo*), both meaning “giving something”. Besides, in China, the traditional characters for the word “compensation” are based on the symbols for logs and water; compensation provides the necessities in life (Milkovich & Newman, 2008).

According to Deluca (1993) and Rajkumar (1996), compensation is defined as pay, reward, remuneration, or salary and wage management. These terms are often used interchangeably in organization. In an organization perspective, compensation is often defined as an important human resource management function where it emphasizes planning, organizing, and controlling various types of pay systems. For example, direct and indirect payments, monetary and non-monetary rewards and cash and non-cash payments, those compensation is used for rewarding employees who perform in their work or service (Noe, Hollenbeck, Gerhart & Wright, 2004). In this research, compensation refers to all forms of financial returns and tangible services employees receive as part of employment relationship. It can be seen as a measure of justice. Normally, it is the major source of employees’ financial security (Milkovich & Newman, 2008).

Zhou, Qian, Henan and Lei (2009) stated that compensation provides competitive base salary levels necessary to attract and retain talent and compensates for day-to-day responsibilities performed at fully acceptable level and above. Chen and Brian (2004) propose that the types of compensation typically contain the following components base salary, overtime pay (OT), bonuses, commissions, the dollar value of restricted stock awards and gains from exercising stock options, profit sharing, and so on. The following is the definition for the two components of compensation.

Base-Salary

Base- salary is the annual and monthly salary rates of an employee which are established under current personnel policy for each position. Besides, base- salary is to represent the employee's straight-time pay for a standard 40- hour workweek (Anonymous, 2007). According to wikipedia. com (2009), base- salary is a form of periodic payment from an employer to an employee, which may be specified in an employment contract. It is contrasted with piece wages, where each job, hour or other unit is paid separately, rather than on a periodic basis. In other view of running a business, base- salary can also be viewed as the cost of acquiring human resources for running operations, and is then termed personnel expense or salary expense.

Besides, Henderson (2006) and Young (1999) are stated that base-salary is a base pay that is given to employees on a weekly, monthly or yearly basis based on job structure.

Overtime Pay (OT)

Overtime pay (OT) is always included in cash compensation. It is the pay to time worked in excess of an agreed upon time for normal working hours by

an individual employee (Answers. com, 2008). In addition, Overtime Pay (OT) is defined as the payment of premium time and one-half rates in form of monetary compensation or time off is required for hours worked in excess of 40 in one a week, with exception of those considered exempt. The overtime pay rate usually is 1.5 times of base wage per hour (Anonymous, 2007).

Bonus

Bonus is referred to as a cash payment provided to employees based on their performance. For example, monetary incentives for achieving job targets (Bloom & Milkovich, 1998; Gupta & Shaw, 1998; Lowery, Beadles, Petty, Amsler & Thompson, 2002). Steven and Loring (1996) stated that bonus is a single, one-off, lump-sum payment which can be in the form of cash or other creative monetary scheme, such as stock options. Bonus is defined as all payments to employees which is not paid regularly at each pay period, for example bonuses paid at fixed periods. Besides, bonus payments are generally linked to individual or collective performance. Bonus can be distributed randomly as the company can afford to pay a bonus, or the amount of the bonus pay can be specified by contract (Anonymous, no date).

The Definition of Benefits

Benefits refer to the part of the total compensation package provided to the employee in whole or in part by payments from the employer and it's did not include the pay for time spent on work (Milkovich & Newman, 2008).

Besides, benefits are group membership rewards that provide security for employees and their family member. Benefits are a non-compensation paid to employees. Some benefits are mandated by law, for example social security, unemployment compensation and worker compensation.

Employees' benefits include pension, health insurance, fringe benefits, welfare and etc (Lee, Hsu & Lien, 2006). Benefits are a crucial part of an employee's total compensation package. Benefits packages are became popular after World War II, when wage controls made it more difficult to give competitive salaries (Enotes. com, 2008). Besides, benefits can be treated as the payment or entitlement, such as one make under an insurance policy or employment agreement, or public assistance program or more generally, something of value or usefulness. Benefits may also be seen as a reflection of justice in society (Herman, 2005).

According to Carter (2008), benefits are forms of value, other than payment, that are provided to the employee in return for their contribution to the organization, which is for doing their work. Zhou, Qian, Henan and Lei (2009) argued that benefits are provides flexible and market competitive health benefits to support employment brand and support attraction and retention. Employee's benefit includes disability income protection, retirement benefits, work-life balance (for example, sick leave, vacation, jury duty and etc), allowances (for example, dental, insurance, medical, transportation, housing, mobile phone and etc), and so on. The following is the definition for the two components of benefits.

Allowances

Bergmann and Scarpello (2002) and Milkivich and Newman (2008) stated that allowances is often related to additional financial rewards legally provided to employees based on the employment contract or organization related service, for example, entertainment allowance or allowance fixed for particular jobs or service schemes. Allowances is also defines as a amount

paid to employees as part of their salary package, or defray their out of pocket expenses incurred on behalf of the firm (Business Dictionary. com, 2009).

Work-life Balance

Work-life balance is refers to the effectively managing the juggling act between paid work and the other activities that are important to people. Besides, work-life balance can defines as having enough time for work and enough time to have a life thus the work life balance. The concept of work-life balance is includes the priority that work takes over family, working long hours and work intensification (Dr. Mervyl, 2007). According to Milkovich & Newman (2008), work-life balance is a programs that help employees better integrate their work and life responsibilities include time away from work (vacation, jury duty), access to services to meet specific needs (drug counseling, financial planning, referrals for child and elder care), and flexible work arrangements (telecommuting, non-paid time off). Besides, Melissa (2007) also stated that work-life balance is about creating and maintaining supportive and healthy work environments, which will enable employees to have balance between work and personal responsibilities and thus strengthen employee loyalty and productivity.

The Importance of Compensation and Benefits in an Organization

In today fast moving world, developments have made it more important than ever for companies to make sure they have a strategic, holistic and integrated approach to compensation. To compete in a tough arena, organizations now more than ever need the support of an informed, involved and motivated their employees (Chen & Hsieh, 2006). Here, compensation

and benefits is a primary motivator and rewards for employees. As noted by Lawler (1995), compensation can be an effective motivator only if it is important to people and it is seen to be tied to their performance in ways that are perceived to be credible and direct. Without rewards, a company is planting seeds for high turnover, low productivity and long-term failure.

According to Herman (2005), compensation help to focus on the position and duties performed. And, it attempts to influence employee's current and future working performance. Besides, compensation servers' different objectives, the main ones being to attract, retain and motivate high-potential employees. Meanwhile, the fulfilments of those goals are subject to constraints such as the maintenance of equity, cost control and legal requirements (For example, wage and salary legislation) (Steven & Loring, 1996). To employee, compensation may be seen as a return in exchange between the firms they work for and themselves, as an entitlement for being an employee of the company, or as a reward for job well done. It is given to employees in exchange for work performed (Milkovich & Newman, 2008).

Steven and Loring (1996) observe that for employees, compensation is an important issue since pay is perceived to be an indication to their personal and market value to the organization. Based on about. com (2009), for employers, compensation is one of the crucial communication tools, to send a message about your organization's expectations and goal achievement rewards. Besides, Yale and Donald (2002) stated that compensation rewards performance relative to others and progressive improvement in year-to-year results and providing regular measures of success or progress. It also balances rewards with risk and providing capital accumulation opportunity.

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Therefore, compensation has very crucial to not only the employees but also the employers.

Carter (2002) proposed that benefits are increasingly expensive for businesses to provide to employees, so the range and options of benefits are changing rapidly to include, such as flexible benefits plan. For employers, they use benefits to attract and retain good and talented workers. For employees, they rely on benefits (for example, medical subsidies, vacations, and retirement) to secure their financial well-being. By linking benefits (for example, pension and holidays) to seniority, workers will be reluctant to change jobs (Gerhart & Milkovich, 1992).

Lee, Hsu and Lien (2006) stated that benefits are designed to safeguard employees and their family against problems due to sickness, sickness, accidents or retirements. Here, let use some examples of components of benefits to bring out its effect of employees. Work life balance with regard such as temporal flexibility, leave benefits, and interpersonal relationships has the potential to reduce or increase stress on workers with life responsibilities. The provision of work life balance strategies can provide a positive and direct effect on an employee's decision to remain with an employer (Macran, Joshi & Dex, 1996).

Based on Milkovich & Newman (2008), income protection helps protect employees from the financial risks inherent in daily life. It serves as a backup to employees' salaries in the event that an employee is sick, disabled, or no longer able to work. Besides, workers allowances are absolutely needed for employees. It helps to reduce the financial burden of employees and also

can be treated as an extra sum of salaries indeed (Herman, 2005). Therefore, a benefit has great significance to the whole organizations.

The Relationship between Compensation and Benefits towards Job Satisfaction

In today's globalized world, organizations are facing changes generated by increased competition, mergers and acquisitions, shifting markets and changing employee demographics (Chen & Hsieh, 2006). Therefore, it is crucial for organizations to strategize their competitive and benefits plans in order to attract appropriate talent, maximize return on human capital and increase employees' job satisfaction. A key component for a successful organizational intervention is the meaningfulness of the intervention to the employee. One intervention that may be meaningful to many employees is the amount of their compensation and benefits increase (Mayuri & Mark, 2005).

Compensation and benefits is a powerful communicator of organizational goals and priorities and companies that expect to be successful must make employees become partners in their success (Shuster & Zingheim, 1993). Pam (2007) observes that employee compensation can be a sensitive subject, and people get very passionate when trying to determine the most appropriate compensation plan for any business. Nowadays, many human resources related concerns need to be addressed, but equally important is to understand the financial aspects of employee compensation and benefits. Thus, compensation and benefits play an important role in an organization.

According to the survey report conducted by the Society for Human Resource Management (2009), they found that compensation and benefits would affect em