

## **Influence of Employee Compensation on Organizational Commitment and Job Satisfaction: A Case Study of Educational Sector of Pakistan**

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### ***Introduction***

The aim of this research study is to build an understanding regarding the impact of employee compensation on their job satisfaction and employee's organizational commitment among Pakistani university teachers. Enhancing organizational commitment among the faculty members is an essential element because that will eventually result in their higher employee commitment, enhancing retention and they will perform better.

By identifying the impact of employee compensation in educational sector will help organizations to foster organizational commitment and enhance their satisfaction level among faculty members. This study also aims to develop a course of action for university's administration to come up with practices which would enable them to attract and retain top level faculty at their institutions.

A study conducted by Peril and Promise (2000) stated that Pakistan is a developing nation and for them education is of great importance. Their education sector is facing many problems of them if the quality of faculty. According to Lee (2004) one of the major reasons of lack of commitment and turnover of teachers could be compensation that is being offered.

### **Research Objectives**

Objectives of this study are as follows:

1. To explore and analyze the employee compensation, organizational commitment (Affective, normative and continuous commitment) and Job Satisfaction in Educational Sector of Pakistan.
2. To explore the extent of association among employee compensation, organizational commitment (Affective, normative and continuous commitment) and Job Satisfaction in Educational Sector of Pakistan.

### **Research Question**

1. To what extent employee compensation have impact on organizational commitment in education sector of Pakistan?
2. To what extent employee compensation have impact on employees' job satisfaction in education sector of Pakistan?

### ***Literature Review***

#### **Organizational Commitment**

Organization commitment can be defined as affiliation of employees to the organization and involvement in it. In general there are three dimensions of commitment which are continuance commitment, affective commitment and normative commitment (Allen and Meyer, 1996; Karrasch, 2003; Turner and Chelladurai, 2005; Greenberg, 2005; Boehman, 2006; Canipe, 2006). All these types are independent in nature and are shown by individuals at different levels in organization (Meyer & Allen, 1997). Porter et al., (1974) defined the organizational commitment as believing and accepting the goals and values of organization and possessing and showing desire to be part of the organization. Committed employees show strong intentions to serve their organizations and are low at intentions to leave (Hunt and Morgan, 1994; Robbins and Coulter, 2003; Mowday, Steers, & Porter, 1982).

Emotional attachment to the objectives and values of an organization is commitment Buchanan (1974). Organizational commitment is “the aggregate internalized normative demands to perform in a manner which meets organizational objectives and interests” (Wiener, 1982). In view of the literature available we can say that for university teachers, organizational commitment can be considered as their belief in and acceptance of the university goals and values, their desire to remain part of universities and act in way that is beneficent for universities.

### ***Rewards, Job Satisfaction, and organizational commitment***

For understanding job satisfaction it is required to know some major discussions of the industrial psychology. The concept of job satisfaction is related to this field and Herzberg’s duality theory is one of its major propositions (1959). In higher education, job satisfaction, has been barely examined, and cumulatively the studies in this area suggest there is little unity in understanding job satisfaction in a college or university context. Herzberg theorized job satisfaction as a function of motivators that gives job satisfaction and hygiene which results in job dissatisfaction. Job satisfaction as an emotional situation related to the positive or negative judgment of job experiences Locke (1969). the classic study of school teachers by Dan Lortie (1975) emphasized that there are three types of rewards which teachers seek in their careers: extrinsic, ancillary, and psychic/intrinsic). An extrinsic reward in this context means money income, prestige, and power. Weiss and Cropanzano (1996, Thoms, Dose, and Scott, 2002), argued that “job satisfaction is personal assessment of individual for his/her job and work context. Teacher job satisfaction is determined by the degree to which the individual perceives job-related needs are being met Linda Evans (1997). Single as well as several factors measures can be used to measure job satisfaction (Zigarelli, Dinham ,Shann, 1998).

Job satisfaction is phenomenon of different aspects to which employees in organization respond affectively Spector (1997) ,Kreitner & Kinicki (2006) Job satisfaction as stated by Dawes (2004) is having two components: a cognitive component and an affective component. McNamara (1999) defines job satisfaction as:

*“ . . . one’s feelings or state of mind regarding the nature of their work. Job satisfaction can be influenced by a variety of factors, e.g. the quality of one’s relationship with their supervisor, the quality of the physical environment in which they work, degree of the fulfillment of their work, etc”.*

Financial reward is one of the factors that produce job satisfaction as mentioned in need fulfillment model by Kreitner and Kinicki (2006). In the study of Khojasteh (1993 revealed that Pay and security were greater motivators for private than for public sectors Professional development opportunities and salary packages are of great importance that create job satisfaction factors (Grace & Khalsa, 2003). top most factors in producing job satisfaction include financial resources, faculty workload, and technology impact (Miller et al., 2001). Compensation systems may affect faculty’s job satisfaction and thus influence intentions to quite as well retention rates. Higher compensation level leads to higher job satisfaction and retention rates for faculty are also higher. An enhanced reward in organizations also enhances job satisfaction (Boyt et al., 2000).

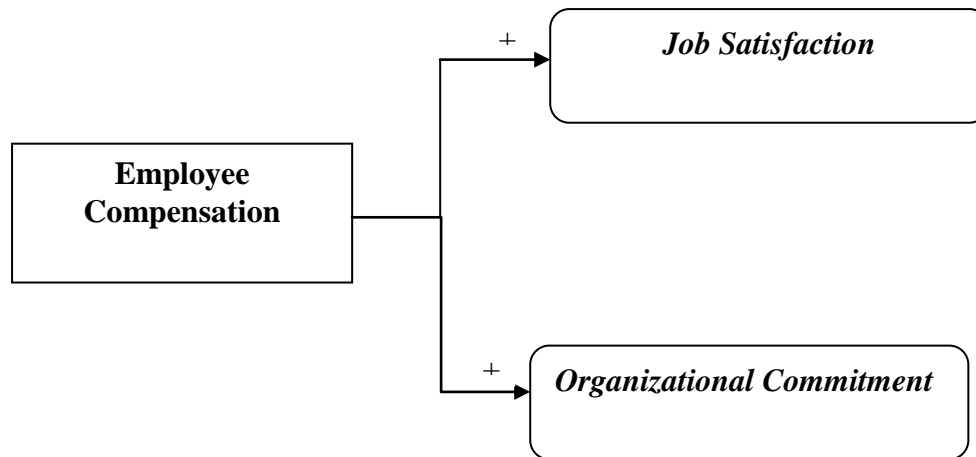
Studies conducted by Opkara (2004) and Samad (2007) concluded that if workforce is satisfied with their job as well as the organizational environment including its colleagues, compensation, and leadership they will be more committed with the committed with their organization as compared to when they are not satisfied. The importance of these two areas cannot be overlooked because they are the key factors that influence employee’s turnover, employee’s performance, and their productivity. Satisfied and committed workforce is usually are contributor and performer towards enhancing organizational productivity. On the basis of above given literature it is evident that employee compensation has some positive impact on the employee’s job satisfaction and organizational commitment. Organizations that have better compensation management system put a very positive impact on their employees. It is also logical that employees with better compensation will be more satisfied with their job and also committed with the organization, so, we can safely construct the following hypotheses:

### **Hypotheses**

H<sub>1</sub>: Compensation has a direct significant effect on organizational commitment.

H<sub>2</sub>: Compensation has a direct significant effect on job satisfaction.

## Research Model



### Explanation of Variables

#### Effective employee compensation

Thomas Patton (1977) explained that compensation must be; Adequate, Equitable, Balanced, Cost effective, Secure, Incentive providing and acceptable to the employees.

#### Organizational commitment

According to Meyer and Allen (1991)

##### *Affective Commitment*

Affective commitment involves workforce perceptions regarding their emotional affiliation or identification with their workplace.

##### *Normative Commitment*

Normative commitment involves workforce perceptions regarding their responsibility towards their workplace. For instance, if an organization is loyal to the employee or has supported his/her educational efforts, the employee may report higher degrees of normative commitment.

##### *Continuous Commitment*

Continuance commitment involves workforce perceptions regarding costs related to leaving the organization.

#### Job Satisfaction

Lease (1998) in his study figured out job satisfaction as the extent of an employee's affection toward his job within the organization. According to Spector (1997) Job satisfaction is defined as "the extent to which people like (satisfaction) or dislike (dissatisfaction) their jobs".

#### Population

All faculty members of universities recognized by Higher education commission (HEC) were included in the population. This level was selected because faculty members of universities are the one having direct impact on organizational performance.

#### Sample

Purposive Sampling method was utilized for sampling. Sample size of the study estimated was 41%. So we can estimate that sample size was representative.

#### Instrument Development

The survey instrument was developed using a combination of existing scales across the three key themes of the study: employee compensation and job satisfaction [Shahzad and Bhatti, (2008)] and organizational commitment [Meyer and Allen, (1991)].

#### Reliability

The reliability for each question shows that questionnaire had Cronbach's alpha value of more than ( $\alpha > .82$ ) indicating that reliability limit is acceptable. Cronbach's alpha for individual element is greater than ( $\alpha = .70$ ) so, the internal consistency reliability of the questionnaire can be considered to be reliable and good.

Questionnaire was validated in respective sector and with the help of pilot surveys and recommendations was incorporated in the questionnaires.

## Data Collection

Questionnaire that were sent through email were 150, out of which 132 came back so the response rate was 88%. Questionnaires that were sent through postal mail were 60, out of those 41 came back and the postal mail response rate was 68.3%. Questionnaires that were filled personally were 60 and their response rate was 100%. Total 270 questionnaires were sent and 233 were received back. Response rate was 86.3%. Out of 233 questionnaires 6 were incomplete and 3 were not filled according to the instructions so they were discarded and total of useable questionnaires came up 224 and the usable rate become 82.9%.

## Results and Discussion

This part of the study includes information acquired for this research study from the primary and secondary data collection sources. Analysis has been completed in two portions; first portion contains analysis of impact of compensation on employee job satisfaction and its commitment with the organization and second part was a relational analysis of study variables. Statistical tools excel 2003 and later SPSS 17 were utilized to determine descriptive statistics (including mean, median, mode, standard deviation and variance), Pearson correlation analysis and multiple regression analysis.

### 4.1 Pilot Study

A questionnaire was developed after conducting focus group and comprehensive literature review. After that this questionnaire was distributed among panel of HRM professionals. Response rate from them was 88 % and all questions were considered for analysis.

### 4.2 Results

Research Question 1:

1. To what extent employee compensation have impact on organizational commitment in education sector of Pakistan?

To answer this research question first we will apply *Pearson Correlation Analysis* to find out the form of association between dependent and independent variables, second we will apply *Multiple Regression Analysis* to investigate the extent of relationship.

#### *Pearson Correlation Analysis*

The result of Pearson correlation analysis obtained for different variables including three dependent and one independent variable. The results of the correlation between employee compensation and affective commitment (.422,  $p < .05$ ) reveal that if organizations that better compensate their employees, affective commitment of employees with the organizations increase. The results also show that among three forms of organizational commitment, continuous commitment (.551,  $p < .05$ ) is the most highly and significantly correlated with the employee compensation. This reveals that employees in Pakistani settings have greater continuous commitment if they are being compensated well.

**Table # 1:** Pearson Correlation Coefficients between (EC), (AC), (NC) and (CC)

		EC	AC	NC	CC
EC	P C	1			
	(2-tailed)				
AC	P C	.422**	1		
	(2-tailed)	.000			
NC	P C	.334**	.224**	1	
	(2-tailed)	.000	.000		
CC	P C	.551**	.381**	.359**	1
	(2-tailed)	.000	.000	.000	
** . Correlation is significant at the 0.01 level (2-tailed).					
* . Correlation is significant at the 0.05 level (2-tailed).					

### Multiple Regression Analysis

Regression models are used for predicting the value of one dependent variable from the values of two or more independent variables. Regression model for the study was as follows:

**Equation 1:**

$$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \epsilon$$

$$E.C = \alpha + \beta_1AC + \beta_2NC + \beta_3CC + \epsilon$$

Employee Compensation = Intercept + Coefficient (Affective Commitment) + Coefficient (Normative Commitment) + Coefficient (Continuous Commitment) + error

Table # 2 shows that in Pakistani educational sector setting employee compensation has 60.3% impact on forms of organizational commitment (affective commitment, normative and continuous commitment). Results of equation 1 show that employee compensation has a strong a significant impact on affective commitment ( $\beta = 0.354, p = 0.000$ ). As compared with affective commitment and normative commitment ( $\beta = 0.219, p = .000$ ) employee participation have greater impact on continuous commitment ( $\beta = 0.511, p = .000$ ). This also validates and proves our research hypothesis for Pakistani educational sector employee compensation has a significantly positive influence on forms of organizational commitment.

**Table #2** Model Summary of EQ 1

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F - Value	F Significance
1	.695 <sup>a</sup>	.649	.603	.24346	9.456	0.000
Predictors: (Constant), AC, NC, CC						

**Table # 3** Coefficients of Variables of EQ 1

Model		Un standardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.258	.170		-1.245	.137
	AC	.354	.134	.123	5.187	.000
	NC	.219	.101	.453	8.215	.000
	CC	.551	.121	.116	3.183	.000
a. Dependent Variable: EC						

**Research Question 2:**

1. To what extent employee compensation have impact on employee job satisfaction in education sector of Pakistan?

To answer this research question first we will apply *Pearson Correlation Analysis* to find out the form of relationship between dependent and independent variables, second we will apply *Linear Regression Analysis* to find out the extent of relationship.

**Pearson Correlation Analysis**

The Pearson correlation matrix obtained for employee compensation and job satisfaction. The results of the correlation between employee compensation and job satisfaction (.623,  $p < .05$ ) reveal that if organizations that better compensate their employees, employees’ satisfaction with the job increase. This reveals that employees in Pakistani settings have greater job satisfaction if they are being compensated well.

**Table # 4:** Pearson Correlation Coefficients between (EC) and (JS)

		EC	JS
EC	P C		1
	(2-tailed)		
JS	P C	.632**	1
	(2-tailed)	.000	
** . Correlation is significant at the 0.01 level (2-tailed).			
* . Correlation is significant at the 0.05 level (2-tailed).			

**Linear Regression Analysis**

Regression models are utilized to predict the value of dependent variable from the values of two or more independent variables. Regression model for the study was as follows:

**Equation 2:**

$$Y = \alpha + \beta_4 X_4 + \varepsilon$$

$$E.C = \alpha + \beta_4 JS + \varepsilon$$

Employee Compensation = Intercept + Coefficient (Job Satisfaction) + error

Table # 5 shows that in Pakistani educational sector setting employee compensation has 52.1% impact on employees' job satisfaction. Results of equation 2 show that employee compensation has a strong a significant impact on job satisfaction ( $\beta = 0.421$ ,  $p = 0.000$ ). This also validates and proves our second research hypothesis for Pakistani educational sector employee compensation has a significant and positive impact on employees' job satisfaction. The results also indicate that as compared with job satisfaction impact of employee compensation is stronger on organizational commitment.

**Table # 5** Model Summary of EQ 2

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F - Value	F Significance
1	.583 <sup>a</sup>	.559	.521	.12496	12.351	0.000
Predictors: (Constant), JS						

**Table # 6** Coefficients of Variables of EQ 2

Model		Un standardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.187	.201		-1.576	.117
	JS	.421	.204	.324	4.476	.000
a. Dependent Variable: EC						

**Discussions**

The first research question is about the relationship between employee compensation and job satisfaction which shows a positive and significant relationship with each other. During data analysis it was observed that employee compensation outcomes are gaining popularity day by day. Study conducted by Lambert *et al.* (2001) concluded that compensation significantly influence job satisfaction. These results were in alignment of the perception that employees usually take employment where financial and non financial compensation are generally are utilized to measure their importance or the employee value. The second research question is regarding the association between employee compensation and employees' organizational commitment which shows a significantly positive association with each other. During data analysis it was observed that among most of the faculty member's affective commitment was minimum but normative and continuous commitment was strongly related with the financial compensation but non financial compensation has a strong influence on affective commitment on the employees.

**Contribution of the Current Study**

1. This research study adds up a new dimension for the researchers in the area of human resource management to investigate that how different HR practices can affect their outcomes like (job satisfaction, employee retention, organizational commitment, employees' productivity and employee intentions to turnover) within the organization.
2. Current research study also added researcher's understanding in relation with employee compensation, Job satisfaction and organizational commitment (Affective commitment, normative commitment, continuous commitment), in educational sector.
3. Current research study opens new dimension for the researchers by initiating a discussion on the value compensation management system, importance of job satisfaction for employees and value employee's organizational commitment (Affective commitment, normative commitment, continuous commitment) for the organization.

**Implication for Management**

The current research study reveals that compensation management can effect Job satisfaction and employees' organizational commitment.

For utilizing the full employee's potential organizations can use employee compensation as method for enhancing employee's Job satisfaction and their commitment with the organization. Research study also draw attention on the role of each component of both financial and non financial compensation towards overall organizational commitment, which they can easily implement and increase practices for maximizing employee contribution. Study also revealed that investment on their faculty by educational organizations for improved results, bonuses, commissions, allowances, participative decision making, quality of leadership etc result in higher job satisfaction and employee's organizational commitment. Findings of the study also proposed that organizations can increase the degree employee's organizational commitment by enhancing job satisfaction with compensation and work conditions. One way of attending this issue can be by enhancing employee involvement in staff meetings and discussions. Employee's interviews could be conducted to measure their perceptions of organization's ability to address this issue. Changes in variables like pay scales, employee input in policy development, and work environment could then be made in an effort to increase organizational commitment and reduce resultant undesired elements.

Educational setup in Pakistan normally tries their level best to get maximum productivity within available resources without paying much attention towards compensation management and significance of its elements. This study can be helpful for both universities and faculty to concentrate over different elements within compensation plans to increase or decrease the size of financial and non-financial benefits to get desired results from the workforce. This study clearly argues that universities should adapt compensation plans in order to enhance their competitiveness. Job satisfaction, organizational commitment is the dream of every institution and here this study provides the tools to reach its different levels.

### ***Limitations of the Study***

1. Budgetary constraints played a constraining part in the conduction of the current research study, in which data was gathered from one sector and results cannot be deemed as fully useful for the rest of the sectors.
2. As no significant research is done before in Pakistan because of which secondary data was not available for analysis. As result primary data has been gathered besides study, resulting in time and cost constrains.
3. All elements of the research study have been computed on the basis of perceptions of employees regarding their compensation, Job satisfaction and organizational commitment (Affective commitment, normative commitment, continuous commitment). This study is limited to use perceptual measures.
4. The procedure utilized for the data collection in this research study is very common. The data collection was done by questionnaire method. Other data collection methods could also been used for the research purposes including group discussions, observation and situational analysis etc.
5. This study has been conducted in the perspective of Compensation and its impact on Job satisfaction and organizational commitment (Affective commitment, normative commitment, continuous commitment). There are a number of other dimensions that could be considered in this study like, employee turnover intentions, employee productivity, training and development and other HR practices.

### **Directions for Future Research**

This study indicated that both Financial and Non financial compensation influence Job satisfaction and organizational commitment (Affective commitment, normative commitment, continuous commitment); it's a detailed study but yet lacks the first element either its compensation due to which employee commitment enhances or the employee's job satisfaction which becomes the roots of compensation. To open the new horizons for research following suggestions can be helpful for further studies;

1. For increasing external validity, researcher should obtain a more representative sample from more organizations and also from different sectors
2. Influence of compensation and job satisfaction can be checked be including different independent variable which are left like, House Rent allowance, contingent pay etc.
3. Enhancing size of the sample in the same sector can also give more strength in the result's validity.
4. By increasing the sample size from different industries can also further give strength in the result's validity.



5. If data would be collected from entire educational sector including (primary, secondary, intermediate, bachelor and higher education) from all cities of Pakistan, results can be generalized to entire education sector throughout Pakistan.
6. Further if the research could be conducted in different industries it can provide the industrial comparison among different behaviors depending upon the industry growth.
7. Other HR dimensions such as performance appraisal and career development can be investigated in the context of employee Job satisfaction and productivity.

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