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Impact of Compensation Management on Employee Job Satisfaction

Prem Bahadur Khati¹, Babu Ram Rawat²

¹Assistant Professor, Faculty of Management, Far Western University, Nepal

²Assistant Professor, Faculty of Management, Far Western University, Nepal

Abstract

The aim of this study is to find out the common compensation management practices and their effect on job satisfaction of employees. The required data were collected by means of a structured questionnaire which was distributed to the employees from ten commercial banks. The methods used for data analysis were Descriptive statistics, Kendall's Tau correlation, and multiple regression analysis. The study finds the relation between the compensation variables: salary, promotion, bonus, recognition, and job security along with their impact on job satisfaction of employees in commercial banks of Nepal. The result shows that the compensation variables are positively related to job satisfaction of employees, meaning higher the compensation variables higher the job satisfaction. Among these factors, job security was seen as the most influential factor for job satisfaction of employees. The findings suggest that both financial and non-financial compensation elements are important for job satisfaction of Nepalese commercial banks. This study provides practical guidance for bank management and adds empirical evidence to the limited research on compensation management in Nepal's banking sector, especially in Sudurpaschim Province of Nepal.

Keywords: Compensation Management, Job Satisfaction, Job Security, Bonus, promotion, salary



Introduction

Job satisfaction of employees is the most important issue that affects the way an organization grows (Miao & Kim, 2010). Especially in service-based industries such as the banking sector, job satisfaction of employees is the determining factor, as employees directly interact with the customers. The way they interact represents the institution's image and core values. It encompasses a pleasurable positive emotional state resulting from work appraisal and job experiences (Mottaz, 1987; Odunlade, 2012). One of the other factors includes employees' views of fairness. The way they perceive fairness and how much of that perception is aligned with the institution's treatment makes or breaks employees' trust. Job satisfaction refers to multidimensional psychological responses to one's job, comprising cognitive, affective, and behavioral components (Hulin & Judge, 2003).

Compensation is one of the most significant factors shaping these perceptions. Research has demonstrated positive effects of salary and bonus on employee performance and satisfaction (Darma & Supriyanto, 2017; Salisu et al., 2015). Employees tend to compare not only their basic salary but also additional rewards, including bonuses, promotion opportunities, recognition for performance, and the level of job security provided by the organization. Similarly, promotion has been found to have significant effects on work motivation and job satisfaction (Khan et al., 2010; Sowmya & Panchanatham, 2011), while recognition and job security contribute substantially to employee satisfaction (Tessema et al., 2013; Cheema et al., 2013; Nguyen et al., 2024). These elements together build trust of employees towards the organization and, hence, job satisfaction, encouraging employees to commit to their work.

Job satisfaction of employees is an important determinant for organization especially in banking. Job satisfaction describes how an organization will perform. Without employee satisfaction, the organization is less likely to perform well. Job satisfaction tells how employees feel toward the organization. And compensation variables are the most important factors in determining job satisfaction. Notwithstanding the significance, very little research has been done on compensation management or job satisfaction in Nepal service sectors especially in commercial banks of Sudurpaschim Province. Previous studies have examined the relationship between compensation factors and job satisfaction in Nepal and other developing economies (Singh & Shrestha (2011; Yukongdi &

Shrestha (2020); Uddin (2021). However, comprehensive studies focusing specially on Nepalese commercial banks remain scarce, highlighting the need for further empirical investigation.

This study addresses the significant empirical gap concerning the integrated impact of both financial (salary, bonus) and non-financial (promotion, recognition, job security) compensation factors on employee job satisfaction within Nepalese commercial banks, particularly in the under-researched Sudurpaschim Province. The study examines the impact of compensation variables: salary, promotion, bonus, recognition, and job security on job satisfaction of employees. It also focuses on how these elements together keep the employee motivated toward their job and help in building strong trust with the organization. The findings provide valuable insights for bank managers in designing appropriate compensation strategies to motivate and retain talented employees.

Literature Review

The literature shows the varying finding of the impact of compensation management on job satisfaction of employees. Aryal et. al. (2022) argues that there is a strong relationship between employee organizational commitment and performance evaluation and work satisfaction. The study comes to the conclusion that work happiness and performance reviews are key variables influencing employees' organizational commitment.

Mabaso and Dlamini (2017) found that there was no significant effect between benefits and job satisfaction, only compensation significantly predicted job satisfaction among academic staff. The study found that the compensation factors have a positive influence on job satisfaction and employee performance. The study also found that employee engagement mediates the relationship between compensation system and employee performance (Hoque et al., 2015; Jiang et al., 2023; Mensah & Tawiah, 2024).

Anwar et al. (2015) analyzed the effects of work stress and compensation on the employees' performance through motivation and job satisfaction. Compensation factors such as salary, bonus, promotion, job securities have positive influence on employee performance via motivation and job satisfaction. Allowances such as house allowance and hardship allowance that the teachers

received affect their job satisfaction (Muguongo et al., 2015). The presence of a relationship between rewards and employee performance and that there is a significant difference on the effects of intrinsic and extrinsic rewards on employee performance (Ihedimah et al., 2015).

Nguyen et al. (2014) found high-performance human resource practices influence organizational commitment by means of job satisfaction. Priya and Eshwar (2014) found that the degree of rewards, motivation and job satisfaction of employees has a strong relationship in the public sector and private sector commercial banks in Chennai. Similarly, Osibanjo et al. (2014) argue that there is a strong relationship between compensation packages and employees' performance and retention.

Employees claimed financial compensation, nonfinancial compensation received has been good, quite good and very good to encourage outsourcing employees' job satisfaction and employees' performance (Sangadji & Sopiah, 2013). Employee recognition, pay, and benefits were found to have a significant impact on job satisfaction (Tessema et al., 2013; Shrestha, 2017; Jamjumrus, 2019; Paudel & Bista, 2024).

Recognition and Job Satisfaction

Uddin (2021) indicates that motivation and reward have a favorable, significant association with employee work satisfaction. The study's conclusions have significant ramifications for enhancing the job happiness of workers in Bangladesh's banking industry (Yukongdi & Shrestha, 2020). Khan et al. (2013) found that the intrinsic rewards were significantly and positively correlated to employees' performance such as security, ability utilization, social service, variety, moral values, activity, and authority. Similarly, the extrinsic compensation that were found to be positively connected to employees' performance were recognition, supervision-human relations, and advancement. However, Ghazanfar et al. (2011) found that satisfaction with compensation can be a factor of work motivation whereas flexible pay is not a motivating factor in the jobs which the employees were holding. There is a significant relationship between non-monetary rewards and employees' job satisfaction (Cheema et al., 2013 & Khan et al., 2023). On the basis of these literatures following hypothesis was formulated:

H1: There is a significant positive impact of recognition on employees' job satisfaction in Nepalese Commercial Banks.

Salary, Bonus and Job satisfaction

Salary, efficiency in work, fringe supervision, and co-worker relations are the most important factors contributing to job satisfaction (Parvin & Kabir, 2011; Aktar et al., 2012). Darma and Compensation in the form of salary, wages, bonuses, facilities, travel programs and holiday allowance directly have a positive effect on employee performance (Supriyanto, 2017). However, Salisu et al. (2015) found that there is no significant relationship between salaries and allowance on job satisfaction. Mongaet al. (2015) found that factors of salary, interpersonal relationships, communication, and attitude of superiors, working conditions and team work are more significant in determining job satisfaction of employees of the ICICI bank in Himachal Pradesh. Salary is the most important factor for influencing job satisfaction of employees (Neog and Barua, 2014; Apeyusi, 2012). Maharjan (2022) found that the pay of the employee may serve as a motivating factor to improve job satisfaction. The incentive for improving banking performance and assuring job performance must be the pay scale of banking employees. Jehanzeb et al. (2012) found that the degree of rewards, motivation and job satisfaction of employees has a strong relationship in the banking sector of Saudi Arabia. On the basis of these literatures following hypothesis was formulated:

H2: Salary and bonus have significant positive impact on job satisfaction of employees in Nepalese Commercial Banks.

Job Security and Job Satisfaction

Public sector bank employees have expressed greater satisfaction with job security as compared to the private sector bank employees (Shrivastava & Purang, 2009). Neog and Barua (2014) found that the influence of supervisor support, healthy working environment, high Job security level, proper work-life balance, career opportunities and promotion, proper training and development opportunities are also very important factors for determining employee's job satisfaction. Job security, improved employee performance in the workplace, and a reduction in rude coworkers are all suggested as ways to improve staff morale and productivity (Manandhar and Uprety, 2022). The study also found that beta coefficients have a significant and positive impact on pay remuneration, belongingness, job security and training and development on employee satisfaction. Pathak (2015) concludes that job security is the most significant factor of job satisfaction to the employees of commercial banks in Nepal.

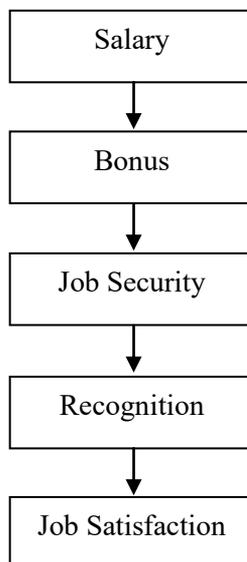
H3: There is a significant positive impact of job security on job satisfaction of employees in Nepalese Commercial Banks.

Promotion and Job Satisfaction

Khan et al. (2010) argue that demotivating factors like delay of promotion, no clear career progression, unreasonable load, long working hours and lack of appreciation from the managers influence the job satisfaction of employees (Omollo, 2015). Neupane (2018) concluded that better the level of compensation, promotion, job motivation, career counselling and work life balance, higher would be the job satisfaction of employees in Nepalese commercial banks. The study also found that the beta coefficients for compensation, promotion, job motivation, career counselling and work family support are positive and significant with job satisfaction of employees. Supervisor support, healthy working environment, high Job security level, proper work-life balance, career opportunities and promotion, proper training and development opportunities are also very important factors for determining employee's job satisfaction (Neog & Barua, 2014). Working environment, training, promotion, and performance appraisal is positive with return on assets which indicates that better the working environment, higher would be the return on assets (Basel, 2017).

H4: There is a significant positive impact of job security on job satisfaction of employees in Nepalese Commercial Banks.

Theoretical Framework



Source: Hoque et al., (2015); Anwar et al., (2015)

The figure shows that salary, bonus, promotion, job security, and recognition are taken as an independent variable whereas job satisfaction of employees is taken as a dependent variable.

Methods

This study uses both descriptive and causal comparative research designs to examine the effect of compensation management on job satisfaction of employees. By following the causal-comparative research design, the study goes to determine the cause and consequences of independent variables on dependent variables. The data analysis for this research was done by using Descriptive statistics, Kendall's Tau correlation, and multiple regression analysis. Sample data was collected by conducting a survey in which the questionnaire was distributed to the employees across the ten commercial banks in Sudurpaschim Province of Nepal. A total of 395 employees participated in the survey. Purposive surveying was used to ensure participation of employees from all ten banks. The questionnaires consisted of two sections. One section collected demographic information i.e. gender, age, academic qualification, designation, monthly income, and marital status. Another section measured six factors: salary, bonus, promotion, recognition, job security, and job satisfaction of employees. A five-point Likert scale was used to measure the different constructs, ranging from strongly disagree to strongly agree. The regression model used in the study is expressed as:

$$EJS = \beta_0 + \beta_1S + \beta_2B + \beta_3P + \beta_4JS + \beta_5R + e$$

Here β_0 represents the intercept, β_1 - β_5 represent regression coefficients, and e represents the error term. Employee Job satisfaction(EJS) was used as the dependent variable, whereas salary(S), bonus(B), promotion(P), recognition(R), and job security(JS) were used as independent variables.

Results

This study was based on primary data analysis. Salary, bonus, promotion, recognition, job security was used to measure the influence of job satisfaction of employees. This section reports the result of a questionnaire survey among different employees of commercial banks of Nepal.

Table 1*Demographic Characteristics of Respondents*

Respondents character	No. of responses	Percentage
Gender		
Male	256	64.81
Female	139	35.19
Age (in years)		
Below 20	11	2.78
20-29	274	69.37
30-39	100	25.32
40-49	10	2.53
Academic qualification		
Intermediate	7	1.78
Under-graduate	135	34.18
Graduate	171	43.29
Above Graduate	82	20.75
Designation		
Assistant level	157	39.75
Officer level	110	27.85
Manager level	103	26.08
Executive level	25	6.32
Monthly Income		
Less than 25000	75	18.99
25000-35000	100	25.32
35000-45000	78	19.74
45000+	142	35.95
Marital Status		
Single	238	60.25
Married	157	39.75

Table 1 shows that 64.81% have male respondents, whereas 35.19% have female respondents, showing a dominance of male respondents. Age-wise, the majority of respondents had an age between 20 to 29, which was 69.37% whereas the second highest number of respondents lay in the age group 30 to 39. Academically, 43.29% of the respondents were graduates, and 34.18% the respondents were undergraduates, dominating the results. Similarly, 39.75% of the respondents were assistant-level employees, and 27.85% & 26.08% were officer-level and manager-level employees, respectively, showing an almost equal distribution. Analyzing the monthly income capacity of each employee, it was found that 35.95% of the respondents had a monthly income greater than NRP 45000, whereas 25.32% of the respondents had a salary range in between NRP

25000 to NRP 35000. At last, the marital status of the respondents shows that 60.25% were single, dominating the charts.

Correlation Analysis

Table 2

Kendall's Tau correlation coefficient matrix for the dependent and independent variables of Commercial Bank in Far Western Nepal.

Variables	S	B	P	R	JS	EJS
S	1					
B	0.523**	1				
P	0.512**	0.428**	1			
R	0.284**	0.262**	0.626**	1		
JS	0.565**	0.505**	0.594**	0.381**	1	
EJS	0.548**	0.548**	0.439**	0.383**	0.647**	1

This table presents the Kendall's Tau correlation coefficients between dependent and independent variables. EJS (Job satisfaction of employees refers to positive or negative cognitive thoughts and opinions regarding various factors of compensation management) is the dependent variable. The independent variables are S (Salary which refers to the basic payments), B (Bonus which refers to extra payment to employees), P (Promotion which refers to upgrading the working post), R (Recognition is the non-monetary benefits rewarded against the contributions made by an employee to an organization) and JS (Job security which refers to security of their job). Notes: The asterisk signs (**) and (*) indicate that the results are significant at one percent and five percent level respectively.

Table 2 shows that all five independent variables have a significant positive relationship with Employee Job Satisfaction (EJS). Specifically, the correlation with Salary is 0.548, with Bonus is 0.548, with Promotion is 0.439, with Recognition is 0.383, and with Job Security is 0.647** (all significant at the 1% level). These values, all greater than zero and marked with a double asterisk to denote high statistical significance, mean that as each of these compensation and job factors increases, the level of employee job satisfaction also tends to increase in a measurable and reliable way. In conclusion, the results confirm that salary, bonus, promotion opportunities, recognition, and job security are all positively associated with job satisfaction, with job security exhibiting the strongest correlation among the variables examined.

Regression Analysis

Table 3

Estimated regression results of salary, bonus, promotion, recognition, and job security for job satisfaction of employees.

The results are based on 395 observations by using a linear regression model. The model is $EJS = \beta_0 + \beta_1 S + \beta_2 B + \beta_3 P + \beta_4 R + \beta_5 JS + e$, where EJS is the dependent variable. The independent variables are S (Salary which refers to the basic payments), B (Bonus which refers to extra payment to employees), P (Promotion which refers to upgrading the working post), R (Recognition is the non-monetary benefits rewarded against the contributions made by an employee to an organization) and JS (Job security which refers to security of their job).

Model	Intercept	Regression coefficient of					Adj. R ²	SEE	F value
		S	B	P	R	JS			
1	0.003 (0.008)	0.627 (2.367) *	0.31 (2.845) **	0.165 (1.299)	0.197 (2.161) *	0.39 (4.512) **	0.506	0.494	23.503

Notes:

- i. Figures in parentheses are t-values.*
- ii. The asterisk signs (**) and (*) indicate that the results are significant at one percent and five percent level respectively.*
- iii. A dependent variable is job satisfaction of employees.*

The regression analysis (Model 1) obtained significant positive coefficients for Salary ($\beta = 0.627$, $p < .05$), Bonus ($\beta = 0.310$, $p < .01$), and Job Security ($\beta = 0.390$, $p < .01$), meaning these are unique, positive predictors of Employee Job Satisfaction when other variables are controlled, while Promotion was non-significant and Recognition was marginally significant. The model's adjusted R² of 0.506 indicates that approximately 50.6% of the variance in satisfaction is explained by these predictors, and the significant F-value (23.503) confirms the model's overall statistical validity. In conclusion, the results demonstrate that salary, bonus, and particularly job security are key independent drivers of job satisfaction, with the full model providing a substantively meaningful explanation. This finding is similar to the findings of Muguongo et al. (2015) and Monga et al. (2015). Similarly, the beta coefficients for bonus are positive and significant with job satisfaction of employees. This indicates that bonus payment has a positive impact on job satisfaction of employees. This finding is consistent with the findings of Darma and Supriyanto (2017). The beta coefficients for promotion are

positive with job satisfaction of employees. It indicates that promotion has a positive impact on job satisfaction of employees. This finding is similar to the findings of Khanal and Poudel (2017). Likewise, the beta coefficients for recognition are positive and significant with job satisfaction of employees. This indicates that recognition has a positive impact on job satisfaction of employees. This finding is similar to the findings of Tessema et al. (2013). The beta coefficients for job security are positive and significant with job satisfaction of employees. It indicates that job security has a positive impact on job satisfaction of employees. This finding is similar to the findings of Pathak (2015).

Discussion

The objective of this research was to find the impact of compensation management on job satisfaction of employees. The finding using correlation analysis shows the individual impact of each compensation variable on job satisfaction. Regression analysis shows the impact on job satisfaction when all variables are considered. From the Correlation analysis, study found that all the variables have a positive impact on job satisfaction of employees, out of which job security has the most influence on job satisfaction. This shows that a stable job has a huge impact on job satisfaction of employees. Similarly, Salary and Bonus have a positive and strong impact on job satisfaction. This finding aligns with previous research by Muguongo et al. (2015) and Monga et al. (2015), who similarly found that basic pay significantly affects job satisfaction. Salary increases the motivation of the employees. Also, Performance based performance increased the motivation of the employees. Similarly, Promotion and Recognition have a positive impact on job satisfaction. This finding differs from Khan et al. (2010), who found promotion to have a greater effect on work motivation. From the Regression analysis, we find that job security has the most impact on job satisfaction. Similarly, Salary, Bonus, and Recognition have a strong impact on job satisfaction. Though promotion also had a positive impact on job satisfaction, it didn't show a significant impact while other variables were considered. Other variables such as fairness, appreciation and recognition are also necessary. In the end, the results suggest that job satisfaction of employees is highly influenced by compensation variables: job security, salary, bonus (performance-based reward), recognition and promotion. Though compensation plays a significant role in job satisfaction, and other factors such as leadership style, work environment, and work-life balance may also play an important role.

Conclusion

This study shows that salary, bonus, promotion, recognition, and job security were positively correlated with employee job satisfaction in Nepalese commercial banks. Job security demonstrates the strong individual relationship (correlation coefficient of 0.647). Similarly, the regression model shows that 50.6% of the variance in job satisfaction was identified as job security and it was the most influential factor ($\beta=0.39$), followed by salary ($\beta=0.627$) and bonus ($\beta=0.31$). However, recognition also had a significantly positive but less impact ($\beta=0.197^*$) on employees' job satisfaction. Promotion was positively correlated with job satisfaction (0.439^{**}), but a significant predictor in the combined model, indicating that financial rewards and job stability are the primary drivers of satisfaction in this context. It was found that Salary, Bonus, Promotion, Recognition and Job Security are the key factors driving job satisfaction amongst people in the service sector especially in commercial banks of Sudurpaschim Province of Nepal. 395 people were surveyed for the purpose of this study and tools such as regression and correlation were used to drive the results. Regression analysis was used to find the impact of five independent variables on job satisfaction of employees. Correlation was used to measure how strongly our dependent and independent variables were related and whether they had a positive or negative impact on job satisfaction. By the means of regression and calculating weights of each factor on Job Satisfaction (simultaneously), the following conclusion was drawn. Job security had the most impact surpassing promotion, meaning people are more likely to be satisfied with having a sense of future protection. Other factors had an average impact on the case. Meanwhile, using correlation it was found that all the factors are positively related to job satisfaction. The highest correlation of Job Satisfaction was with Job Security. It was also found that promotion was not a great contributing factor when other factors were considered. However, it had a considerable impact individually. This study focused completely on the concerns of the Sudurpaschim Province's commercial banks. These insights provide a complete understanding of the case study suggesting which factors need to be focused on more and which factors are not deal-breakers while considering job satisfaction of employees.

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Website: <http://education.fwu.edu.np/>

Management Control System and Organizational Performance of Cooperatives in Nepal

Prem Bahadur Singh, Ph.D. scholar

Faculty of Management, Far western University Nepal

ORCID ID: <https://orcid.org/0009-0000-5613-3441>

E-mail: prembahadursingh@fwu.edu.np

Abstract

The focus of this paper is on the impact of Management Control Systems (MCS) on cooperatives. MCS are constructed systems through which managers can design the use of operating activities and resources so that they can be aligned with implementing organizational strategies, and they require that people be responsible for using these resources. Democracy and Ownership Cooperatives, which seek to reconcile their democratic governance and ownership dimensions with economic sustainability, must therefore have effective means of assessing both sound business performance and member trust. A questionnaire based on the 'control' feature of MCS was used for measuring the feature and tested along 100 cooperatives managers using a structured tool which is also based on a questionnaire that applied 5-point Likert scale as an instrument in expressing their degree of agreement, with descriptive and analytical methods in dealing with the control features (internal audit, budgeting, flexible controls and reporting systems) of MCS. In conclusion, this study emphasizes the need for a well-designed and contextually appropriate Management Control System (MCS) in cooperative enterprises to address both economic and social goals. It is positively correlated with the level of enterprise operations and competition in that (1) the internal audit demand and budget design system should be easy to operate and flexible to promote formation. These actions do more than enforce financial discipline; they encourage flexibility and innovation in management.

Keywords: Management Control Systems, Cooperative Performance, Budgeting, Internal Auditing.

