

보상, 지각된 공정성, 성과에 대한 이론적 논의

Compensation, Perceived Equity, and Performance: Review of the Theoretical Literature

장옥진, 이정언
배재대학교 경영학과

Yit Chin Teo(yitcin_88@yahoo.com.my), Jeong Eon Lee(jelee@pcu.ac.kr)

요약

본 연구는 직무만족, 이직의도 및 보상시스템에 관련된 선행연구를 포괄적으로 고찰하여 향후 연구를 위한 이론적 시사점의 도출을 목적으로 하였다. 연구의 목적을 달성하기 위해, 보상시스템과 성과와의 관계를 분석한 선행연구를 체계적으로 논의하였다. 선행연구의 분석결과, 기업이 구성원에게 제공하는 내적·외적 보상은 직무만족과 긍정적인 관계, 이직의도와는 부정적인 관계가 있음이 확인되었다. 구성원이 지각하는 보상의 공정성은 직무만족에 긍정적, 이직의도에는 부정적인 영향을 미치는 것으로 제시되었다. 특히 보상의 공정성은 기업의 보상시스템과 성과와의 관계에서 매개적인 역할을 한다는 사실이 다수의 선행연구를 통해서 파악되었다. 본 연구에서는 선행연구의 리뷰를 바탕으로 보상시스템과 성과와의 관계에 관련된 명제를 제시하였으며, 후속연구를 위해 이론적 차원에서 관련 연구 영역의 방향성을 제시하였다.

■ 중심어 : | 보상 | 지각된 공정성 | 직무만족 | 이직의도 |

Abstract

The main purpose of this study is the comprehensive review of the compensation system that affects the employee's job satisfaction and turnover intention. This study is mainly designed to review previous studies of the impact of compensation system, and suggest meaningful implications in relation to firm's performance. It is clarified that compensation is positively related to firm's performance, and the perceived equity mediates the relationship between compensation and performance. It is suggested that an empirical research should be done based on the formulated propositions of this research.

■ keyword : | Compensation | Perceived Equity | Job Satisfaction | Turnover Intention |

I. Introduction

Human resources(HRs) is acknowledged as the most precious asset for an organization so they should be properly administered. HRs are the key variables of the prosperity and success of any

organization[1]. Employees receive rewards from an organization in return for their work performed. As a form of motivation, compensation contributes to the success of the organization. Compensation must be recognized as a critical factor in acquisition, utilization, and retention of HRs. In order to retain

* 본 논문은 2016학년도 배재대학교 교내 학술연구비 지원에 의하여 수행된 것임.

접수일자 : 2016년 06월 01일

수정일자 : 2016년 07월 05일

심사완료일 : 2016년 07월 05일

교신저자 : 이정언, e-mail : jelee@pcu.ac.kr

efficient and experienced workforce, compensation is crucial in overall performance. Many studies have looked further into the motivation through compensation for achieving an increased job satisfaction, performance, and reduced turnover intention[2][3].

The employee turnover rate is increasing everywhere in the world, also in Korea. The average total turnover rate reported in 2014 was 6.5 percent[4]. This problem cause researchers' attention of the thinking and research about the influencing factors of job satisfaction and turnover. To keep in view these problems, organizations are using different compensation plan for motivating their employees. The question is whether these compensations are the main motivation factor for employees to feel satisfied. Do they feel that they are fairly treated upon receiving these rewards? Have they ever thought to leave or retain to the company due to the rewards offered? Answers to these questions are the key sources for employers to maintain workplace in order to achieve the highest results with satisfied employees. Thus, compensation systems are extremely important to employees. The compensation received from work is a major reason for seeking employment and motivation for most people. Consequently, if an organization's compensation system is viewed as inadequate, job applicants may reject that company's employment offers, and current employees may choose to leave the organization, based on the fact that compensation keeps employees motivated and dedicated to their work[2].

The main purpose of this study is the comprehensive review of the compensation system that affects the job satisfaction and turnover intention of employees. This study explores knowledge about the importance of compensations and the perceived equity of rewards. In this study, the concept of equity

is taken as an important mediator, which will also affect the job satisfaction level as well as turnover intention. In this case, perception of equity plays an important role in mediating the relationship between rewards and performance. This study is designed to review previous studies on the impact of the compensation system on employees' job attitudes, suggest meaningful implications in relation to compensation and firm's performance.

II. Background

1. Compensation as a Motivating Factor

Compensation is the total of all rewards provided to employees in return for their services. DeNisi and Griffins (2008) defined compensation as the set of rewards that organizations provide to employees in exchange for their willingness to perform various tasks and responsibility[5]. Compensation is an integral part of the HR function, which is a vital component of the organizational management. The overall purposes of providing compensation are to attract, retain, and motivate employees. It is important not only in the acquisition of talent, but in the utilization of these resources[6][7]. Employee motivation through compensation can be in several forms, including salary raises, performance bonuses, commissions, profit sharing and other extra benefits such as vacations, cars and other tangible items that are used as rewards[8]. These compensation systems can be categorized as direct financial payment and indirect financial payments. According to DeNisi and Griffins (2008), most people are motivated by money at least for their basic needs and wants[5]. Rasheed et al. (2010) stated that motivation of an employee is highly increased by tangible and intangible rewards given to them against their high performance[9]. In

this regard, management always puts in concern for developing and improving comprehensive compensation plan for their employees. While organization press hard so much effort in compensating their employees and employees exert effort for different reasons, today's competitive economic environment has made compensation arguably the most important motivation factor.

An ideal compensation system motivates the employees to work harder and put more effort in their job. Compensation management is used to retain and motivate employees, and eventually it aims at improving the overall effectiveness of an organization. According to Khan et al. (2011), compensation management is advantageous to employers in the sense that it lowers the absenteeism rate and helps to motivate the employee to work harder due to the fact that employees know that after achieving a certain level of goals they would be rewarded or given an increment, which make the employees feel satisfied with their jobs[1].

Both the level of rewards and its fairness compared with others' rewards are important. Brown (2001) claimed that the compensation is eventually a way of thinking that one can apply to any reward issue arising in an organization, to see how he or she can create value from it. Since compensation is an important factor affecting how and why people choose to work at one organization over others, compensation system must be carefully managed and communicated[10]. Ali and Ahmed (2009) supported the idea that every employee serving in any organization expects that their organization will provide them with a fair wage to fulfill their needs and will compensate them equally without any biases[11].

2. Compensation and Perceived Equity

Equity theory is built on the concept that individuals are motivated by fairness. If they identify inequities in the input or output ratios of themselves and their reference group, they will seek to alter their input to reach their perceived equity[12-14]. Equity theory demonstrates that employees are concerned not only with the total compensation package they get, but how this compares with what others who are in a similar position receive. The way that people measure this sense of fairness is at the heart of equity theory. Adams (1965) asserted that the equity theory defining and measuring the relational satisfaction of employees. He suggested that employees seek to maintain equity between the inputs that they bring to a job and the outcomes that they receive from it against the perceived inputs and outcomes of others[12].

Redmond (2010) proposes that an employee's motivation is based on what he or she values to be fair when compared to others. If there is a perception of unfairness, there is a great potential for disaffection and disharmony as well as the impact upon motivation can be significant[13]. Judgments about what is fair and what is not fair are also found in relation to the rewards experiences where employees are doing the same or similar work. If differences in pay or benefits exist, that cannot be justified by differences in the value of jobs[13]. Paik et al. (2007) examined the effects of perception of compensation equity on job satisfaction and performance. They found equity gaps and there was a significant negative effect of perceived compensation gaps on job satisfaction[15]. Choi and Chen (2007) argued that the perception of rewards system fairness is related to their perceptions of the fairness of specific allocation events. The study described how perceptions of the distributive justice of specific events affect employee attitudes toward organizations[16]. It is found that

fairness perceptions were important contribution factors in affecting positive organizational outcomes[17].

The consequence of an equitable compensation system is that employees are more likely to be attracted to and committed to the jobs in organizations where employees do not voice widespread concerns about equity. Equity is such an important concern, thus organizations are responsible for developing a sufficient compensation system, and need to understand how perceptions of equity are formed.

3. Compensation as a Predictor of Performance

The aim of a compensation system is to attract, motivate, and retain high-quality employees, as well as to develop high levels of performance. The existence of compensation creates a motivating environment and lead to an increase in performance and profitability to the organization. Compensation system plays a vital role in determining the significant performance in a job, and it is positively associated with the process of motivation. Mphil et al. (2014) found that compensation has a positive impact on performance[18]. According to Tahir et al. (2011), intrinsic compensation plans play the role of the motivators for the employees and associates them with their job and organization. The level of motivation of employees increases when employees get an unexpected increase in recognition, pay, incentives, and rewards[3]. The highly motivated employees serve as the competitive advantage for any company because their performance leads an organization to well accomplishment of its objectives[19].

Deeproose (1994) stated that the motivation of employees and their productivity can be enhanced

through providing them the effective recognition which ultimately results in improved performance of organizations[24]. Cameron and Pierce (1997) showed that praising employees for their work leads to greater job interest and performance and those tangible rewards also enhance motivation when they are offered to employees for completing the work or for attaining or exceeding specified performance standards. They also suggested that when rewards are linked to specific standards of performance, employees are more satisfied and productive[20]. Ali and Ahmed (2009) proposed that there is a statistically significant relationship between reward and recognition respectively, also motivation and satisfaction. Rewards and recognition programs are equally supportive in enhancing the morale of employees and boosting the high performance among the employees in the organization[11].

III. Developing Propositions

Employee's attitudes such as job satisfaction and turnover intention are important for their behavior components. Managers have to understand either these rewards given to their employees will increase job satisfaction and reduced the turnover intention on their employees. Employees tend to be more satisfied with their job when they have matches what they want. They will be more committed and productive during performing their job if they are satisfied. Turnover is the process through which employee leaves an organization and organization replaces them. It is a measure of how many employees leave an organization and are replaced each year. Turnover intention is a sense to be as leaving the job or department[21]. To reduce turnover, organizations offer a wide assortment of compensation benefits so

that they feel that the organization values its employees' contribution. A high turnover rate can cost an organization with a huge expense and lead to a dissatisfied and unproductive workforce. High turnover, therefore, naturally affects performance.

Proposition 1. Intrinsic and extrinsic compensation is positively related to job satisfaction.

Proposition 2. Intrinsic and extrinsic compensation is negatively related to turnover intention.

Employees may look at the same thing yet perceive it differently. According to Adams (1963), perception of equity is the extent to which an employee perceives that he or she is treated fairly relative to comparable others inside and outside the organization[12]. When an employee perceives that he or she is treated fairly, it is logical that he or she consequently feels satisfied with the job. A number of experts suggest that job satisfaction is the result of a psychological comparison process. Fernandes and Awamleh (2006) mentioned that one such factor is perception of equity, which describes the individual's perception of the fairness of treatment received from an organization and their behavioral reactions to such perceptions. Employees were more satisfied when they felt they were compensated fairly in return of their contributions to the organization[22]. Perceived equity among employees could be raised by many motivational factors. These motivational factors influence the employee's thoughts at very great extent which make employees care about the organization and it will affect the employee satisfaction level and loyalty towards the organization[25]. Thus, an employee's belief in regards to what is fair and what is not fair will affect their motivation, attitudes, and behaviors toward the

organization.

Proposition 3: Perceived equity positively affects on the relationship between compensation and job satisfaction.

Proposition 4: Perceived equity negatively affects on the relationship between compensation and turnover intention.

IV. Implications

The majority of the organizations expect their employees to work with full commitment as well as exert excellence performance that complies with full standards through compensation management. Employees' performance is a key ingredient of the inner strength of the organization. In terms of research questions of this study, the research theoretically explores the relationship between compensation and employees' performance. It is proposed that the basic role of rewards and recognition in any organization is to define the compensation system to pay for the employees and to connect that compensation system to the employees. They can create a link between their rewards and performance, which would enhance an employee's job satisfaction[23].

It is also proposed that an adequate compensation system integrates and maintains the commitment among employees that assures a high standard of performance and workforce retention[26]. Organizational rewards result motivated employee and foster satisfied employees in the return for high performance in an organization. As the employees engage in their work intentionally for their own sake, then they will feel intrinsic motivation in their behaviors as their work will essentially be enjoyable and satisfactory.

When effective rewards and recognition are implemented within an organization, favorable working environment is produced which motivates employees to excel in their performance.

Based on the review of previous research, it is identified that compensating the employee fairly enhances the employee motivation and their self-worth. When employees feel fairly compensated by the organization compared to others, they are more likely to be motivated, and when they feel unfairly treated they are highly inclined to feelings of demotivation. Perceived inequity or unfairness in any category of compensation can result in low morale and loss of organizational effectiveness. In any position, employees want to feel that their contributions and work performance are being fairly compensated.

The comprehensive review of previous research on compensation, perceived equity, and performance clarified that compensation are positively related to firm's performance, and the perceived equity affects on the relationship between compensation and performance. Since this research is performed only by theoretical review of the related studies, however, it is suggested that an empirical research should be done based on the formulated propositions.

참 고 문 헌

- [1] R. I. Khan, H. D. Aslam, and I. Lodhi, "Compensation management: A strategic conduit towards achieving employee retention and job satisfaction in banking sector of Pakistan," *International Journal of Human Resource Studies*, Vol.1, No.1, pp.89-97, 2011.
- [2] A. Kulchmanov and M. Kaliannan, "Does money motivate employees? empirical study of private and public financial sector in Kazakhstan," *International Journal of Business and Management*, Vol.9, No.11, pp.214-223, 2014.
- [3] A. J. Tahir, R. Yusoff, A. Khan, K. Azam, M. S. Ahmed, and M. Z. Sahoo, "A comparison of intrinsic and extrinsic compensation instruments," *World Journal of Social Sciences*, Vol.1, No.4, pp.195-206, 2011.
- [4] The Economist, *Investing into Asia's reform landscape: Asia business outlook survey 2015*, The Economist Corporate Network, 2015.
- [5] A. S. DeNisi and R. W. Griffins, *Human resources management*, NY: Houghton Mifflin, 2008.
- [6] R. W. Mondy, *Human resource management*, NJ: Prentice-Hall, 2010.
- [7] K. I. Hwangm I. H. Lee, and H. S. Rhee, "The influence on metropolitan university hospital administrative staff job satisfaction," *The Journal of the Korea Contents Association*, Vol.14, No.1, pp.639-648, 2014.
- [8] J. Campbell, *Motivation, attitudes, goal setting, performance and interactive effects of pay for performance*, MN: Capella University, 2007.
- [9] I. R. Rasheed, H. D. Aslam, and S. Sarwar, "Motivational issues for teachers in higher education," *Journal of Management Research*, Vol.2, No.2, pp.1-23, 2010.
- [10] D. Brown, *Reward Strategies: From intent to impact*, London: CIPD, 2001.
- [11] R. Ali and M. S. Ahmed, "The impact of reward and recognition programs on employee's motivation and satisfaction: An empirical study," *International Review of Business Research Papers*, Vol.5, No.4, pp.270-279, 2009.
- [12] J. S. Adams, Injustices in social exchange, In: L. Berkowitz (Ed.), *Advances in experimental social psychology* (2nd ed.), Academic Press,

- pp.267-299, 1965.
- [13] B. F. Redmond, *Lesson 5: Equity theory: Is what I get for my work fair compared to others? Work attitudes and motivation*, The Pennsylvania State University World Campus, 2010.
- [14] S. W. Shin, "The effects of compensation system quality on compensation system satisfaction and work efforts," *The Journal of the Korea Contents Association*, Vol.9, No.9, pp.313-324, 2009.
- [15] Y. Paik, K. Parboteeah, and W. Shim, "The relationship between perceived compensation, organizational commitment and job satisfaction," *International Journal of Human Resource Management*, Vol.18, No.10, pp.1768-1781, 2007.
- [16] J. Choi and C. C. Chen, "The relationships of distributive justice and compensation system fairness to employee attitudes in international joint ventures," *Journal of Organizational Behavior*, Vol.28, No.6, pp.687-703, 2007.
- [17] A. Bakhshi, K. Kumar, and E. Rani, "Organizational justice perceptions as predictor of job satisfaction and organization commitment," *International Journal of Business and Management*, Vol.4, No.9, pp.145-154, 2009.
- [18] A. H. Mphil, M. Ramzan, H. M. K. Zubair, G. Ali, and M. Arslan, "Impact of compensation on employee performance," *International Journal of Business and Social Science*, Vol.5, No.2, pp.302-309, 2014.
- [19] R. Q. Danish and A. Usman, "Impact of reward and recognition on job satisfaction and motivation: An empirical study from Pakistan," *International Journal of Business and Management*, Vol.5, No.20, pp.159-167, 2010.
- [20] J. Cameron and W. D. Pierce, "Reinforcement, reward, and intrinsic motivation: A meta-analysis," *Review of Educational Research*, Vol.64, No.3, pp.363-423, 1994.
- [21] R. P. Tett and J. P. Meyer, "Job satisfaction, organizational commitment, turnover intention, and turnover: Path analyses based on meta-analytic findings," *Personnel Psychology*, Vol.46, No.2, pp.259-293, 1993.
- [22] C. Fernandes and R. Awamleh, "Impact of organizational justice in an expatriate work environment," *Management Research News*, Vol.29, No.11, pp.701-712, 2006.
- [23] G. Flynn, "Is your recognition program understood?," *Workforce*, Vol.77, No.7, pp.30-35, 1998.
- [24] D. Deeprose, *How to recognize and reward employees*, AMACOM, 2006.
- [25] A. Ajmal, M. Bashir, M. Abrar, M. M. Khan, and S. Saqib, "The effects of intrinsic and extrinsic rewards on employee attitudes," *Journal of Service Science and Management*, Vol.8, No.4, pp.461-470, 2015.
- [26] P. Milne, "Motivation, incentives and organizational culture," *Journal of Knowledge Management*, Vol.11, No.6, pp.28-38, 2007.

저 자 소 개

장 옥 진(Yit Chin Teo)

준회원



• 2015년 9월 ~ 현재 : 배재대학교 대학원 경영학과 석사과정

<관심분야> : 보상관리, 국제인적자원관리, 조직성과

이 정 언(Jeong Eon Lee)

종신회원



- 2008년 4월 : 독일 하노버대학교 경영학부(경영학박사)
- 1996년 3월 ~ 2001년 4월 : 한국 국방연구원 연구원
- 2010년 9월 ~ 현재 : 배재대학교 경영학과 교수

<관심분야> : 인사전략, 조직관리 전략, 보상관리