

Impact of Direct and Indirect Compensation on Employee Job Satisfaction: An Empirical Study on Commercial Banks of Bangladesh

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ABSTRACT: This study aims to identify the effect of direct and indirect compensation package on employee job satisfaction. A total of 279 bankers from 12 different commercial banks were interviewed to collect data regarding their job satisfaction based on compensation package that they receive from their banks. Descriptive statistics, multiple regression analysis and ANOVA tests have been used to analyze data. Results reveal that there is a positive but insignificant relationship between direct compensation and employee job satisfaction. It also shows that indirect compensation has a significantly positive impact on employee job satisfaction and it is more significant than direct compensation. Therefore, employees working under different commercial banks will be more satisfied if they are offered indirect compensation along with direct one as absence of direct compensation would make people dissatisfied based on Herzberg's two factors theory of motivation.

Keywords: Salary, Benefits, Job Satisfaction, Employee Performance

1. INTRODUCTION

Due to globalization, organizations have to compete with each other not only locally but also globally. Sustainability of an organization depends on various factors where employee job satisfaction plays a vital role. Satisfied employees can help an organization to achieve sustainable competitive advantage of an organization. Employee job satisfaction fosters a positive image of an organization which helps to attract potential candidates to apply for an organization. It is only a satisfied employee who can serve at his/her level for organizational development. The return that the employees receive from their organization in exchange of their mental and physical effort is known as compensation. It includes both direct and indirect payments and benefits. Some of those are short term while others are long term in nature. Initially satisfaction comes from a compensation package which is further modified by a large number of factors.

There are two basic elements in compensation such as direct and indirect compensation which includes both financial and non-financial rewards provided to the employees. (Noe et al, 1996; Mello, 2014). Direct compensation means any type of cash payments that employees receive directly in the form of salary or wages, economic benefits, bonuses, and commissions (Mondy & Noe, 2005). Indirect compensation is an indispensable part of an employee's compensation which includes indirect monetary and non-monetary remuneration to the employees for continuing their job with their employing organization. It is also known as fringe benefits, employee services, supplementary compensation and supplementary pay. Indirect

compensation is given to employees in different forms such as housing facilities, financial assistance for food, medical allowance, and daycare centers etc. (Dessler, 2011).

According to Herzberg, salary is a hygiene factor which cannot make employees satisfied though its absence makes employees dissatisfied as it's their right and they receive the payment as an output of their efforts. Maslow said that salary is the basic element which helps an employee to meet the most fundamental need of an employee, which is known as physiological need. It can make them satisfied for a certain time period and later on a new need takes place in their minds which is to be fulfilled to get satisfied. This paper deals with the impact of direct and indirect compensation package only which will try to identify whether direct or indirect payments and benefits make employees more satisfied.

Direct and indirect compensation have more positive impact on employee performance than the impact of training and development as employees become more satisfied when they receive better compensation (Wicaksono & Damayanti, 2020). Financial compensation whether it is direct or indirect has a positive significant effect on employee job satisfaction. The more the financial compensation is, the more is the level of job satisfaction (Burhanudin & Tambun, 2021). Direct and indirect compensation have significant positive impact on employee job satisfaction which plays as a mediating variable in employee job performance (Lestari et.al, 2020). Same findings have been expressed by Suleiman et al. (2018). They found a significant direct positive relationship with direct reward and employee job satisfaction. A clear link was identified between indirect compensation and job satisfaction as fringe benefits like gratuity, pension plan, medical facilities etc. play a vital role in providing job satisfaction. If organizations want to have better performance from employees then management must focus on indirect compensation as it carries more weight than the direct one. Facilitating employees through welfare activities meeting employee needs will foster employee job satisfaction. Ultimately it will lead to improved employee performance and organizational performance as a whole (Brasilio and Tridayanti, 2020). This is also supported by Suleiman et. al. (2018). They recommend providing performance bonus to have better job satisfaction. It is also observed that a culture of praise and employee appreciation can make employees more satisfied than the satisfaction level rendered by financial incentives.

2. LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT

Compensation

Compensation includes all forms of financial and non-financial, direct and indirect rewards offered to employees in exchange of their participation and contribution in job for their organization (Geringer & Frayne, 1990). Harrison and Liska (2008) defined reward as the basic component of the employment contract which is intrinsic and extrinsic in nature and these are derived as an outcome of organizational employment. Compensation is a package of both monetary and non-monetary rewards which are offered to employees in exchange of their contribution to the organization. Wages, salaries and different types of employee benefits such as paid vacations, insurance, maternity leave, free traveling facility, retirement benefits, etc. are included in this package (Ahmed & Ahmed, 2014).

Direct Compensation

It represents any type of monetary payment to employees for their time worked or any achievements. It includes basic pay and incentives. Performance Bonus, commission, stock option, profit sharing etc. are included in incentive payment (Mello, 2014). Salary as a part of monetary compensation motivates employees to provide their best effort for the betterment of their organization (Gupta, 2014). Direct compensation means the salary and bonuses and other incentives and allowances (Sinambela, 2016).

Indirect Compensation

Indirect compensation is a type of payment which is not involved directly with basic salary or wage. Common elements of compensation category are social security, worker's compensation for work related injury,

retirement plan, paid holiday, paid vacation and other benefits (Byars & Rue, 2008). Indirect compensation consists of two elements. One is legally required such as social security, family and medical leave, unemployment compensation insurance etc. Another indirect compensation is optional for organizations which include life insurance, disability insurance, paid time off, tuition reimbursement, dependent care, flexible working hours etc. (Mello, 2014). Most of the benefits are categorized under indirect benefits constitute 40% of the total compensation cost. Indirect compensation can also be called as fringe benefits which include house rent allowance, subsidized food, medical allowance; room for children daycare etc. (Chhabra, 2005). According to Sinambela (2016) indirect compensation is composed of different types of insurance such as health and employment insurance, pension plan, paid holidays, and other facilities like parking spaces. These benefits are offered to attract and retain the best human capital.

Indirect compensation plays a crucial role in attracting and retaining highly competitive employees to achieve competitive advantage for any organization (Noe et al, 1996; Dessler, 2011). Indirect compensation has a direct positive significant effect on employee performance as employees are more satisfied with indirect compensation (Sari & Tridayanti, 2018). Therefore, organizations have to be cautious in designing and applying indirect Compensation because of its relationship with employee morale and productivity as well (Ahmed & Ahmed, 2014). Fringe benefits, supervision, and peer relations have close relationship with job satisfaction.

Job satisfaction

Job satisfaction is an attitude or feeling of employees towards their job and organization as a whole. The more positive the feeling is, the more will be the level of job satisfaction and vice-versa (Gibson et al.,1996). It can also be expressed as employees' emotional response towards their job and working environment. Job satisfaction has been explained by several theories such as Porter's Discrepancy theory, Equity theory designed through Adam's theory of justice and Need fulfillment theory by Schaffer. Job satisfaction results from employees' perception whether there is an equity or inequity in terms of leadership style, payment, organizational policies and also their expectation and reality. The less deviation is occurred, the greater will be the level of job satisfaction (Sudiardhita et al., 2018). As per the theory developed by Schaffer, employee job satisfaction is dependent on the fulfillment of their needs. If they get things as per their need they will be more satisfied than those employees whose needs are not fulfilled (Staw, 1991). Employee job satisfaction represents the positive or negative feeling of the employee regarding their organization and job. It is dependent on employees' expectation from their organization (Robbins & Judge, 2017).

Though there are some dominant factors influencing job satisfaction, some factors are still important to consider such as facilities, job security and rewards. However, salary level has little impact on employee job satisfaction. (Kabak, et al, 2014). Compensation packages, job security, and working conditions have a dominant role in job satisfaction. (Masum, Azad & Beh, 2015). Age and gender have relatively less effect on job satisfaction. Employees working under Private Banks are more satisfied than those of Govt. banks because of better facilities and a supportive work environment (Islam & Saha, 2001). Bankers get retail loan, home loan and car loan facilities. Snacks are also offered to them daily. Maternity leave with full payment for 6 months is also offered. Bankers are motivated by Performance bonus as they get minimum 2 bonuses which are completely dependent on their performance. The amount of bonus varies based on their performance. Salary as a very small portion of compensation package has no significant impact on job satisfaction. Indirect compensation has more significant role in employee job satisfaction rather than direct compensation. Therefore, organizations should offer attractive indirect compensation along with direct one (Manurung & Kasenda, 2017).

By analyzing the scenario the following hypotheses are built-

H1: Direct compensation has significant positive relationship with employee job satisfaction

H2: Indirect compensation has significant positive relationship with employee job satisfaction

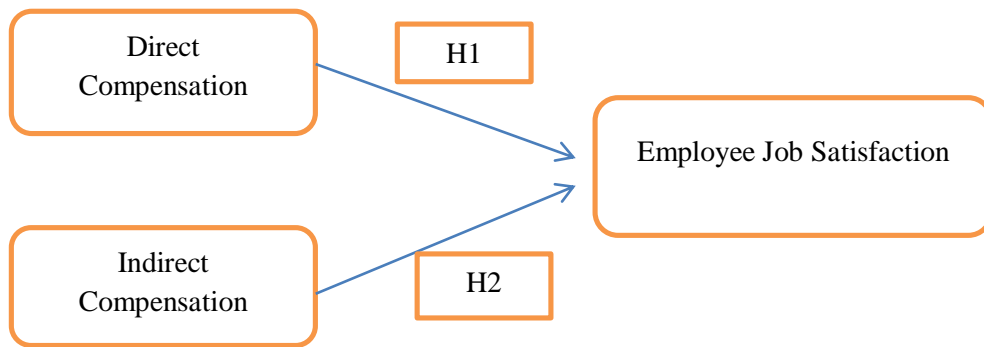


Figure 1: Theoretical Framework

3. METHODOLOGY

This study is based on exploratory quantitative research. Convenience random sampling has been used to collect data physically from bank employees by using structured questionnaire. A total of 360 questionnaires were distributed. Among them 324 responses were received and out of those 279 questionnaires were usable for this research. Respondents represent employees working under 12 different commercial banks namely Prime Bank Limited, Bank Asia Limited, Shahjalal Islami Bank Limited, Brac Bank Limited, Pubali Bank Limited, Union Bank Limited, Southeast Bank Limited, EXIM Bank Limited, National Bank Limited, First Security Islami Bank Limited, Janata Bank Limited and City Bank Limited. They are from different branches having different designations ranging from Junior Officer (JO) to Assistant Vice President (AVP). Data set represents 68.5% male and 31.5% female respondents mostly having MBA degree. To design questionnaire 5-point Likert Scale ranging from strongly disagree (1) to strongly agree (5) has been used. Reliability tests have been run to test data quality. To analyze this quantitative data descriptive statistics, multiple regression analysis and ANOVA tests have been used.

4. RESULTS AND DISCUSSION

Table 1: Demographic Information of Respondents

Characteristics		Frequency	Percent
Gender	Male	191	68.5
	Female	88	31.5
	Total	279	100.0
Education	BBA	43	15.4
	MBA	224	80.3
	MA	6	2.2
	M.Com	6	2.2
	Total	279	100.0
Experience	0-3 years	98	35.1
	4 Years-7 Years	111	39.8
	7 Years+	70	25.1
	Total	279	100.0
	Bank Asia	16	9.3
	Brac Bank Ltd.	20	7.2
	City Bank Ltd.	24	8.6
	EXIM Bank Ltd.	12	4.3
	First Security Islami Bank Ltd.	43	15.4

Name of Banks	Janata Bank Ltd.	25	9.0
	National Bank Ltd.	18	6.5
	Prime Bank Ltd.	35	12.5
	Pubali Bank Ltd.	20	7.2
	Shahjalal Islami Bank Ltd.	18	6.5
	Southeast Bank Ltd.	28	10.0
	Union Bank Ltd.	10	3.6
	Total	279	100.0

Research survey shows that 68.5% respondents are male and the rest are female bankers while most of them (80.3%) are MBA degree holders. 39.8% respondents have 4-7 years' work experience. Respondents represent both government and private commercial banks operating in Bangladesh.

Table 2: Model Summary

Dependent Variable: Employee Job Satisfaction

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.440	.298		4.829	.000
Direct Compensation	.241	.135	.139	1.783	.076
Indirect Compensation	.372	.101	.287	3.679	.000
ANOVA	F	Sig.	R Square	Adjusted R Square	
	25.877	.000	.492	.463	

Data set represents Cronbach's Alpha value .874 which is more than acceptable range (.70) to check data reliability. Therefore, it can be said that data is reliable for this research. In this study the coefficient of determination is used to measure the model's ability to explain variations in the variables (Ghozali, 2016). The results of multiple linear regression analysis show that value of the coefficient of determination (adjusted R square) is 0.463. It means that 46.3% of the variation in employee job satisfaction can be explained by the variation of two variables namely direct and indirect compensation. Remaining 53.7% is influenced by other variables which are excluded in this study.

Results show that direct compensation has a positive relationship but not highly significant. It is significant for 90% confidence level but if it is treated by taking confidence level 95% then it is insignificant. Therefore, it can be said that H1 rejected. People think that this is their right to get salary and other incentives in return to their contribution towards the growth of an organization. This finding is supported by previous researchers too (Salisu, Chinyio & Suresh, 2015) and Suleiman et. al. (2018). Kabak et. al. (2014) gave the same opinion that salary has a very small contribution to make the employees satisfied while indirect compensation can play a crucial role. Thus, result of this study is consistent with previous studies. This finding is similar with the two factor theory of motivation proposed by Herzberg where direct compensation cannot make people satisfied but it can make people dissatisfied if it is absent.

Result from the above table says that indirect compensation is significant and positively correlated with employee job satisfaction which is also supported by previous studies. Therefore, it can be claimed that H2 is accepted. Gratuity and pension have a significant role on employee job satisfaction. Since pension plans ensure monthly payment in future, it has a strong influence on job satisfaction (Salisu, Chinyio & Suresh, 2015).

Due to irregularity, allowance does not have a significant impact on employee job satisfaction. Finally it can be said that employee job satisfaction can be increased through the application of indirect compensation while direct compensation remains constant (Burhanuddin & Tambun, 2021).

4. LIMITATIONS AND FUTURE RESEARCH

This study includes respondents from 12 different commercial banks which could be expanded to all banks and result could vary if employees from private and government banks were compared. This study does not consider gender as a variable to evaluate the effect of direct and indirect compensation on employee job satisfaction. In future, some other variables could be included to have a conclusive study regarding this issue.

5. CONCLUSIONS AND IMPLICATIONS

The main concern of this study was to determine the effect of direct and indirect compensation package on employee job satisfaction. It was predicted that both factors significantly affect employee job satisfaction but results reveal that only indirect compensation package is significant and positively related to employee job satisfaction while direct compensation package has positive but insignificant relationship to employee job satisfaction. It is suggested that banks should offer better benefits to employees by analyzing their needs and expectations. Only direct compensation alone cannot play a significant role in employee job satisfaction as employees believe that it is their right to have salary equivalent to their contribution. Therefore, maintaining equity is a big concern in designing compensation package. Concerned authority should be aware while designing direct as well indirect components of compensation package which will make employees motivated to stay with their organization in the long run.

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