

Awareness of Employee Compensation and its Effect on Employee Motivation

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Abstract - *Motivation of the employees plays an essential role to help an organization achieve effectively the objectives in terms of productivity and commitment of its employees. Considering the importance of employees' motivation, we conducted a research in Nangarhar province of Afghanistan to find whether employees are really affected by the compensation. In other words, what factors can influence the motivation of employees within a company? The data for the study is randomly obtained from 350 employees of distinct private and public organizations through five-likert scale adopted questionnaire. To obtain consistent study results, the ordinary least square an econometric assessment method was used. The results show that rewards have positive and statistically significant impacts on the motivation of employees. Our findings also show that the impact on employee motivation is positive on financial and non-financial benefits. This means that organizations provide their employees with both financial and non-financial benefits, thus strengthening employee motivation. However, the findings also indicate that intrinsic rewards, extrinsic rewards, and job satisfaction have a considerable influence on employee motivation. Therefore, we strongly recommend both private and public organizations to motivate their employees through compensations.*

Keywords: *Employee Motivation; Employee Performance; Ordinary Least Square; Afghanistan*

1. INTRODUCTION

Rewards are the tools of employee motivation, but every employee does not expect the same reward to be motivated. Some employees are motivated by financial rewards while others expect recognition, appreciation and challenging work. With this in mind, managers concentrate on the motivation of human resources both intrinsically and extrinsically. Different companies use different types of rewards for employee motivation such as bonuses, commission, increment, promotion, recognition, appreciation and many more. Many large organizations failed and winded up because of losing their workforce as they had not been motivated by rewards for their performance and abandoned their companies and were attracted by other organizations. Because of recent globalization and tough competitions, a company needs committed and talented workforce for survival. The rate of employee turnover is increasing very rapidly as companies are offering competitive benefits for the attraction of talented employees from competitors which is a great challenge for human resource managers. The question why employees' turnover increases day by day, is that managers do not pay attention to their compensation. Employees, to be motivated and productive in an organization, do not only work to get basic salary but also expect good compensation. Compensation system has three main objectives: attracting, eliciting a good performance and maintaining commitment to the organization. To do so, a good compensation system is needed to attract, motivate and

retain the talents within the organization to achieve the organizational goal. Managers need to understand what motivates their employees in the context of their role in order to be effective and successful. Because not every employee awaits the same motivation reward. Some employees are motivated when they are appreciated in front of their colleagues, others want financial rewards. Money is the best tool of motivation but sometimes the smile of the manager is enough to be motivated. This research is carried out to determine the effect of compensation on the performance of employees in the light of this problem. Bosco (2014) reviews the motivation of employees in Kenya for reward management practices. Harold et al. (202), Akafo and Boateng (2015), Safi (2014), Abdullah et al. (2016), Brooks (2015), Kotera et al. (2017), Pasztor and Valent (2016), Akafo and Boateng (2015) are also on the opinion that compensations and rewards influence the motivation of employees positively. The rate of employee turnover increases very rapidly because of globalization and tough competition in the market. Employees are attracted by competitive advantages offered by other organizations and human resource managers are facing this challenge to meet. If companies want to survive, they should attract, motivate and retain the talented human capital for competition and reduce the rate of turnover, which is very costly for them. To do so, managers should know about the significance of compensation of the employees and definitely, this study helps them to comprehend the employee compensation effects and make the workforce productive for the organization to achieve its goal. This

study is also useful for the employees too as their managers specifically HR managers would be aware and provide them a wonderful compensation system, which would fulfill the personal needs of the employees. Several studies have examined the effects on employee motivation of various rewards. These studies show that rewards have a positive effect on motivation of employees in both public and private organisations. However, this gap still remains in case of Afghanistan. We more likely to fill this gap. Precisely, we would like to examine the impact on employee motivation of various rewards. Our main objectives of the study are following. Firstly, to investigate the effects of financial and non-financial rewards on employees' motivation. Secondly, to examine the effect of intrinsic and extrinsic rewards on employee motivation. Finally, to scrutinize the effects of job satisfaction on employee motivation. The rest of the paper is organized as follows. Section 2 discusses the most pertinent literature of the study. Section 3 would elaborate. Section 4 would describe.

2. THEORITICAL REVIEW

Harod et al. (2002) assesses the effects of incentives and motivation on work place environment in the United State. The result shows that motivation and incentives have a positive impact on the working environment in employees. Ghazanfar et al. (2011) investigate the relationship between employee motivation and compensation in Pakistan. Their findings reveal that compensation has significantly and positive effects on employee motivation. Similarly, Ayesha (2015) has the same view in case of Bangladesh. Lazear (2000) investigates the effects of performance pay on productivity. The findings of the study show that performance pays highly affect the productivity of employees in their workplace. Akafo and Boateng (2015) assess the impact of reward and recognition on job satisfaction and motivation in Ghana. Their results strongly suggest that reward and recognition have a positive effect on employee motivation. Pasztor and Valent (2016) investigate the effect of fringe benefits on employee motivation in Hungary. The researcher used primary data for the study and their result shows that employees can be productive and effective if the organizations provide some compensation such as financial rewards. Latham and Ernst (2006) conducted a research on Canada To assess the impact of rewards on the motivation of employees. The research has found that motivated workers make the organization's activities more productive and efficient. Managers must therefore take care of the motivation of the employees. Ngima and Kyongo (2013) evaluate the consequence of contribution management on the employees' performance in Kenya. The findings reveal that the variables like challenging work, interesting work, organizational goal and performance discussion lead the employees to better performance and retain them for long time in the

organization. Stannojevskaaetal (2012) studies the effect of employee motivation on employee performance by utilizing the secondary data. The results clearly indicate that motivation encourages the employees' involvement and dedication to work. Dahie et al. (2015) test the effect of organizational performance on employee motivation in Somalia. The finding reveals that organizational performance had a significant positive influence on employee motivation. Jayaweera (2015) conducted a research on the effect of work environmental factors on job performance in England .Primary data was used for the study. This finding shows that there is a significant relationship between work environmental factors and job satisfaction and it was also suggested that work motivation mediates between work environment and employee's performance. Al Jasmi(2012) assessed the effect of employee work motivation on the performance and productivity .This study is based on primary data. As a result, it was observed that most of the employees are motivated when they get feedback from their managers that their work is recognized and appreciated by the management.

A number of other studies such as Amnor (2011), Aktar et al. (2012), Kuria (2013), Bosco (2014), Boateng (2007), Cho and Perry (2011), Brooks (2015), Aluf et al. (2017) Argil & Gençkaya (2008), Safiullah (2014), and Abdullah et al. (2016) also on the opinion that reward has a positive and significant effect on employee motivation. Mosisa (2006) test the effects of employee motivation on their performance. The quantitative result of the study reveals that both financial and non-financial rewards have a positive effect on employee motivation. Kotera et al. (2017) examine the relationship of work motivation and work profile in the UK hospitality service. Their findings reveal that internal motivation has more effect on employee motivation than external motivation. However, external motivation significantly correlated with gender, work experience and position in the organization. Jean et al. (2017) conducted a research on the effect of compensation strategy on employee motivation. The findings of the study show that recognition and appreciation by of awards motivate the employees for better performance. Aktar et al (2013), Yamoah (2014), Ryneset al. (2004), Zakaria (2011), Pasztor and Valent (2016), Cerasoli et al. (2014), Cho and Perry (2012), Darko (2011), Kuria (2013), and Akafo and Boateng (2015) are also on the same track.

3. METHODOLOGY

3.1 DATA COLLECTION

The study data is obtained by means of the adopted questionnaire on a five-likert scale. This means that issues have been rated with agreement, disagreement, uncertainty, strong agreement and strong disagreement. All study variables such as employee motivation, financial rewards, non-financial rewards, intrinsic rewards, extrinsic rewards, and employee satisfaction

were collected with the adopted questions. The questionnaires were distributed randomly among 400 respondents.

3.2 POPULATION AND SAMPLING

Our study population is the number of all employees working in Nangarhar's NGOs, private sectors, and government sectors. The data was collected using random sampling technique. The sample size was 400 individuals. A five-likert scale of adopted questionnaires has been distributed among the staff of various organizations located in Afghanistan's Nangarhar province. However, 350 questionnaires were properly collected from the respondents and the remaining 50 were removed due to certain limitation.

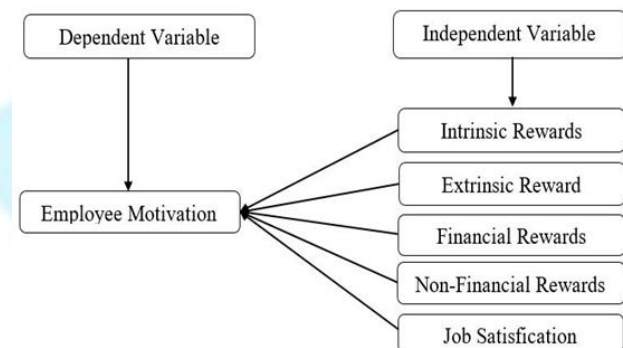
3.3 RESEARCH DESIGN

By distributing questionnaires from 350 respondents, the data was collected randomly. The collected data was entered into Excel spread sheet for further processing. We coded strongly agree with 5, agree with 4, disagree with 2, strongly disagree with 1, and not sure with 3. Eview computing packages were used to obtain the regression results through ordinary least square (OLS) estimation technique. The results obtained for the study are reliable, consistent and efficient due to satisfying all the assumption of OLS such as auto correlation, multicularity, normality test, and heteroskedicity.

3.4 THEORETICAL FRAMEWORK

As a result of his research, Rafique et al. (2014) states that characteristically organizations focus a great deal on extrinsic rewards provided by outside parties but that intrinsic rewards were also important in employee motivation. Similarly, recognition and appreciation are both intrinsic rewards that encourage and enhance employees' performance. According to (Robinand Robert, 2014) their study on "Intrinsic Motivations of Public Sector Employees: Evidence for Germany". The study showed that the performance of public sector employees depends to a large extent on intrinsic motivations rather than other forms of reward. Anne (2014) confirmed that inherently motivated employees are more precious for all organizations as motivation leads to productivity and performance. The intrinsic motivation therefore forms part of the motivation concept and refers to the task to fulfill itself, so that the organization can experience job satisfaction and employee motivation. Since the Civil Service Reform Act of 1978, performance incentives for motivation for public workers have been emphasized. These incentives are external and employers motivate them. Although the effect may be less than inherent motivation (Deci & Ryan, 2004), the expectation of such extraordinary rewards may have a good effect on attitudes in the

workforce. External reward expectations may interact with intrinsic motivation, in addition to their direct effect. Empirical research, along with recent theoretical developments, suggests that increased external rewards could lead people to believe that their behavior is controlled by rewards. Public service motivation (Perry, Hondeghem, and Wise, 2010; Perry and Wise, 1990; Wright, 2007) conducted a research suggested that tradeoffs between extrinsic rewards and public service motivation. Perry and Wise (1990) anticipated that organizations that attracted high-level employees were less dependent on utilitarian (e.g., extrinsic) motivation for managing staff performance, but there was only limited follow-up research (Perry et al. 2010Wright (2007) concluded, "Based on a study by 807 staff in the State of New York. It may not be important for public sector employees to receive intrinsic rewards provided by the nature or function of an organization—or compensate for the limited availability of extras in terms of performance." The figure below shows the dependent and independent variables of the study. The dependent variable is employee motivation. The independent variables are intrinsic rewards, extrinsic rewards, financial rewards, non-financial rewards, and job satisfaction. We examine the impact of these independent variables on the dependent variable (employee motivation)



3.5 MODEL SPECIFICATION

Base on the theoretical framework, we specified following model for our study.

$$EM = \gamma_0 + \gamma_1 FR + \gamma_2 NFR + \gamma_3 JS + \gamma_4 ER + \gamma_5 IR + \varepsilon$$

where,

γ_0 = Intercept

$\gamma_1 - \gamma_5$ = Slope coefficeints

EM = Employee Motivation

FR = Financial Rewards

NFR = Non-Financial Rewards

IR = Intrinsic Reward

ER = Extrinsic Reward

4. RESULTS AND DISCUSSION

4.1 DESCRIPTIVE STATISTICS

Table 1 provides the descriptive statistics of the study. Job satisfaction as the independent variable that has mean 2.31 with the standard deviation of 0.210. The maximum and minimum values of job satisfaction is 1.336, and -1.253, respectively. Identically, financial rewards as independent variable has mean 2.037 with standard deviation of 0.304. The maximum and minimum values of job satisfaction is 3.182, and -0.355, respectively. The maximum value of intrinsic reward is 1.883 while its minimum is 0.689. Similarly, the maximum and minimum figures of extrinsic rewards is 2.368, and 1.235, respectively.

Variables	N	Mean	St.Dev	Max	Min
JS	350	2.312	0.210	1.336	-1.253
FR	350	2.037	0.304	3.182	-0.355
NFR	350	1.927	0.436	2.470	1.256
IR	350	1.055	0.123	1.883	0.689
ER	350	2.023	0.514	2.368	1.235
EM	350	1.831	0.354	3.005	1.368

a St.Dev denotes standard deviation.

4.2 CORRELATION MATRIX

Table 2 presents the correlation matrix of the study. Correlation matrix shows the co-movement and association between the variables. The correlation coefficient between employee motivation and job satisfaction is positive with $r=0.34$ while the correlation coefficient between employee motivation and financial rewards is positive with $r=0.47$. The correlation between employee motivation and intrinsic reward is positive. The correlation coefficient of the rest of the independent variables and employee motivation is positive.

VariaB	EM	JS	FR	NFR	IR	ER
EM	1.00					
JS	0.34	1.00				
FR	0.47	0.22	1.00			
NFR	0.53	0.39	0.21	1.00		
IR	0.55	0.40	0.27	0.33	1.00	
ER	0.37	0.43	0.17	0.47	0.53	1.00

4.3 REGRESSION RESULTS

Table 3 reports the regression results of the study. The estimated coefficient of job satisfaction is statistically significant and positive. Its coefficient is 0.745. This implies that an increase in job satisfaction would lead organization to enhance the motivation of employees. The coefficient estimate of financial rewards is positive. This show that a one percent increase in financial rewards would affect employee motivation by 75 percent on average. This estimated coefficient is highly significant at the percent level. The impact of non-financial rewards on employee motivation is positive and statistically significant at five percent level. Its coefficient is 0.45, which implies that an increase in non-financial rewards would lead organization to enhance their employee

motivation. The above table further shows that the effect of extrinsic reward on employee motivation is positive and statically significant. Its coefficient is 0.365, which show that a one percent increase in extrinsic reward would lead organization to enhance the motivation of employee by 65 percent on average. The intrinsic reward has a positive and statistically significant effect on employee motivation. Its coefficient is 0.324, showing that an increase in intrinsic rewards would enhance the motivation of employees. R-square shows that 77 percent variation in the dependent variable (employee motivation) is due to the independent variables of the study. This implies that overall model is fit. Further, F-statistics shows the validity of the model. Our model is valid because the probability of f-statistics is less than five percent.

Variables	Coefficients	St.Error
JS	0.745***	0.258
FR	0.756**	0.369
NFR	0.458**	0.057
ER	0.365**	0.368
IR	0.324**	0.875
Con	0.236**	0.025
R square	0.77	
F-Statistics	18.600	
Probability	0.012	
Durbin Watson	2.03	

5. CONCLUSION

This paper assesses the impact of employee compensation on employee motivation using ordinary least square estimation technique. The data for the study is obtained from 350 employees of distinct private and government organizations randomly, through five-likert scale adopted questionnaire. The ordinary least square an econometric estimation technique were utilized to obtain the consistent results of the study. The results display that rewards have a positive and statistically significant effect on employee motivation. Our findings further show that the impact of financial and non-financial rewards on employee motivation is also positive. We recommend that human resource managers should make sure that the employees are satisfied with their jobs by assessing the needs of the employees' time to time to fulfill their needs and to make them motivated. A future research could be taken on other provinces of Afghanistan,

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