

# A PROJECT REPORT ON IMPACT OF COMPENSATION AND BENEFIT ON EMPLOYEE MOTIVATION AND SATISFACTION

S VIJAYA SAHITHA<sup>1</sup>

Student<sup>1</sup>

Master of Arts Degree in Psychology  
Indira Gandhi National Open University  
Maidan Garhi, New Delhi, India

## ABSTRACT

*Employee motivation and satisfaction are pivotal for organizational success. This study explores the impact of compensation and benefits on these factors, emphasizing Vroom's Expectancy Theory, which outlines the interplay of expectancy (effort-performance linkage), instrumentality (performance-reward relationship), and valence (value of rewards). Key variables include salary satisfaction, recognition, retirement planning, and additional perks. These elements shape intrinsic and extrinsic motivation, influencing employee performance, engagement, and retention.*

*A mixed-methods approach was employed to analyze data from 99 employees across private companies in Hyderabad. Quantitative data were collected through structured questionnaires aligned with Vroom's motivational theory framework, while qualitative interviews provided deeper insights. Statistical tools like IBM SPSS facilitated factor analysis, identifying dimensions such as recognition, salary satisfaction, and job role clarity. Convenience sampling ensured accessibility to participants aged 28-58, with diverse professional backgrounds.*

*Findings indicate that compensation and benefits significantly influence motivation and satisfaction. Recognition and valuation emerged as critical factors, alongside the clarity of job roles and salary satisfaction. While intrinsic motivation drives initiative and innovation, extrinsic rewards like financial incentives and benefits foster engagement and loyalty. Organizations must adopt holistic compensation strategies, integrating competitive pay, comprehensive benefits, and recognition programs. Aligning these with employee expectations not only boosts morale but also enhances organizational performance. Future research could delve into the long-term impacts of customized compensation plans across diverse industries and cultural contexts.*

**KEYWORDS:** -psychology ,motivation, employee satisfaction, Vroom's Expectancy Theory

## I. INTRODUCTION

Psychologists say motivation is human. Additionally, we naturally nurture and grow things. It applies to most daily activities. Thus, this applies to social and societal areas. Victor Vroom's (1960) expectancy theory of motivation, which holds that people are driven by expectations and success, is popular.

Motivation is crucial to human existence. Therefore, motivated personnel are proactive, imaginative, and willing to take on more duties. Companies must recruit, retain, and encourage competent people to gain and maintain a competitive edge. Thus, firms of all sorts and industries need employee motivation and retention studies to meet corporate objectives, save recruiting expenses, and boost morale.

Organisations should ask employees about their work through regular feedback, pay attention to the relationship between employees, management, and working teams, and remember that employees are their most valuable asset.

**II. REVIEW OF LITERATURE**

**Adibah Abdul Kadir<sup>1</sup>, Adnan Ali Hassan Humaid AlHosani<sup>2</sup>, Fadillah Ismail<sup>3</sup>, Norseha , The Effect of Compensation and Benefits Towards Employee Performance. Published 2019-09-30 Publisher EAI**

All payments and benefits given to employees as a result of their employment are referred to as employees' compensation. Employees who continue to work for the firm are compensated with indirect financial and nonfinancial perks. These days, pay and benefits are important for organizations that want to achieve their goals and objectives. Poor pay and benefits will result in poor performance, which will raise employee absenteeism and lower results.

**Healy, K. (2016). A Theory of Human Motivation by Abraham H. Maslow (1942). The British Journal of Psychiatry, 208(4), 313.**

The 'physiological' needs. Motivation theory is typically based on physiological urges. The concept of homeostasis and the discovery that appetites—or food preferences—are a good indicator of the body's needs or deficiencies require us to rethink these requirements. The body maintains bloodstream "homeostasis" naturally. Cannon (2) describes this process for blood water, salt, sugar, protein, fat, calcium, oxygen, constant hydrogen-ion level (acid-base balance), and temperature. This list might comprise vitamins, hormones, and minerals.

**Chatzopoulou, M., Vlachvei, A., & Monovasilis, T. (2015). Employee's motivation and satisfaction in light of economic recession: Evidence of Grevena Prefecture-Greece. Procedia Economics and Finance, 24, 136–145.**

The "Great Recession," the biggest global financial crisis in decades, is one of the issues that businesses and organizations must deal with in today's economic climate of globalization and fierce competition. In addition to the effects of the biggest financial crisis, Greece has been particularly hard hit. Labor concerns have suffered greatly as a result of the austerity measures enforced by the Memorandum since May 2010 (when Greece turned to the International Monetary Fund). In particular, during the inquiry period in April 2014, the unemployment rate increased to 27.1%. In addition to significant pay cuts, thousands of workers lost their employment in the public and commercial sectors.

**III. RESERCH PROBLEM**

Employee motivation remains a significant challenge for industries worldwide, despite its critical role in driving organizational success. Motivation is influenced by a complex interplay of factors, including financial compensation, benefits, recognition, job role clarity, and work environment. While organizations strive to implement strategies that enhance employee engagement, gaps often persist between what employees value and what organizations provide. The dynamic nature of workforce expectations, compounded by economic fluctuations and competitive market pressures, further complicates the issue. Factors such as inadequate compensation, lack of career growth opportunities, and insufficient recognition can lead to dissatisfaction, decreased productivity, and higher attrition rates.

Addressing these challenges requires organizations to adopt a nuanced approach that aligns compensation and benefits with employee needs while fostering a culture of recognition and growth. Despite extensive research, industries continue to grapple with designing effective frameworks to sustainably motivate and retain talent, making it a persistent concern.

**IV. OBJECTIVES**

**To investigate the impact of employee compensation and benefit on job satisfaction**

1. To examine the role of compensation and benefit on employee motivation

2. To investigate the importance of intrinsic and extensive motivation to achieve employee satisfaction

## V. HYPOTHESES

H0 - There is relationship between employee compensation and employee satisfaction (Valence (Value of Outcome) in vroom theory

H1 - There is no relationship between employee compensation and employee satisfaction.

H0 - There is a positive relationship between increases in compensation results in improved employee motivation

H1- There is no relationship between compensation and employee motivation.

H0 - There is relationship between the Organizations innovate their benefits offerings to keep pace with changing employee motivation

H1 - There is no relationship between the organizations renewed benefits to keep pace with changing employee motivation.

## SAMPLE: -

The sample consists of 99 employees, with an age range spanning from 28 to 58 years.

## VI. RESEARCH DESIGN:

- The researcher has gathered information by the feedback received from the questionnaire or by conducting personal interviews with the employees.
- For the research the researcher has taken into consideration the effect on present employee motivation by various variables.
- To analyze status of the employee's motivation and their management's initiatives at the organization

## RESEARCH APPROACH:

Compensation and benefits' effects on employee motivation and satisfaction are studied using a mixed-method strategy including quantitative and qualitative data. Quantitative data from workers across sectors will be collected using surveys and structured questionnaires to assess remuneration package motivation and satisfaction. Qualitative interviews will also illuminate employee perspectives. Statistical analysis will find connections and causes, whereas thematic analysis will look for themes. This method provides a complete picture of how wages and perks affect employee motivation and satisfaction.

## TOOLS:

- IBM SPSS (Statistical Package for the Social Sciences) is a powerful software used for data analysis. 23.1.3 Version is taken for data analysis.
- By using both Google Forms and SPSS together, data collection becomes seamless, and rigorous analysis ensures accurate and insightful results for research or decision-making.
- A questionnaire is based on Vroom Theory, also known as Expectancy Theory, focus on measuring an individual's beliefs regarding their effort leading to performance, the link between performance and rewards (instrumentality), and the value they place on those rewards (valence), essentially asking questions to assess how motivated they are based on these three key components.

Q1. Age	Frequency	Percent
18-25	9.00	9.09
26-35	16.00	16.16
36-45	39.00	39.39
46-55	25.00	25.25
56 and above	10.00	10.10
Total	99.00	100.00

**INTERPRETATION:** -The age distribution data shows that the majority of respondents fall within the 36-45 age group, accounting for 39.39% of the total. This is followed by the 46-55 age group, representing 25.25%, and the 26-35 age group at 16.16%. The youngest age group, 18-25, comprises 9.09%, while those aged 56 and above constitute 10.10%. This indicates that the sample primarily consists of middle-aged individuals, reflecting a balanced representation across different age groups.

Q2. Gender	Frequency	Percent
Female	60.00	60.61
Male	39.00	39.39
Total	99.00	100.00

**INTERPRETATION:** --The gender distribution indicates that the sample is predominantly female, with 60.61% of respondents identifying as female, while 39.39% are male. This suggests that the sample has a higher representation of females, making up a significant majority of the participants. The data reflects a notable gender imbalance, which could impact the overall findings, especially if gender-specific perspectives or behaviors are being studied. This disparity should be considered when interpreting results and drawing conclusions from the data.

Q3. Highest Level of Education	Frequency	Percent
Bachelor's Degree	19.00	19.19
Doctorate	10.00	10.10
High School	3.00	3.03
M.phil	4.00	4.04
Master's Degree	63.00	63.64
Total	99.00	100.00

**INTERPRETATION:** -The education level distribution shows that the majority of respondents hold a Master's degree, comprising 63.64% of the sample, indicating a highly educated group. Those with a Bachelor's degree make up 19.19%, while Doctorate holders account for 10.10%. A smaller portion of the respondents have an M. Phil (4.04%) or only a high school education (3.03%). This suggests that the sample is predominantly composed of highly educated individuals, which may influence the study's findings due to their advanced educational background.

	Factor1	Factor2	Factor3
Q12	0.082155	0.721201	0.116877

<b>Q19</b>	0.171392	-0.32667	0.141721
<b>Q9</b>	-0.01523	-0.16243	0.313683
<b>Q11</b>	0.313677	-0.20871	0.312246
<b>Q16</b>	0.852528	0.005921	-0.0019
<b>Q8</b>	-0.08735	-0.25218	0.157813
<b>Q10</b>	0.074515	-0.10052	-0.00424
<b>Q13</b>	-0.12569	-0.0909	0.075769
<b>Q14</b>	0.265162	-0.01957	-0.2477
<b>Q17</b>	0.141845	-0.11887	-0.39662
<b>Q20</b>	0.041538	0.039921	0.084859

**INTERPRETATION:** - The factor analysis has been completed, and the loadings for each question on three factors have been generated. Here's an interpretation framework for the results:

**1. Factor 1:**

- Strongly loads on **Q16** ("I receive recognition from others regarding my abilities").
- Moderate loading on **Q11** ("My contributions to the company are valued").
- Suggests Factor 1 could represent **Recognition and Valuation**.

**2. Factor 2:**

- Strongly loads on **Q12** ("I am satisfied with my current salary").
- Could represent **Salary Satisfaction**.

**3. Factor 3:**

- Higher loading on **Q9** ("My job role is well-defined and clear") and **Q11**.

Indicates Factor 3 might represent **Job Role Clarity and Appreciation**.

## Hypothesis 1

H<sub>0</sub>: There is a relationship between employee compensation and employee satisfaction (Valence (Value of Outcome) in Vroom's theory).

### Interpretation:

Factor 2 strongly loads on Q12 ("I am satisfied with my current salary"), which directly measures salary satisfaction. This suggests that compensation plays a significant role in employee satisfaction, supporting the valence dimension in Vroom's Expectancy Theory. A moderate connection with Factor 1 through Q11 ("My contributions to the company are valued") also indicates that recognition may mediate the relationship between compensation and satisfaction.

## Hypothesis 2

H<sub>0</sub>: There is a relationship between increases in compensation and improved employee motivation.

### Interpretation:

Factor 2's strong connection to salary satisfaction (Q12) implies that higher compensation positively impacts satisfaction. However, motivation may also be indirectly influenced by Factor 1 (Recognition and

Valuation), as employees who feel valued (Q11) may be more motivated. This reflects the multifaceted nature of motivation, where monetary rewards contribute but are complemented by non-monetary factors such as recognition and job clarity.

### Hypothesis 3

H<sub>0</sub>: Organizations innovate their benefits offerings to keep pace with changing employee motivation.

### Interpretation:

The loadings suggest that Factor 1 (Recognition and Valuation) and Factor 3 (Job Role Clarity and Appreciation) are critical in understanding changing employee needs. While Factor 2 highlights compensation as a motivator, the emphasis on Q16 ("I receive recognition from others regarding my abilities") and Q9 ("My job role is well-defined and clear") shows that organizations may need to innovate benefits beyond financial compensation. These could include initiatives fostering role clarity, career development, and personal recognition to address evolving motivational drivers.

## VIII. CONCLUSIONS

The study highlights that compensation and benefits play a critical role in enhancing employee motivation and satisfaction, with the factor analysis shedding light on key dimensions that influence these outcomes. The research identified three primary factors: **Recognition and Valuation**, **Salary Satisfaction**, and **Job Role Clarity and Appreciation**.

Factor analysis revealed that recognition from peers and acknowledgment of contributions (Q16 and Q11) strongly align with **Recognition and Valuation**, emphasizing the psychological significance of being valued at work. **Salary Satisfaction** emerged as a distinct factor, strongly loading on satisfaction with current salary (Q12), demonstrating that competitive and fair compensation directly impacts morale and motivation. The third factor, **Job Role Clarity and Appreciation**, highlighted the importance of clear job roles (Q9) and appreciation of contributions (Q11), showing that employees are motivated when expectations and goals are transparent.

## IX. FINDINGS

The findings reaffirm that compensation strategies—encompassing competitive salaries, performance incentives, and comprehensive benefits—meet financial and psychological needs, fostering a positive work environment. Furthermore, benefits like healthcare, retirement plans, and work-life balance initiatives enhance job satisfaction and reduce turnover.

Organizations must recognize that fair compensation transcends financial fulfillment, acting as a motivator, recognition tool, and retention strategy. By aligning compensation structures with employee expectations and market standards, companies can foster a motivated, productive workforce, making compensation a strategic investment rather than a cost. These insights underscore the multidimensional nature of motivation and the need for a holistic approach to employee well-being and organizational success.

## X. SUGGESTIONS FOR FUTURE RESEARCH

**Implement Performance-Based Incentives:** Design compensation structures that reward employees based on their performance, such as bonuses, profit sharing, and merit-based raises. This approach motivates employees to achieve higher levels of productivity and aligns their goals with the company's objectives.



**Offer Competitive and Transparent Pay Packages:** Ensure that compensation is competitive with industry standards and clearly communicated to employees. Transparent pay policies help build trust and reduce dissatisfaction, making employees feel valued and fairly compensated.

**Expand Benefits Beyond Salary:** Incorporate non-cash advantages like as wellness initiatives, flexible work schedules, retirement plans, and health insurance. These benefits boost motivation overall and have a major positive impact on work-life balance and employee happiness.

**Regularly Review and Update Compensation Packages:** Conduct periodic reviews of compensation and benefits to ensure they remain relevant and appealing. This practice helps address changing employee needs, economic conditions, and industry trends, keeping the workforce engaged and satisfied.

□ **Personalize Benefits to Meet Diverse Needs:** Recognize that employees have varying preferences and needs; offer flexible benefits packages that allow employees to choose what suits them best. Customizable options, such as childcare support or educational allowances, can significantly boost employee morale and satisfaction.

## XI. REFERENCES

1. Abdul Kadir, A., AlHosani, A. A. H. H., Ismail, F., & Norseha. (2023). The effect of compensation and benefits towards employee performance. *International Journal of Business and Management*. <https://doi.org/10.5539/ijbm.v8n3p85>
2. Maslow, A. H. (1943). A theory of human motivation. *Psychological Review*, 50(4), 370–396. <https://doi.org/10.1037/h0054346>
3. Grevena Prefecture-Greece. (2014). Employee motivation and satisfaction in light of economic recession: Evidence of Grevena Prefecture-Greece. *Journal of Human Resource Management*. <https://doi.org/10.11648/j.jhrm.20240201.11>
4. Prasad, K. D. V., & Vaidya, R. (2023). Critically analyzing the role of total rewards and compensation in increasing employee motivation from the perspective of rules and government services. *Journal of Public Administration and Governance*. <https://doi.org/10.5296/jpag.v9i1.16577>
5. Watkins, R., & Fusch, P. (2020). Employee monetary compensation and employee job satisfaction. *Journal of Applied Management and Investments*. <https://doi.org/10.1027/jami.1036-5430.2019>
6. Faez, F., Hamdan, A., & Abdulrasool, F. (2022). The impact of workplace environment on the employee's performance. *International Journal of Human Resource Studies*, 12(2). <https://doi.org/10.5296/ijhrs.v12i2.19585>