

# An Empirical Study of Relationship between Compensation, Working Environment and Motivation of Employees in Banking Sector of Pakistan

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## Abstract

This study scrutinizes the relationship of the compensation and the working environment to the motivation of employees in banking sector of Pakistan. Based upon the working environment and compensation it was empirically analyzed that, these two factors have significant and positive relationship with the motivation of banking sector employees. Consequently motivation increases through good working environment and the satisfactory compensation structure. A well structured questionnaire has been used as a tool for data collection. The primary data has been taken from 150 respondents to explore the relationship among variable. Results, conclusion, recommendations, limitations and future research directions have mentioned for future practitioners.

**Keywords:** Compensation; Working Environment; Motivation; Banking sector, Pakistan.

## 1. INTRODUCTION

If a company wants to get success in a market, it must have satisfied, motivated and skillful to its employees. It enables the firm to produce quality products at low cost (Wagar, 1998). This study attempts to test the relationship between the employees' motivation and the importance of compensation and work environment in the developing country like Pakistan. The banking sector is a service industry and provides the financial services to their customers. So if your employees are motivated then they can provide best and quality services to their customer so motivation of employees is most important because it leads to intension of good work. . Today there is a great competition between all the banks in Pakistan to provide the best services to their customer. So for management it is a big challenge to motivate their employees because they can provide good quality services to their customer and can get dominant position in their service industry. Motivation is one of the important HRM activities for the retention of talented and good employees which are also valuable for the company and compensation is more important to motivate employees. At threshold level the organization wants from their employees that they do the tasks what the organization assigned to them and also according the standards. But management expects more from employees like employees do work fairly, continually acquiring new knowledge, skills and also have a self assessment for themselves. In contrast employees also want from organization to provide good working environment and fair compensation and benefits. (Beer, Spector, Lawrence, Mills, & Walton, 1984).

Compensation involves pay and salaries, rewards and incentives and other financial benefits which mostly companies used to motivate employees. Sansone and Hareckiewicz (2000) identify that compensation benefits energize and guide behaviors toward reaching a particular goal (Milkovich and Newman, 2002). In addition to this good working environment also motivate employees to work well. Better working conditions like, work relationships, adequate equipment, space, heating, lighting and ventilation motivate employees (Gerhart). So the present study focuses on two key antecedents of employee motivation which are working environment and compensation in the banking sector of Pakistan. In Pakistan banking sector is suffering motivation problem. There is a great need to find out the determinants which could effect and enhance the motivation in the banking sector. This study could be serving as a helping hand for the HR managers in banking sector of Pakistan to adopt and formulate the strategies and to develop HR practices to motivate employees so that they retain to their jobs and work well for the well being of their organizations.

## 2. LITERATURE REVIEW

Marlow and Patton (1993) argued that the proper management of employees is the key factor in the survival of small firms. Holt (1993) argue that a firm needs a motivated and skillful workforce if it wants to compete in today's competitive work environment, and many researchers have evidence linking HRM activities and organizational performance (Becker and Gethart 1996: Ichniowski, Kochan, Levine, Olson, & Strauss.,1996).

## 2.1 COMPENSATION

Compensation means all forms of financial returns and services and also includes benefits that employees receive for their jobs (Milkovich & Newman, 2002). A lot of researchers describe the importance of compensation in motivating and attracting the good employees. Compensation benefits like pay, rewards, medical are the primary objectives and consideration in human resource activities because it provides the employees rewards for their good work and performance (Bohlander, Snell, and Sherman, 2001). Because employees preferences are different from each other but almost all employees want compensation and benefits for their work. Stone (1982) provides the fact that people are motivated due to many reasons by compensation. (Kovach, 1987) argue that people are motivated because compensation and rewards provides the basic necessities of life to some extent. Pay can be an important factor for the decision of employees either to stay with the current organization or to leave it and also if employees are dissatisfied with the pay system then it can be a key factor for employee's turnover (Heneman & Judge: 1999). Salaries and pay system have a great impact on employee's decision to join the organization or not (E. E. Lawler, 1971). Behavior of employees is linked with the pay for getting better individual and organizational performance (W. N. Cooke: 1987). In motivation of employees, rewards and incentives affect the behavior and attitude of employees towards work.

Many researchers (Rehman, Zaheer & Sufwan, 2007) found the impact of effective Human resource strategies (pay, promotion and training) on job Satisfaction of employees. They argued that (pay, promotion and training) all have positively and significantly related to job satisfaction. And job satisfaction then leads to motivation to do more work to get benefits. (E. E. Lawler, 1971) also found the relationship of compensation and benefits to turnover intention of employees.

The main drive for study has been the assumptions that pay or compensation affects job satisfaction and employees work behaviors or motivation by Oshagbemi (2000). Further (Ghazanfar, Chuanmin, Khan & Bashir, 2011) found the relationship of job satisfaction, compensation and work motivation of employees.

Rewards play an important role in the employee's financial issues through wages allowances and bonuses and also by different benefits like employees retirement plan, leaves and vacations and other benefits (Sue Shellenbarger, 1999).

Therefore the rewards issues are important for staying and motivating the current employees and also for the attraction of potential employees. On the basis of above mentioned arguments we can assume that compensation practices have the great impact on the motivation of employees. So the relationship of compensation over the motivation of employees in the banking sector of Pakistan is needed to test.

**H1: *There is significant and positive relationship between compensation practices and motivation of employees.***

## 2.2 Work Environment

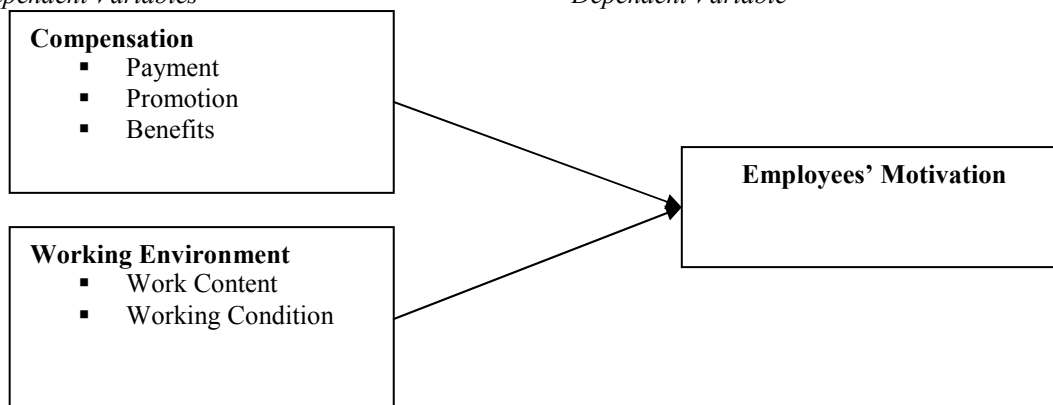
It is organization's legal and moral responsibility to ensure hazards free working environment and the surroundings of workplace should also be comfortable and safe for the physical and mental health of workforce (Decenzo). Green (2001) said managers can motivate employees by providing them the conditions necessary for motivation of employees such as trust, working environment which leads to the better performance of the employees. Herzberg and Miller (1968) identified work environment as one of the most important incentive which increase the motivational level of employees. Green (2001) also found the relationship of working environment, job satisfaction and job performance. Herzberg and Miller (1968) also considered compensation and good working condition as good predictors of employee's motivation. On the basis of mentioned literature working environment is important factor to motivate employees. Good working environment make the employees comfortable in their jobs and ultimately they would become the motivated and productive employees. So the relationship of compensation over the motivation of employees in the banking sector of Pakistan is needed to test.

**H2: *There is significant and positive relationship between work environment and motivation of employees.***

### 3. Theoretical Model of Study

*Independent Variables*

*Dependent Variable*



### 4. METHODOLOGY

#### 4.1 Sample

The respondents were full time employees of different banks of Pakistan. Total 155 questionnaires were administered among employees of banking sector. 120 questionnaires were received back from the employees. The respondents were included first line managers, middle level managers, branch managers, operation managers, and regional heads. The response rate was 77% and this was a sufficient sample size for the analysis.

#### 4.1.1 Data Collection

Data was collected through questionnaires which were personally administered.

#### 4.1.2 Questionnaire

The standardized questionnaire was used to collect the data. The questionnaire was used to check the impact of work environment and compensation practices on employee motivation. Five point likert scales was used in collecting the data from respondents with end points of Disagree and Strongly Disagree. For the purpose of the study and for data gathering work satisfaction and motivation questionnaire was used first developed by De Beer (1987).the questionnaire consists of three parts. First part consists of biographical questionnaire that included the personal information like education, gender, marital status, age and language and this part is adopted from the questionnaire used by Teseema and soeters (2006) for measuring employee performance. The second part consists of items for measuring the independent variables (17 items for work content, 3 items for promotion, 4 items for payment, and 3 items for benefits). The Alpha calculated was 0.742, 0.90, 0.728 and 0.531 respectively. The third part consists of 5 items on the motivational dimension that is dependent variable of the study and Alpha calculated was 0.80.

#### 4.1.3 Procedure

Relationship between two independent and one dependent variable was checked. The correlation was used to check the extent of relation between independent and dependent variables. Regression analysis was used to measure the direction or impact of independent variable over dependent variable.

#### 4.1.4 Data Analysis and Findings

**Table -1 Demographics Characteristic**

Variable	Scale	Frequencies	Percentages
<b>Gender</b>	Male	104	86.7
	Female	16	13.3
<b>Education</b>	Bachelor	42	35.0
	Master	77	64.2
	MS/M.phil	1	.8
	PhD	0	0
<b>Marital status</b>	Single	24	20.0
	Married	96	80.0

The table 1 demonstrates the demographics of each respondent with their frequencies and ranges. The purpose to include the demographics items is to analyze the composition of sample and it was not incorporated in result and analysis.

#### 4.2 Descriptive Statistics

The table exhibits the correlation between motivation which is dependent variable and two independent variables working environment and compensation.

#### 4.2.1 Correlation Analysis

**Table 2- Correlations**

Variables	MOT	W_E	COMP
<b>MOT</b>	1		
<b>W_E</b>	.216(*)	1	
<b>COMP</b>	.201(*)	.164	1

\* Correlation is significant at the 0.05 level (2-tailed).

N=120, MOT=Motivation, W\_E= Working Environment, COMP= Compensation

By the analysis of correlation table, it shows that there is a significant relationship between motivation and two independent variables which are working environment and compensation. The motivation has positive correlation with compensation (.201\*) and correlation is significant. While motivation has also a significant positive correlation with working environment (.216\*). This means that motivation increases with good working environment and with good compensation. Employees are more motivated to do if working conditions are better and also if they are provided with proper reward and benefits.

#### 4.2.3 Regression Analysis

**Table 3- Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.323(a)	.104	.089	.83673

A Predictors: (Constant), COMP, W\_E

The model summary demonstrates the value of coefficient of determination is 0.104 which means that only 10.4% variation in motivation which is dependent variable is being explained by working environment and compensation which are predictors in the model.

**Table 4-Coefficients (a)**

Variables	Beta	t-value	Sig.
<b>Motivation</b>		4.318	.000
<b>Working Environment</b>	.256	2.881	.005
<b>Compensation</b>	.243	2.741	.007

A Dependent Variable: MOT

A Predictors: (Constant), COMP, W\_E

The coefficients analysis shows the Beta values for W\_E is (.256) and for compensation (.243) and result shows that there is a significant relationship between motivation which is dependent variable and two independent variables which are working environment and compensation. On the basis of above statistics it is concluded that working environment is positively impact motivation. So Hypothesis 1 There is significant and positive relationship between work environment and motivation of employees is accepted. Further compensation also positively impact motivation. Hypothesis 2 There is significant positive relationship between compensation practices and motivation of employees is also accepted. It is concluded that motivation increases with good working environment and compensation.

### 5. DISCUSSIONS

The outcome of current study depicts the fact that working environment is positively related with motivation and compensation is also significantly positively related with motivation. When employees are provided with good working environment like better seats and good lighting and good furnished rooms so they are more motivated to do work and also show more commitment and satisfaction with their jobs. But the working condition in many banks in Pakistan are not good so there is a need to improve working condition in banking sector of Pakistan to retain and for the motivation of employees. On the other hand in case of compensation employees are not fully satisfied with their compensation practices and benefits in banking sector of Pakistan. The most of employees feel that they are not getting proper compensation of their true hard work. So management should redesign the compensation structure regarding the services of employees. If the organizations have a good and cooperative Working Environment so employees feel a sense of belongingness and accomplishment and are more motivated to do work. Herzberg. F. (1968) found that compensation practices and benefits boost up and direct towards such behaviors as achieving goals and established targets. The results of the study are consistent with those found by Miceli, Jung, Near & Greenberger, (1991). The results are matched with some past studies by Heneman (1992) and Mount (1987) that have considered it important for efficient and merit based pay system. The results of the study are also matched with the study by (Ghazanfar, Chuanmin, Khan & Bashir, 2011) that with increase in compensation and job satisfaction, work motivation increases. Compensation practices and benefits provide

provisions of life that may be a factor to motivate many individuals (Kovach, 1987).so the keen attention of management should be towards providing superior working conditions and satisfactory compensation structure.

## 6. CONCLUSION, RECOMMENDATIONS AND IMPLICATIONS

The current study examines the relationship of working environment and compensation to the motivation of bank employees. The study found that there is a significant positive relationship among dependent variable (motivation) and the two independent variables (working environment & compensation). Motivation is associated with better working condition and good compensation structure. So the study also suggests that banks should design and provide such environment for working that can enhance the motivation of employees and employees feel satisfaction and commitment to their jobs. It is also found that in some banks working conditions and environment is not so good especially in small branches and in small cities. Moreover management should also enlarge a compensation system that can fulfill the monetary requirements of employees and they have not an attention towards unfair means.

### 6.1 Limitations and Future Research Directions

This study only experienced two antecedents of motivation. The study model can also be tested and take into consideration other variables to test the relationship. Other variables might be Training and Development, Empowerment, Career Development opportunities, Employee Qualification, Good Supervision. The study can also be enhanced as a comparison of the motivation of employees of both public sector and private sector banks. A comparative analysis of male and female employees motivation level is also be included in study for future research. The current study was also based on questionnaire and individual's biasness in responses is another limitation and eliminating this, is a difficult and hard task for researcher.

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