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**THE EFFECT OF COMPENSATION SYSTEM ON EMPLOYEE'S  
MOTIVATION AND JOB SATISFACTION : CASE IN NON ACADEMIC  
AT ANDALAS UNIVERSITY**

**SKRIPSI**



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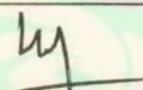
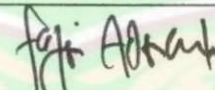
## THE EFFECT OF COMPENSATION SYSTEM ON EMPLOYEE'S MOTIVATION AND JOB SATISFACTION : CASE IN NON ACADEMIC STAFF AT ANDALAS UNIVERSITY

*Bachelor Thesis by: Nurhidayati Pritama  
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### Abstract

*This research examined the analysis effect of compensation system and identified to what extent the effective compensation system can affect the employee's motivation and job satisfaction for non academic staff at Andalas University. The data obtained through questionnaire. The study found that Andalas University has implemented its effective compensation system in line with the theory, except job satisfaction as results from effective compensation system. It means that non-academic staff strongly believed that compensation system can affect their motivation to work, and motivation can increase job bsatisfaction. Meanwhile, there is no direct and positive relationship between effective compensation system and employee's job satisfaction. Therefore Andalas University should enhance the effective compensation system in order to improve employee's job satisfaction.*

This bachelor thesis has already examined and passed on January 10, 2012. The abstract of research has been approved by supervisor and examiners:

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## **PREFACE**

**Bismillaahirrahmaanirrahim.....**

**In the name of Allah SWT the Most Merciful, the Most Gracious....**

**Alhamdulillahirrabbi'l'alamiin, all praises to Allah SWT for giving researcher chance, guideline, knowledge, abilities, and eagerness to finish this thesis with the title “Analysis Effect of Compensation System on Employee’s Motivation and Job Satisfaction, Case Study: Non-Academic Staff at Andalas University”.**

**This thesis was conducted in order to fulfill one of requirement for an Undergraduate Degree in Management Department – Economics Faculty of Andalas University for getting a Bachelor degree. This thesis has been prepared as well as the capability of researcher.**

**The researcher realizes that this thesis cannot be finished without supported and helped from such parties who cannot be mentioned all. On this occurrence, I would like to express the gratitude to those who have supported, facilitated and encouraged me in life, especially in academics.**

**Researcher understands that this thesis still needs improvement due to few limitations. I therefore, it would gladly welcome suggestions and critics to improve its quality. Researcher hopes that this thesis will make valuable contribution to academicians, students and readers in general. Amin.**

**Padang, January 2012**

**Researcher**

**NURHIDAYATI PRITAMA**

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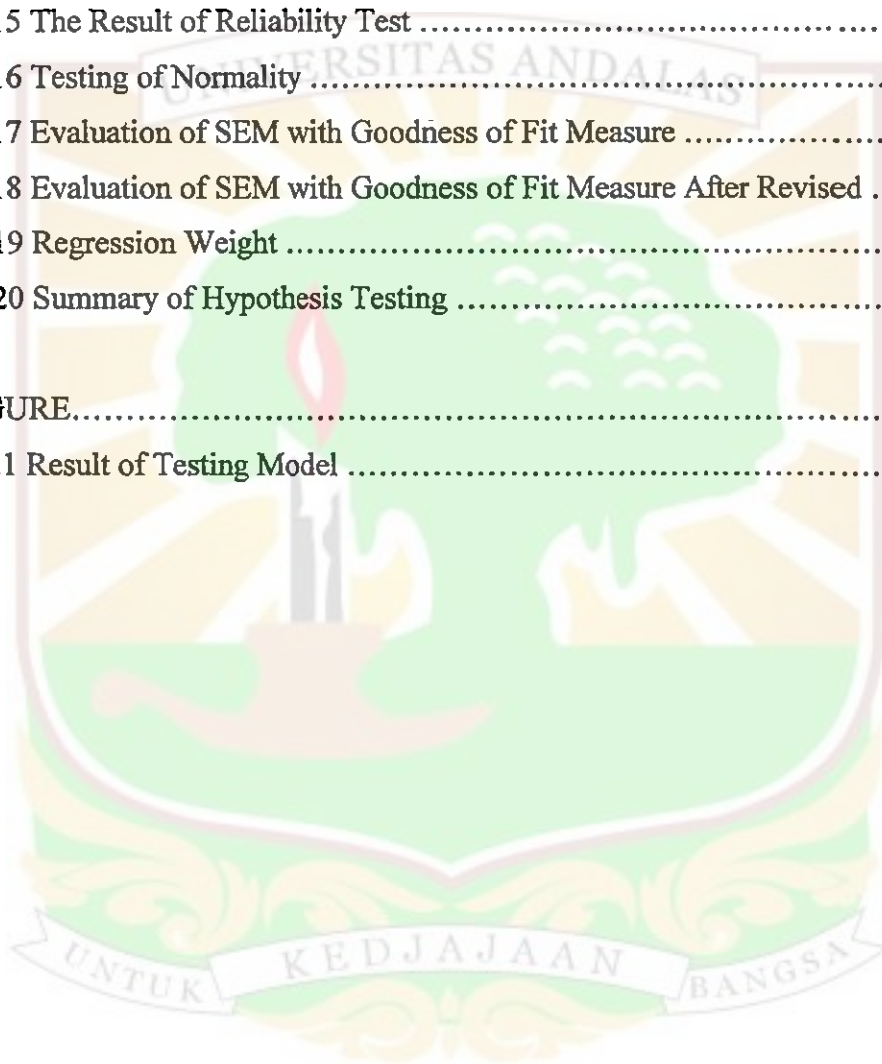
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# CHAPTER 1

## INTRODUCTION<sup>1</sup>

### 1.1 Background of the Research

Compensation becomes one of the most important consideration in Human Resources Management practices. It is not only about reward that give to the employees, but also includes of how it is allocated and sent a message to the employees about what the organizations believe to be important and worth encouraging ( Ghazanfar et al, 2011 ).

By giving the compensation to the employees, organization then expect employees to follow regulations and rules, work according to the standard set for them. Besides the expectation to have fair pay, they also expect a good working condition, fair treatment, secure career, power and involvement in decision. These expectations could be different. Understanding of employee's motivation is required to address these expectations (Beer et al,1984; cited from Khan et al, 2010 ). Meanwhile, an organization need to spend more on compensation to make sure that their employees are motivated enough to give their best performance (Belcher and Atchison, 1987; cited from Ghazanfar, 2011).

According to Rynes (2004), in the case of pay, most people are likely to understate the importance either an offer of a higher paying job based on how they might react to say or due to social norms that show money as a less noble source of motivation than factors such as challenging work or work that makes a contribution to society.

In another side, considering about the employee perception toward motivation is also important. According to Herpen et al (2005), while most people have greatly neglected the psychological effect, organizational psychologist have analyzed the concept of motivation among the employees for many years.

One of the major function of human resource manager is to enhance and keep the employees satisfaction with their job by providing motivation of different kinds, because the dissatisfaction is conditioned with performance. If employees are not satisfied, they will not perform well to expected standard ( Petcharak, 2004). Furthermore, workplace dissatisfaction and poor performance may lead to high employee turnover in an organization that will affect employee's performance badly ( Khan, Farooq, & Ullah, 2010).

Deeproose (1994), noted that the effective reward system can improve employee motivation and increases productivity which contribute to better enhanced organizational performance. By giving the effective compensation system to the employee can affect the motivation of employee to work. According to Cheng (1995), motivation of employees become a major issues in all service organization whether they are skilled or unskilled or professionals. The employees motivation includes their enthusiastic and energetic behavior toward task accomplishment play key role in successes of an organization to benefit.

As like the employee's motivation, effective compensation system can affect the job satisfaction also. Vinokur, Jayarantne, & Chess (1994) examined that working condition can assess the impact on employee's motivation and job satisfaction. Some motivational issues were salary, fringe benefit, job security,



physical surrounding, and safety. Certain environmental and motivational factors are predictors of job satisfaction.

Job satisfaction is often determined by how well outcome meet or exceed expectation (Luthan, 1988). If organization employees feel that they are working much harder than others in the department but they receive fewer reward they will probably have a negative attitudes towards the work, the boss, and coworkers. On the other hand, if they feel they are being treated very well and are being paid equitability, they are likely to have positive attitudes toward the job.

The understanding about the employee's needs and expectations have much relation with motivation. Means that the arrangement of employee's work and their level of satisfaction with the job are very important in order to increase their job performance. The differences in this regard that what people want and actually perceive from their job are significance (Ghazanfar et al, 2011). The stronger motivator is something that people value. Means that the awareness for the organization about those strong motivators is great value and may serve as starting point to re-design the work, in order to increase an employee's motivation and satisfaction (Wiley,1997).

Every organization need an effective compensation system in order to enhance employee's motivation and job satisfaction. The same thing happened to the academic institution. Andalas University as one of academic institution in West Sumatera has applied and implemented the compensation system for their employees. As well as compensation system, motivation and level of satisfaction with the job among employees also has much attention from the management.

This research is purposed to identify the effect of compensation system on the employees motivation and job satisfaction in economic faculty, Andalas University. Analysis is conducted through analyzing the implementation of effective compensation system by Thierry (1987; cited from Herpen et al., 2005) and then research able to describe whether the compensation system can influence the employee's motivation and job satisfaction in economic faculty, Andalas University.

### **1.2 Problem Statement**

The research is purposed to answer these following questions:

- To what extent the effective compensation system can affect the employees motivation and job satisfaction for the non academic staff at Andalas University

### **1.3 Objectives of research**

Based on the problem statements above, the objectives of the research are:

1. to analyze the effect of compensation on the employees motivation of non academic staff at Andalas University
2. to analyze the effect of compensation on job satisfaction of non academic staff who are working at Andalas University.
3. To identify whether the effective compensation system can result high motivation and job satisfaction for non academic staff at Andalas University

#### **1.4 Contributions of research**

1. This research provides current analysis about effect of compensation on employee's motivation and job satisfaction, overview of employee's expectation on compensation, and provides overview of dimension necessary to measure whether the effective compensation system can influence employee's motivation and job satisfaction of non academic staff at Andalas University. Therefore, the results of the study are expected to be used by TMT of Andalas University as references to analyze about employee's motivation and employee's job satisfaction through compensation system.
2. It is expected to provide the references for the next research in similar area in the future.

#### **1.5 Scope of research**

This research is aimed to analyze effect of compensation system on employee's motivation and job satisfaction of non academic staff Andalas University. Variable to analyzing this research is limited to dimension of effective compensation system explained by Thierry (1987). The object of this research is limited to non-academic staff at Andalas University.

#### **1.6 Outline of Research**

The structure of this research is divided in to five chapter, they are:

CHAPTER I contains of background of the study, problem statement, objective of research, scope of research and contribution of research.

CHAPTER II Is the chapter that evaluates the containing bibliography about basis for theory. Basis for theory tells us about definition of compensation system, agent theory and compensation system, employee's perception and motivation, previous research, and correlation between compensation and motivation, job satisfaction analyzed from dimension of effective compensation system.

CHAPTER III Explaining about research method which discussing about research design, population and sample, data collecting method, operationalization of variables, data processing, data analysis method and data analysis.

CHAPTER IV 1) Explaining an overview of Andalas University profile in brief include: campus site, vision, mission, objectives, faculties and departments, 2) Explaining about surveys result that consists of respondent characteristic, frequency of distribution each variable, validity test, reliability test, normality test, fit model, hypothesis testing, and discussion about effect of compensation on employee's motivation and job satisfaction at Andalas University

CHAPTER V On this chapter will explain about conclusion of research, suggestions of research, limitation of the research, implication of research and recommendation for further research.

## **CHAPTER II**

### **LITERATUR REVIEW**

#### **2.1 Theories of Compensation**

Compensation is one of the principle components of a human resources system, and it is defined as the rewards that employees receive from performing their job (Martocchio, 2011). Compensation refers to all forms of pay or rewards that are given to the employees and arising from their employment (Thomas, 1977; cited from Shahzad, Bhatti, & Jinnah, 2008). There are two types of compensation system; Monetary compensations, which include base pay (which is fixed), and incentive pay (which is variable). Monetary rewards are not enough to compel people to perform at their full potential; there are other elements like promotion opportunities, work satisfaction, and turnover intent (Herpen at al., 2003). Nonmonetary compensations, which include fringe benefit, some of which are legally required (e.g., disability and unemployment insurance), and some of which are discretionary such as income protection, security (Gagne and Forest, 2011).

Additionally, Lawler (2002) explained that from both of compensation system, variable pay are currently popular and recommended by human resources specialist because, the systems are thought to bring competitive advantage to the organization.

According to Gerhart, Minkoff, and Olsen (1995), employee compensation plays a key role because it really has influences on employment relationship for

both employees and employers. Employees who typically expect the wages, salaries, and other benefits from their job, while employers see compensation decision can influence cost for doing business.

Another types of compensations also have been explained by Shank (2001), they are intrinsic, means that rewards derived from within the individuals, meanwhile extrinsic reward refers to reward that are given by another person.

### ***Intrinsic reward***

Intrinsic reward are internal to the individual and are in many ways less tangible. This rewards are highly subjective, and it represent how the individual perceives and feels about work and its value. Five types of intrinsic rewards have been explained by Manion (2005);

- a. *Healthy relationship*, in which employee are able to develop a sense of connection with other in the workplace.
- b. *Meaningful work*, where employee feel that they make difference in people's lives.
- c. *Competence*, where people are encouraged to develop skills that make them perform above the standards.
- d. *Choice*, where the employees are encouraged to participate in the organizations in the various ways, such as by expressing their views and opinions, sharing in decision making, and finding other ways to facilitate participatory approaches to problem solving, and setting goals.

- e. *Progress*, where manager find the ways to hold employees accountable, facilitate their ability to make headway towards completing their assigned tasks, and celebrate when the progress is made toward completing important milestone within the project.

### ***Extrinsic rewards***

According to Shank (2001), there are several external things that the manager can provide compensations to the employees in order to increase their productivity.

- Money, in the form of pay, bonuses, stock options, etc
- Benefits, is provided also in different form, such as including health insurance, vacation, sick leave, retirement account, etc.
- Flexible schedule
- Job responsibility and duties
- Promotions
- A good boss
- A strong leader
- A nurturing organizational culture

Besides, Stredwick (2000) has mentioned that compensation system can be divided in the form of direct and indirect reward. Direct reward consists of basic pay, pay for performance, benefits, and recognition pay, meanwhile indirect rewards consists of job satisfaction, cultural satisfaction, and security. Although there are many various type of compensation or reward system that are applied to the employees, but instantly, compensation decision are not simply single employer-employee transaction, they are part of and interact with an entire employment systems (Daley, 2002).

## 2.2 The Important Role of Compensation System

According to Rynes et al. (2004), pay is a powerful potential motivator of performance. Because in order to motivate, pay must be noticeably contingent on performance. Moreover Rynes et al. (2002) suggested that managers do not believe pay is an important to employee's behavior as employees say it is, despite the fact that employees seriously to underreport pay's importance to their behavior.

The most general theoretical explanation for pay's importance is the fact that it is useful for obtaining so many other desirable things (Lawler, 1971; cited from Raynes et al., 2004).for example, Maslow (1943; ited from Raynes et al., 2004) mentioned that "low order needs ( such as food and shelter), money can also pave the way toward social status, a good education for one's children, or making it possible to retire early and enjoy increased leisure. Similarly, Raynes et al. (2004) explained that the broad usefulness of money means that far from being a mere low-order motivator, pay can assist in obtaining virtually any level on maslow's motivational hierarchy, including social esteem and self actualization.

In addition, pay is not always the most important motivator or pay is equally importance in all situations. Most managers correctly believe that the importance of pay depends on a number of variables, both situational (e.g., what other are paying) and individual such as personality or performance level (Raynes et al., 2004). This same point has also been made by academics. For example, economist have emphasized that attributes importance can be determined by concrete choice situations where various job characteristics are assumed to be traded off against each other to reach the highest overall utility (Rottenberg, 1956;



cited from Raynes et al., 2004). Similarly, psychologists have noted that individual differences in personality and performance also influence the attention given to pay in behaviors and decisions (Trank et al., 2002; Trevor, Gerhart, & Bodreau, 1997; cited from Raynes et al., 2004).

According to Raynes et al. (2004), there are several principles that relate to the importance of pay:

- a. The first principle, it is important to recognize that pay is not motivating because it is not being used in a way that would be expected to produce motivation. Pay would be expected to play an important role if opportunities for pay varied significantly across employers (Raynes et al., 2004).
- b. The second general principle is that the motivational effect of money is nonlinear across pay levels. This is reflected in the economic principle of “declining marginal utility”, which suggests, for example, that the opportunity to earn an additional \$100 will be more motivating to an individual at the poverty level than to someone earning \$100,000 per year (Raynes et al., 2004).
- c. The third principle is that people judge the fairness of pay in relative terms (Raynes, 2004). Equity theory (Adam, 1963) posits that individuals assess the fairness of their pay by comparing their own ratio of input (e.g., effort and skill) and outcome (pay, recognition).

- d. The fourth principle is that the importance of pay tends to differ depending upon whether the objective is attraction, retention, or on-the job performance (Raynes et al. 1983; cited from Raynes 2004).

### **2.3 Theories of Motivation**

Motivation is derived from the word “motivate” that means to move, push or persuade to act for satisfying a need (Butkuus and Green, 1999). Baroon (1983) defined the motivation is set of process concerned with a kind of force that energize behavior and direct it towards achieving some specific goals. Besides that, motivation also represents those psychological processes that cause the stimulation, persistence of voluntary actions that are goal directed (Kreitner and Kinicki, 2001).

Tella (2007) mentioned that motivation is a basic psychological process. Along with perception, personality, attitudes, and learning, motivation is very important element of behavior. Motivation in another word also can defined as process that arouse, energizer, directs, and sustains behavior and performance. It also includes process of stimulating people to action and to achieve a desired task with effective motivation which makes workers more satisfied and committed to their jobs (Luthan, 1998). Therefore, the key to understanding the process of motivation consist of three interacting and interdependent elements; needs, drives, and incentives (Minner, Ebrahimi, and Watchel, 1995).

According to Khan et al (2010) there are many aspect of motivation in an organization. A person who is motivated by those aspects may not necessarily

motivate another person gives reason, because there are many different factors that affect motivation level of different employee. Talking about employee's level of motivation, there are three levels of employee's motivation ( Moesley, Meggison, & Pietri, 2001; cited from Khan et al,2010):

1. The direction of an employee's behavior. It relates to those behaviours which the individuals choose to perform.
2. The level of effort. It refers to how hard in individual is willing to work on the behavior.
3. The level of persistence. It refers to the individual's willingness to behave despite obstacles.

Beside three levels of employee's motivation, Herpen et al (2005), have examined that there are three kinds of indicator for the individual level of motivation: (1) work satisfaction, that should be positively related to the perceived quality of the compensation system, (2) turnover intent, that represents undesired employee turnover, which we expect to be negatively correlated to the perceived quality of the compensation system and (3) absenteeism that is caused by sick leave, which is assumed to be negatively correlated to the perceived quality of the compensation system.

According to Beer et al (1984), in the work place, organization expect employees to follow the rules and regulations, work according to the standard set for them, meanwhile as same time the employees have expectations on good working conditions, fair pay, fair payment, secure career, power and involvement in decisions. Related to this, Daschler and Ninemeier (1989), have conducted research that investigated what employees may seek from the work environment.

The research has reviewed some of employee-related concerns that can be found in the venue of strategies to employee's motivation.

- Employees are individuals that come from different background, they have different education with different experiences and their different family classes are all the factors in which their needs be located.
- The primary interest of employees is to satisfy their personal needs, ambitions, desires and goals.
- An employee wants to satisfy its basic needs, linked to survival and security concerns and a desire to belong, to generate positive feelings from within and from others, and to be self-fulfilled.
- Most employees want (a) fair and consistent company policies that can satisfy them; (b) management that they can respect and trust; (c) adequate working relationship with managers and co-workers; (d) acceptable salaries and working environment; (e) appropriate job security assurance; (f) favorable job status.
- The other important factors that can fulfill and motivate employees are: challenging work, work that yield a sense of personal accomplishment, appreciation of good performance, increased responsibility and the chance to get promotion and grow on the job, the feeling of importance and contribution to the organization, and participation in job-related that can affect the employees.

According to Cheng (1995), human beings tend to be motivated by requirements that fulfill their needs. These depend on many factors that is different by the individual requirements and necessary situation. If the organization can motivate the employees by fulfill their needs, the employees may has enforcement to do the job well that can increase job performance and it also may lead to job satisfaction among employees.

According to Molander (1996), for a company to be successful, it is necessary to have the work force that can act strongly for the achievement of organizational goals and also have a strong urge to remain loyal to the company. So, to achieve this, motivation is primary key. Schultz and Schultz (1998) mentioned that motivation is expected to accomplish work productivity and job satisfaction. Employee with high level of motivation tend to work hard and perform better in their work as compared to the employees with low level of motivation (Ghazanfar et al, 2011).

There are two concepts of motivation. They are intrinsic and extrinsic motivation ( Calder and Staw, 1975; cited from Herpen et al., 2005).

- Extrinsic motivation is motivation gained by externally influenced need satisfactions and is thus stimulated by monetary reward ( Frey,1997)
- Intrinsic motivation indicates that under certain conditions employees are prepared to undertake a task for immediate need satisfaction ( Calder and Staw, 1975; cited from Herpen et al.,2005).

### **2.3.1 Content Theory of Motivation**

Content theory of motivation are basically defined in term of satisfaction of needs. There are several kinds of content theory of motivation:

#### ***Maslow Hierarchy of needs***

Maslow has explained that people who interact with the environment, which does not meet their basic needs, tend to experience the psychological

complaints later in life. Based on the application of this theory to organizational settings, it can be argued, that people who do not meet their needs at work will not perform effectively (Bull, 2005).

According to Smith and Cronje (1992), Maslow's theories is based on two assumptions, that are: people always want more, and people arrange their needs in order of importance.

There are five types of needs based on Maslow Hierarchy Theory (Maslow, 1970; cited from Schultz, Bagraim, Potgieter, and Werner, 2003):

- a. **Physiological needs.** It is the basic need which is known as the biological needs as the need for water, rest, exercise, and sex. An example of this would be trade unions ensuring that their member's basic needs are met because they negotiate for better wages for their members (Smith & Cronje, 1992).
- b. **Safety needs.** When the first need is satisfied then the security needs are assumed to be fulfilled. These include the need for the job security, insurance, and medical aid, and the need to feel protected against physical and emotional harm (Smith & Cronje, 1992).
- c. **Social needs.** This third level of needs is activated when the second level of needs are adequately met. People have a need for love, friendship, acceptance and understanding from other people. Employees have a tendency to join groups that fulfill their social needs. Managers can play an important part by encouraging people to interact with one another and

make sure that the social needs of subordinates are met ( Smith & Cronje, 1992).

- d. Esteem needs. The fourth level of needs is the need for self-respect, recognition by others, confidence and achievement. Supervisors can play an active role in satisfying the needs of their employees by recognizing and rewarding high achievers for good performance (Smith & Cronje, 1992).
- e. Self-actualization needs. This is the highest level of need in Maslow Theory, and leads to full development of a person's potential. It is a need where individuals reach full potential and what they want to be become, to utilize all talents well, and to be creative (Glueck, 1974; cited from Bull, 2005)

### ***Herzberg's Motivation-Hygiene Theory***

According to Hong and Waheed (2011), Herzberg's Motivation-Hygiene Theory, also known as the two-factor theory, has received widespread attention as having a practical approach toward motivating employees. Robbins ( 2000) explained that Herzberg found that the replies people gave when they felt good about their job were significantly different from the replies given when they felt bad. This theory led to motivation-hygiene theory's primary conclusion: intrinsic factors are related to job satisfaction, whereas extrinsic factors are associated with job dissatisfaction.

a. Satisfier or motivator factors

To improve satisfaction, a manager must use motivators. These factors are related to job content that is, what people do in their work. Adding these satisfier or motivators to people's job is Herzberg's link to performance. These are also known as intrinsic reward and cover such things as sense of achievement, recognition, and responsibility (Ray French et al, 2008). When these opportunities are absent workers will not be satisfied and will not perform well (Herzberg,1987).

According to R.Wayne and Shane (1993), relate to satisfier or motivator factors, people can know about their satisfaction on some characteristic :

- Meaningfull and challenging work
- Recognition for accomplishment
- Feeling of achievement
- Increased responsibility
- Opportunities for growth and advancement
- The job it self

b. Dissatisfiers or hygiene factors

According Ray French (2008), hygiene factors are associated with the job context that is, they are factors are related to a person's work setting. Improving working condition (for example, special office and air conditioning) involves improving a hygiene or job context factor. It will prevent people from being dissatisfied with their work but will not make them satisfied.



R. Wayne and Shane (1993) mentioned that hygiene factors can not produce positive motivation. To achieve excellent, organization must satisfy the need related to both hygiene factor and motivator. For hygiene factor that can lead to job dissatisfaction, there are some characteristic relate on it:

- Pay
- Status
- Security
- Working condition
- Fringe benefit
- Policies and administrative practices
- Interpersonal relation

#### *Aldefer's ERG Theory*

This theory of motivation is identified by Aldefer (1972) suggested that individuals were motivated to move forward and backward through the levels in term of motivators. Basically, this theory had drew up from Maslow's Theory, then Aldefer reduced Maslow's level from five become three component:

- a. Existences, This theory relate to Maslow's first two need that combine the psychological and safety need in to one level
- b. Relatedness, This theory relate to the belongingness needs
- c. Growth, This component relate to the last two needs, that are combining self esteem and self-actualization.

Besides that, relate to this Aldefer's ERG Theory, Aldefer (1972; cited from Bull, 2005) mentioned that two form of movement which will become

important to a person. The first is referred to as satisfaction-progression. The second movement is the frustration-regression, which provides additional insight about motivation and human behavior. Aldefer (1972) also explained that when a person's need are frustrated at higher level, it leads to movement down to hierarchy.

### ***McClland Acquired Needs Theory***

This theory has been identified by McClland (1985). The idea of this theory is that needs are acquired throughout life. For these theory, there are three components needs involved to this theory:

- a. Needs for achievement, which emphasizes the desire for success, for mastering task, and for attaining goals.
- b. Needs for affiliation, which focuses on the desire for relationship and association with other
- c. Needs for power, which relates to the desire for responsibility, control, and authority over others.

### **2.3.2 Process Theory of Motivation**

Process theories of motivation focus on how workers needs influences their own behavior. This theory are basically defined in term of a rational cognitive process. There are several kinds of process theory of motivation:

*a. Expectancy theory*

This theory address the expectation of individuals and hypothesizes that they are motivated by performance and the expected outcomes of their own behavior (Vroom, 1964)

*b. Equity theories*

This theory propose that individuals are motivated when they perceive that they are treated equitably in comparison to others within the organization ( Adam, 1963; cited from Gerhart, Minkoff, & Olsen, 1995).

According to Grant and Shin (2011), the central assumption of equity theory is that the employees are motivated when their inputs (e.g., efforts, knowledge, skill, loyalty) are matched by outcomes (e.g., pay, bonuses, benefits, recognition), which create a sense of equity or fairness.

*c. Goal setting theory*

This theory hypothesize that by establishing goal's individual are motivated to take action to achieve those goal ( Locke and Latham, 1990; cited from Grant and Shin, 2011). Goal setting theory may influence the individual's self-efficacy. Employee who have high self efficacy with respect to assigned goals, tend to set higher goals, experience greater goal commitment, choose better task strategies, and maintain goal pursuit in the face of negative feedback (Locke & Latham, 2002).

### 2.3.3 Theory X and Theory Y

Huczynski and Buchanan (2001) explained that the theory of motivation is theory X and theory Y; it is propounded by McGregor in 1960. According to McGregor, human nature can be viewed from two perspectives. He developed two sets of assumptions in his attempt at describing human attitude to life and work.

- **Theory X Assumption**

The assumptions underlining theory X are;

- a) Average human beings dislike work and will avoid work if possible.
- b) People's hatred to work results in them being coerced, controlled, directed and forced to achieve a particular goal.
- c) Average human being liked to be directed and will avoid responsibility, want little ambition and want security in their place of work.

- **Theory Y Assumption**

The assumptions under theory Y include the following;

- a) The use of physical and mental effort of people in execution of their work is as natural as play or rest.
- b) The use of force and punishment to make people work is not the only way of getting people to work because some people naturally like work and will exercise self control and self- direction to get their task being executed.

- c) The degree of commitment to work is in direct proportion with the degree of the rewards associated with the achievement such work.
- d) Average human beings learn not only to accept responsibility but also to achieve responsibility.
- e) The ability to exercise a high degree of imagination, ingenuity and creativity in solving organizational problems is broadly distributed.
- f) The intellectual potentiality of the average human being is only partially utilized under the condition of modern industrial life.

## **2.4 Job Satisfaction**

### **2.4.1 Definition of Job Satisfaction**

Job satisfaction is one of the most important things that need to be considered by manager in area of organizational behavior in an organization. It is perceived as an attitude variable that measure the degree to which employees like their job and the various aspect of their job (Spector, 1996; Stamps, 1997). Job satisfaction becomes very important because it is correlated to enhance job performance, positive work value, high level of motivation, low rates of absenteeism, and turnover (Chiu, 2000; cited from Bull, 2005, p. 22).

Many researcher have conducted about definition of job satisfaction. They argued in different words, but still in one perception. Here are provided some definition of job satisfaction:

1. Locke and Lathan (1976; cited from Bull, 2005, p.25) have defined job satisfaction as pleasurable or positive emotional state resulting from the appraisal of new ones job or job experiences. The result of job satisfaction is the employee's perception about how well their

job will provide them those things that are considered as important for the employee itself ( Tella et al., 2007).

2. Job satisfaction can be explained as an attitudes of people have about their job ( Chelladurai, 1999, p. 230).
3. Job satisfaction can be defined as the feelings a workers about their jobs, or job experiences related to previous experiences, current expectations, or available alternatives (Balzer, 1997, p. 19).
4. Job satisfaction is the attitude of workers toward the company, their job, their fellow workers, and other psychological objects in the work environment (Beers, 1964 in Bull, 2005, p. 26).
5. Job satisfaction can be explained as the needs and the value of individuals and the extent to which this needs and value are satisfied in the workplace (camp, 1994)
6. Job satisfaction can be said as the difference between the amount of rewards that workers receive and the amount that they believe they should receive (Robbins, 1998).

Job satisfaction is often determined by how well outcome meet or exceed expectations. If employees in an organization feel that they are working much harder than others in the department but they receive fewer rewards, they may have a negative attitude towards the works, the boss, and co-workers. It means that they will be unsatisfied on their jobs. On the hands, if they feel they are being treated very well and are being paid fairly and equitably, they may have positive

attitude toward their own jobs, or it means that they are satisfied on their job (Tella, Ayeni, & Popoola, 2007).

#### **2.4.2 Dimension of Job Satisfaction**

Locke (1976 in Sempane et al., 2002) had elaborated the dimensions of job satisfaction. These dimensions are work itself, pay, promotion, recognition, working conditions, benefits, supervisions, and co-workers. These dimensions may influence the employees to have opinion about “how interesting the job is, how routine, how well they are doing it, and how much they enjoy doing it” (McCormick & Ilgen, 1985, p. 309; cited from Bull, 2005).

##### **a. The Work itself**

According to Moorhead & Griffen (1992), level of job satisfactions are truly influenced by the nature of work that are done by the employees. In the work place, employees derive satisfaction from work that is interesting, challenging, and job that provides them with status (Luthan, 1992; cited in Bull, 2005).

Landy (1989) mentioned that job satisfactions can be contributed by the work of employees that they are likely interested to do the jobs. It is caused by the variety of skill has strong effect on level of job satisfaction. Simply to put, the greater the variety of skill of work had by employees, the higher the level of job satisfaction can be achieved (Ting, 1997).

Liden, Wayne, and Sparrowe (2000; cited from Bull, 2005, p. 35) have research involving 337 employees and their supervisors found that the desirable

chances of all but those who are not employed in the service.

(Lippitt & Schmidt, 1957: 100; cited from Bill, 2002)

and can be achieved (Lippitt, 1957).

As the variety of skill work and job increases, the higher the level of job variety of skill and the greater the level of job satisfaction. Similarly, the work of employees that they are likely interested to do the job. It is caused by the

level (Lippitt, 1957) mentioned that job satisfaction can be compared by the

level

challenging and job that provides them with skills (Lippitt, 1957: cited in Bill,

work place, employees derive satisfaction from work that is interesting, highly influenced by the nature of work that are done by the employees in the

According to Herzberg & Maslow (1957) level of job satisfaction are

### 2. The Work itself

(Herzberg & Maslow, 1957: p. 30; cited from Bill, 2002).

working conditions, benefits, supervision, and co-workers. These dimensions may satisfaction. The dimensions are: pay level, pay, promotion, recognition,

level (Lippitt in Schmidt et al., 2005) that established the dimensions of job

### 2.3.3 Dimension of Job Satisfaction

(Lippitt, Maslow & Herzberg, 2005)

and the work itself that are not related to the work itself but to the job itself.



job characteristic can increase job satisfaction. Similarly, Blau (1999) concluded that the increased task responsibilities are related to level of job satisfaction.

#### **b. Pay**

According to Bull (2005) pay refers to the amount of financial compensation that an individual receives as well as the extent to which such compensation is perceived to be equitable. Pay is not only tools that people can retain their basic needs, but also, pay is instrumental to satisfy the higher level needs of people (Luthan, 1998).

Previous research that is conducted by Voydanoff (1980; cited from Bull, 2005, p. 36) has shown that monetary compensation is one of the most significant variable in explaining job satisfaction.

According to Taylor and West (1992), Pay levels affect job satisfaction. Offering fair and reasonable compensation to the employees which consider about output that employees offer to the organization, should be the main objective of any compensation system (Boone and Kuntz, 1992). Relate to this, Lambert, Hogan, and Lubbock (2001) found that the financial rewards have significant impact on job satisfaction. It is based on the idea that most employees are socialized in a society where money, benefits, and security are generally sought and used to measure the importance of the worth of a person. Thus, the greater the financial rewards, the less worry employees have concerning their financial state, further, it can enhance their impression of their self-worth to the organization (Bull,2005).

Robbins and Landy (1998; 1989; cited in Bull, 2005) mentioned that the key in linking pay to satisfaction is not absolute amount that is paid, but more than that, the perception of fairness. According to Robbins et al. (2003), employees look for pay system that are perceived as just, fair, and in line with their expectation. When pay is perceived as fair and equitable, fit with job demand, fit with individual skill level, and require pay standard, satisfaction is likely to be result.

### **c. Supervision**

The quality of the relationship between supervisors and subordinates will have significant impact on level of job satisfaction among employees in an organization (Aamodt, 1999; Kinicki & Vecchio, 1994; Luthan, 1992; Robbins, 1998; Moorhead & Griffen, 1992)

Ting (1997; cited from Bull 2005) argued that individuals are likely to have high levels of job satisfaction, if supervisors provide them with support and co-operation in completing the task. Similar result have been explained by Chieffo (1991), maintains that supervisors who allow their employees to participate in decision making relate to their own job can stimulate higher level of job satisfaction among employees.

### **d. Promotion**

An employee's opportunities for the promotion also has significant impact on employee's level of job satisfaction (Landy, 1989; Larwood, 1984; Moorhead & Griffen, 1992; Vecchio, 1988; cited from Bull, 2005, p. 39). Drafke and Kossen (2002) mentioned that many people feel satisfied on their job when they believe

that their prospect future are good. If people feel that they have limited opportunities for career advancement, their level of job satisfaction may decrease.

According to McComick and Ilgen (1985; cited from Bull, 2005), employee's satisfaction with the promotional opportunities will depend on the factor of probability that employees will be promoted, as well as the basis and the fairness of promotions.

**e. Work Group**

An individual's level of job satisfaction might be a function of personal characteristic and the characteristic of group to which he or she belongs ( Mark, 1994). It is very important to maintain the relationship between co-workers and supervisors, because the better the relationship, the greater the level of job satisfaction (Wharton & Baron, 1991; cited from Bull, 2005).

Luthan (1998) mentioned that work groups characterized by co-operation and understanding among their members will influence the level of job satisfaction or dissatisfaction. When people work effectively within a group, the work becomes more enjoyable and further. It can lead to job satisfaction. But, if opposite situation exists, and it is difficult for people to work within a group, this may have negative impact on job satisfaction.

In order to make work group can lead to job satisfaction, Lambert et al. (2001) suggested that an organization should engage the relationship and integration among employees to create group cohesion among them and department within the organization.

## **f. Working Condition**

Talking about working condition, Vorster (1992; cited from Bull, 2005) postulates that the individual's level of job satisfaction are also influenced by working condition faced by the employees. Luthan (1998) has mentioned that if people work in a clean, friendly environment they will enjoy coming to work. But if it opposite happened, it will be hard for them to accomplish the task.

### **2.4.3 Personal Determinant of Job Satisfaction**

#### **a. Job Satisfaction and Age**

Robbins (2001) mentioned that age can influence individual's level of job satisfaction. The older employees tend to experience higher level of job satisfaction (Belcastro & Koeske, 1996; Billingsley & Cross, 1992; Cramer, 1993; cited from Bull, 2005, p. 44). This difference may be caused by better adjustment to work, better condition and greater rewards at work (Birdi, Warr & Oswald, 1995).

Blood et al. (2002) argued that level of job satisfaction can be influenced by age and work experience. Older worker will be more comfortable and tolerant of authority and may have lower expectation to their job (Spector, 1996; cited in Bull, 2005). Brush et al. (1987; cited from Blood et al., 2002) mentioned that older worker may have jobs that relate to their skills, work with better job condition, get benefits from their promotion, and appreciate fringe benefits more than younger, who are less experienced workers. Rhodes (1983; cited from Bull, 2005) also concluded that older workers may have greater level of job satisfaction than the younger workers.

Differently, (Clark, 1996; cited from Bull, 2005) described the fact that younger employees may feel satisfied because they have little experience about the labor market while alternatively the older employees may have reduced aspiration as they realize that they face limited choices, as they are getting older.

#### **b. Job Satisfaction and Gender**

For the relationship between job satisfaction and gender, there is inconsistent explanation that can describe relationship among these variables. Mortimer, Finch, and Maruyama (1988; cited from Bull, 2005) explained that women have higher level of job satisfaction whereas other study found that the men are more satisfied than women.

Al- Mahsaan (2003; cited from Bull, 2005) had researched that male employee tend to have higher level of job satisfaction compared to female. This because male employees have better chance and opportunities to advance their job at a more rapid pace than female.

Similarly Miller and Wheeler (1992; cited in Lim, Teo & Tayer, 1998) mentioned that women are tend to be less satisfied in their job, because they hold position at lower levels in the organizational hierarchy where pay and promotion opportunities are less attractive.

#### **c. Job Satisfaction and Occupational Level**

According to Rousseau (1978, p. 533; cited from Bull, 2005), job satisfaction appears to link response to the positional characteristic. In other words, the effect of organizational position on an employee's attitudes and

behavior can be attributed from the characteristic of job that the employees perform.

For example, Gazioglu and Tanel (2002; cited in Bull, 2005) described that managers, professionals, and clerical employees, were more satisfied with their job, as compared to the sales employees. However, they were less satisfied with the amount of their pay as compared to sales employees. Relate to this, Clark (1996) found that people at higher occupational scale reported higher satisfaction with the various aspect of their work, but they were less satisfied with their pay.

#### **d. Job Satisfaction and Tenure**

Tenure means the length of time for which the individual have worked in an organization (Lim et al., 1998). Employee with longer tenure have a greater intensity to be satisfied with their job as compared to the employees that have shorter tenure (Jinnet & Alexander, 1999; Jones, Johnson & Johnson, 2000; Staw, 1995; Vecchio, 1988; all cited in Bull, 2005).

According to Chamber (1999), employees with long tenure were more satisfied with their job as well as the level of their pay. Then Bull (2005) concluded that job satisfaction increases with time and benefits such as security and experiences will likely influence job satisfaction among employees in an organization. In some organizations, senior employees are highly respected, while high tenure is viewed as liability in other organization (Lambert et al.,2001).

#### **e. Job Satisfaction and Educational Level**

Some authors maintain that there is positive relationship between job satisfaction and educational level (Larwood, 1984; Saal & Knight, 1988; Quinn & Mandilovitch, 1975; Glenn & Weaver, 1982; all cited in Bull, 2005).

Moreover, Vorster (1992) stated that the higher an individual's qualification, the higher that individual's job level and consequently, so too the employee's degree of satisfaction. Simply to put, for some research (Hall, 1994; Clark & Oswald, 1996; all cited in Bull, 2005) found a negative relationship between educational level and job satisfaction.

#### **2.5 The relationship between compensation and motivation**

Ghazanfar et al. (2011) mentioned that in an organization, compensation has been recognized as one of major motivator of employee beside the management consider it as expenses for the organization. Understanding about compensation system and its impact toward organization's structure, strategies, and employees become very important area for the organization. In order to make compensation system as an effective motivator for the employees, there are four major components that have to be considered by manager (popoola & Ayeni, 2007; cited from Ghazanfar et al., 2011) : (a) job rates, (b) payment, which is encourage employees by rewarding them, according to their performance, (c) personal or special allowance, and (d) fringe benefits such as holidays with pays, pensions, etc.

Akintoye (2000) have examined that money as compensation tools is the most important motivational strategy. Money also has a significant power of

motivation in as much as symbolizes intangible rewards like security, power, and prestige (Ghazanfar et al., 2011). Money has the power to attract, retain, and motivate individual in order to achieve higher performance (Sinclair et al., 2005). If an employee has another job offered, which offers greater financial rewards and has identical job characteristics with his current job, that employee will much probably be motivated to accept the new job offer (Ghazanfar et al., 2011)

According to Phillip (2001) most people work for two type of reward. The first is extrinsic reward is the reward that are externally bestowed, such as praise from a supervisor, a promotion or pay raise, or the grade received on term paper. The second is intrinsic reward that is personal feeling about how well they performed the task or simply the satisfaction they derived from doing it.

Although most people have principally concerned with their own salary, but it doesn't means that money as only the motivator of employee to work better and increase their performance of work. Khan et al. (2010) have mentioned that there is no basic assumption tell that paying people more will encourage them to do better work, or even in the long run, more work. this is also strengthen by Herzberg (1968,) that argued, just because too little payment or compensation can irritate and demotivate most f people, but it does not means that give more and more money can increase their satisfaction and motivation people to work. Money is not the only motivator and it is not the primary motivator for everyone. However, there is overwhelming evidence that money is an importance motivator for most people (Rynes, Gerhart, and Minette, 2004).



On the other hand, successes of major human resource in an organization are depends on compensation policy and practice. In order to achieve the goals in human resources, the ways the organization compensates their employees are required. Besides, the ability to motivate workers and retain the best employees is much influenced by compensation offered by an organization ( Dulebohn and Werling, 2007; cited from Ghazanfar et al., 2011).

From understanding about the relationship between compensation and motivation that have mentioned above, the hypothesis may arise that:

*H1 : Effective compensation system has positive impact on employee's motivation*

## **2.6 The relationship between motivation and job satisfaction**

According to Castillo and Cano (2004), managers, supervisors, employees, and citizens in general are concerned with ways of improving job satisfaction. Lather and Jain (2005) mentioned that understanding individual person related needs can give better insight to managing human motivation. Job satisfaction and motivation reinforce each other, strengthen each other, and promote each other. If the employees are satisfied on job performance, they tend to be motivated.

Frank (1984; cited from Lather and Jain, 2005) explained that motivation reflect people's search for meaning and that job satisfaction may reflect the degree to which people have found meaning in their Work. job satisfaction is derived from the gratification of higher-order needs such as social relation, esteem, and self actualization rather than lower-order needs (Sylvia and Hutchinson, 1985; cited from Lather and Jain, 2005).

Study from Porter and Lawler (1968), found that the manager at all levels had similar security and social needs. Satisfaction of three higher order needs with varied the levels. Means that social, esteem, and self actualization needs were satisfied more often in the middle than in the lower management levels. Besides, the needs of the lower level managers in small size companies were more satisfied than those in large companies and in the organization where authority level were few, the needs of lower level managers were often more satisfied while in the multi hierarchical structures the needs of managers level at higher levels were more often satisfied ( Lather and Jain, 2005).

Anonymous (2010) mentioned that although job satisfaction and motivation are clearly related each other, but job satisfaction is not the same as motivation. Job design aims to enhance job satisfaction and performance. Other influence on satisfaction include the management style and culture, employee involvement, empowerment and autonomous work group. Simply to put, job satisfaction is very important attribute which is frequently measured by organization, meanwhile motivation is what people need to perform better (Aksoy, 2005).

According to Oraman (2011), not everyone gets motivated by the same things. Where one gets motivated, obtain satisfaction, and consequently performs better from getting additional responsibility assigned, another may feel much better valued and encouraged to higher productivity if they merely being listened to, or given some flexibility in their work schedule (Marques, 2010).

However, study from Lather and Jain (2005) have suggested that while there is no single strategy to manage people, all of who have different needs, background and expectation, by creating an environment that promotes job satisfaction, companies can develop employees who are motivated, productive, and fulfilled by adopting good HR policies.

So, from understanding the relationship between compensation and job satisfaction, the second hypothesis may arises:

*H2 :Employee's motivation has positive impact on employee's job satisfaction.*

## **2.7 The relationship between compensation and job satisfaction**

According to Spector (1985; cited from Khalid, Salim, &Loke, 2011), employees can be satisfied with some elements of the job and simultaneously dissatisfied with others. Different types of job satisfaction will lead to different intentions and behavior occurred fro different types of motivation in getting different types of rewards (Luthan and Sommer, 2005). Besides, Lin and Milne (2007) recommended that rewards with outcome relationships were expected to vary based on employee satisfaction with their organization.

Moreover, Vandenberghe and Trembley (2008) concluded that rewards satisfaction is seen to be positively related to job satisfaction in either public or private sector employees. Den Hartog and Verbug (2004) mentioned that experience satisfaction derived from fair and manner reward decision made by the organization.

Edward Lawler (1993), has concluded that five factors influence the degree of satisfaction gained from reward.

- a. First, satisfaction depends on the amount received and the amount the individual thinks should be received. Typically, the larger the reward, whether extrinsic( such as pay) or intrinsic (such as job challenge), the more satisfied people feel. However, this feeling is moderated somewhat by the perception of whether the rewards are justified. Some people feel uneasy if they receive a disproportionately large reward, particularly for the amount of the effort they exert or in comparison to the reward of co-worker whom they perceive as similar.
- b. Second, comparison to what happens to other influences people's feelings of satisfaction. If an employee believes they are being over-or underrewarded in comparison to other employees whom they views as similar to themselves, they probably feel less satisfied than if they believe they are being treated equitably.
- c. Third, an employee's satisfaction with both the intrinsic and extrinsic reward received affects overall job satisfaction.
- d. Fourth, people differ widely in the reward they desire and in the value they attach to each. For instance, some individuals are willing to trade off flexible working hours for increased compensation. Others choose benefits (sick leave, medical insurance, pension contribution) over salary increases.

- e. And fifth, many extrinsic reward satisfy only because they lead to other reward. For example, increased pay may satisfy because it result in more recreational opportunities or increased status for an employee.

So, from understanding the relationship between compensation and job satisfaction, the second hypothesis may arises:

*H3 : Effective compensation system has positive impact on employee's job satisfaction*

### **2.8 The impact of compensation system on job satisfaction which are mediated by motivation**

According to Devanna et al. (1984; cited from Khalid, Salim, & Loke, 2011), business strategy linked to rewards and motivation towards job satisfaction and has a stronger direct effect on profitability. The relationship between rewards, motivation, and job satisfaction of employees are strategically important to public and private organization success (Schuler and Jackson, 1987). Similarly, rewards offered by employers significantly can improve an employee's motivation towards their work and subsequently lead to job satisfaction (Rafiku and Ahmad, 2008; Milne, 2007). Kiviniemi et al.(2002) also claimed that job satisfaction is built if employees were motivated due to rewards that are given to them.

Lepak and Snell (1999) explained that having pay and promotion reliant on performance that provides strong motivation for employees to work harder in order to be promoted. While pay and promotion give the impact to the employee performance, that's why job satisfaction is needed, because job satisfaction is an important motivator for employee to perform well (Spector, 1985; cited from

Khalid, Salim, & Loke, 2011). Relate to this, Danish and Usman (2010) mentioned that rewards play a vital role in determining the significant performance in job and it is positively associated with the process of motivation.

## **2.9 Employee's Perception and Motivation**

According to Thierry (1987; cited from Herpen et al., 2005) the effectiveness of a compensation system depends on three perceived characteristics, namely (1) *transparency*, (2) *fairness* and (3) *controllability* (Langedijk and Ykema- Weinen 2000; cited from Herpen et al., 2005).

### **a. *Transparency***

According to Herpen et al. (2005), The transparency of a compensation system depends on two characteristics: communication and complexity. A transparent system informs risk averse employees not only of the rules of the compensation system, but also of the objectives of the firm. Clear communication of these rules towards the personnel will enhance the understanding of the methodologies, measures and targets used and thereby creates more support for the compensation system. The perception of transparency is expected to have a positive relationship with extrinsic motivation.

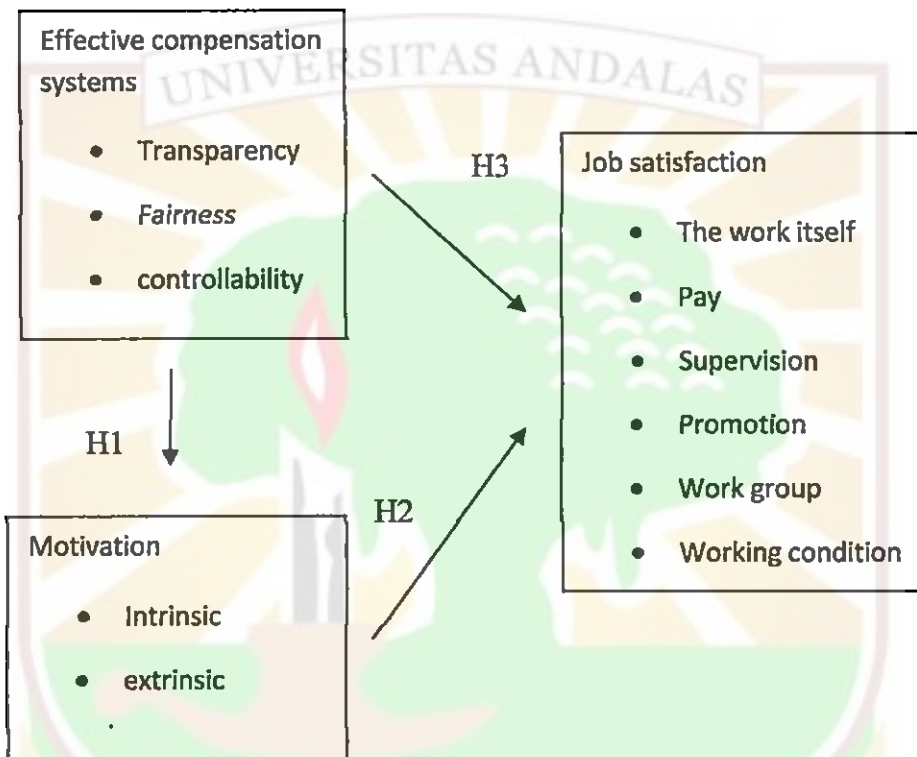
### **b. *Fairness***

According to Herpen et al., (2005), perception of fairness from different elements of the compensation system is expected to have positive relationship with extrinsic motivation.

### c. Controllability

Herpen et al. (2005) mentioned that the stronger the perceived controllability over the compensation applied in an organization, the higher will be the level of extrinsic motivation.

#### Theoretical framework



#### Hypothesis

This research purpose the hypothesis, as follows :

**H 1** : effective compensation system has positive impact on employee's motivation.

**H 2** : Employee's motivation has positive impact on employee's job satisfaction

**H3** : Effective compensation system has positive impact on employee's job satisfaction

## CHAPTER III

### RESEARCH METHOD

#### 3.1 Research Design

This research uses quantitative approach.. A descriptive analysis research describes the effect of compensation system on employee's motivation and job satisfaction for non-academic staff at Andalas University context. All of data and information are collected from respondents using questionnaire and then the result will be explained to answer research questions.

#### 3.2 Population and Sample

The research populations are all the non-academic staffs at Andalas University. The sample obtained from 165 staff who are working in eleven faculties at Andalas University. But from 165 questionnaires which are distributed, there 114 questionnaires that can be returned and proceed in to data analysis. For more detail about number of respondent in each faculty can be seen in table 3.1 as follows:

**Table 3.1**

**Number of Respondent Non Academic Staff in Andalas University**

No	Faculty	Number of respondent
1	Economic	10
2	Agriculture	13
3	Agriculture Technology	11
4	Animal Husbandry	12



No	Faculty	Number of Respondent
5	Mathematic and Natural Science	15
6	Pharmacy	9
7	Engineering	8
8	Politic and Social Science	3
9	Law Faculty	15
10	Cultural Science	15
11	Medical Faculty	2
12	<b>Total</b>	<b>114</b>

*Source: Primary Data*

### 3.3 Data Collecting Method

The research was conducted at Andalas University. In collecting data, the researcher used survey. Survey is conducted in order to obtain primary data that is obtained directly from the object to check through questionnaire.

Questionnaire formulated contains set of questions to which respondents record their answers, usually within rather closely defined alternatives (Sekaran, 2003). This questionnaire in this research is formulated by based on Thiery (1987), which is adapted from previous research by Herpen et al. (2005).

On this research, the researcher distributed the questionnaire directly to the non-academic staff at Andalas University. This questionnaire consists of 3 variables and 43 questions. Where, the question about effective compensation system are 8 questions which are formulated based on Herpen et al.(2005), motivation are 23 questions which are formulated based on Herpen et al. (2005),

and Prabu (2005), and job satisfaction are 12 questions which are formulated based on Prabu (2005).

The questionnaire survey was the most effective method for this study to collect data for the following reason: to make sure the respondents understandable, and the data gathered through questionnaire was easy to put in quantitative analysis. The questionnaires distributed to students who come from eleven faculties at Andalas University.

### **3.4 Variable and Measurement**

#### **3.4.1 Variable**

The structured of questionnaires was used in this study to collect data from students of Andalas University. The researcher utilized to measure the variables. In the questionnaire, there were 3 variables; effective compensation system, motivation, and job satisfaction. So, here are provided the operational variable:

- a. Dependent variable is result variable that contain at least one causal (Sekaran, 2003). The dependent variable if this research are motivation and job satisfaction.
- b. Independent variable is variable that only as predicted at causal for construction or variable in this research (Sekaran, 2003). The independent variable of this research is effective compensation system.

#### **3.4.2 Measurement**

Measurements of effective compensation system, motivation, and job satisfaction were adopted and developed on the basis of established existing variables from previous studies. All variables were measured with Five-point

scale for their responses ( 1="strongly disagree"; 5= "strongly agree"), (Sekaran, 2003).

### 3.5 Operational Definition

Operational Definition is a concept to render it measureable by looking at the behavioral dimensions, facets, or properties denoted by the concept. These are consisting of observable and measurable elements. (Sekaran, 2003; 176). There are three variables in this research: Compensation System, Employee's Motivation, and Job Satisfaction. Each of variables has its own dimensions and an item that was conducted become research statement. To be more clearly, the operationalization variables that explained more about variables can be seen on table 3.2 as follows:

**Table 3.2**  
**Operationalization of Variables**

Variable	Dimensions	Indicators	Scale	Sources
Compensation system	Transparency	<ul style="list-style-type: none"> <li>• The way in which the salary is determined clearly</li> <li>• Let employee know about promotion possibilities</li> <li>• Let the employee know about the criteria to get promotion for the next level</li> </ul>	Likert Scale 1-5	Herpen et al. (2005)
	Fairness	<ul style="list-style-type: none"> <li>• The employee feel fully appreciated for the total compensation that they received</li> <li>• Whether the compensation fit with their performance</li> <li>• Employee feel that the salary is good if compared to another company with the same job</li> <li>• Employee find the compensation to be fair</li> <li>• Employee can give the influence of total compensation by working harder</li> </ul>	Likert Scale 1-5	Herpen et al. (2005)

Motivation	Controllability	<ul style="list-style-type: none"> <li>• Employee can fully control their ability to get promoted</li> </ul>	Likert Scale 1-5	Herpen et al. (2005)
	extrinsic motivation	<ul style="list-style-type: none"> <li>• Compensation make employee get motivated to give the best effort</li> <li>• Promotion possibility make employee get motivated to work harder</li> <li>• Employee feel satisfied with the compensation system</li> <li>• Employee feel satisfied with the promotion possibilities offered</li> <li>• Giving reward can make employees get motivated to increase their performance</li> <li>• Employee feel happy in their job environment</li> <li>• Full attention from boss to the employees</li> <li>• Boss can solve the problem wisely</li> <li>• Good Communication between boss and employee</li> <li>• Employees feel comfortable about control from the top</li> <li>• There is clear compensation system applies by the company</li> <li>• Employee feel enthusiastic about the salary level</li> <li>• Employees feel that compensation is motivation in doing the job</li> <li>• There is no influence of family problem in doing job</li> <li>• There is support from others to do the job</li> </ul>	Likert Scale 1-5	Herpen et al. (2005) And Prabu (2005)
	Intrinsic	<ul style="list-style-type: none"> <li>• The employee feel comfort to work in that company</li> <li>• Employees don't have complaint in doing job</li> <li>• Employees feel satisfied with their job</li> <li>• Employees feel satisfied with the kinds of their job</li> <li>• Employees get spirit in doing job given to them</li> <li>• Employees feel enthusiastic with their job</li> <li>• While at work, employees often feel like the day will never end</li> </ul>	Likert Scale 1-5	Herpen et al. (2005) And Prabu

	motivation	<ul style="list-style-type: none"> <li>• Employee feel satisfaction with their job</li> <li>• Employees can do all job well and can give satisfaction to them</li> <li>• Employees take the responsibility for their task</li> <li>• Reward can give employees satisfaction</li> <li>• <i>Training can give employee satisfaction</i> because it can improve the employees knowledge</li> <li>• Employees feel comfortable because there is Good relationship between employees and their partner</li> </ul>		(2005)
	Job satisfaction	<ul style="list-style-type: none"> <li>• Build good relationship during and out of working time</li> <li>• Employees feel happy if boss give appreciation to them</li> <li>• Good facilities to complete the job can give employee's satisfaction</li> <li>• Employees feel satisfaction because they do the job based on their expert</li> <li>• Employee's satisfaction relate to compensation system</li> <li>• Employee's satisfaction relate to the total amount of compensation offered</li> </ul>	Likert Scale 1-5	Prabu (2005)

### 3.6 Data Analysis Method

This study is conducted to test a model that explained the analysis effect of compensation system on employee's motivation and job satisfaction. To answer the hypothesis, the data will be analyzed using structural equation model (SEM) by AMOS as software application. This software provides information about goodness-of-fit model and relationship among the hypothesis. A fit model reflects that the model proposed in the research is fit with the sample, if so the model is justifiable for analyzed the relationship of three variable.

### **a. AMOS**

Criteria to be considered to identify the structural equation model either by using analysis of moment structures (AMOS) (Arbuckle, 1997), namely:

1. *Degree of freedom (DF)* must be positive.
2. Non-significant *chi square* above the required ( $p = 0.05$ ) and also above the acceptable limit of conservative ( $p = 0.10$ ) (Hair et al., 1998).
3. *Incremental fit* above 0.9 is for GFI (*Goodness of Fit Index*), *Adjusted GFI (AGFI)*, *Tucker-Lewis Index (TLI)* and *Normed Fit Index (NFI)*.
4. Value of *Root Mean Square Residual (RMR)* and *Root Mean Square Error of Approximation (RMSEA)* is low.

### **b. Validity Test**

According to Ghozali (2001) validity test is a tool which is used to measure validation of questioner. Questioner is valid if the range is more than 0.30 question of questioner can describe something that will be measured by questioner. Validity test used SPSS program.

### **c. Reliabilities Test**

Reliabilities according to Ghozali (2001:41) is measuring instrument to measure a questioner which represent indicator of construct variable. The most popular test of inter item consistency reliability is the Cronbach's coefficient alpha (Cronbach's alpha; Cronbach, 1946; cited from Sekaran 2003). The way to calculating of a data reliability level is using Cronbach alpha is between 0.60 – 1.00).

#### **d. Normality Test**

Normality test can be used the Kolmogorov Smirnov test, whereby if the sign value  $> 0.05$ , then it can be concluded that the data variables were tested with the normally distributed.



## CHAPTER IV

### RESULT AND DISCUSSION

#### 4.1 Institutional Profile

##### 4.1.1 Andalas University Profile

Andalas University is the oldest university outside Java and the fourth oldest in Indonesia, was established by the Decree of the Minister of Culture and Education no. 80016/Kab; December 23rd, 1955. The University was officially opened by its founding fathers, the late Vice President; Drs. Mohammad Hatta, and the Minister of Education and Culture, Sarino Mangoenpranoto on September 13th, 1956.

##### 4.1.2 Campus Site

Andalas University is located on a hilly highland of Limau Manis, Pauh region, approximately 15 Km from Padang, the capital city of West Sumatra. The campus of Andalas University occupies an area of 500 hectare. The area is called Bukik Karamuntieng / Hill of "Rhodomyrtus tomentosa". It is about  $\pm$  255 m above sea level. The building has a unique architecture: the blend of Minangkabau traditional buffalo-horn roof and modern style of structure. The campus is still in the process of completing its facilities to accommodate academic and extra-curricular activities. Almost all faculties are located in Limau Manis, except the Faculty of Medicine, which is located in Jati (first campus), Padang.



### 4.1.3 Vision, Mission, and Objectives

The vision, mission, and objectives of Andalas University are:

#### **Vision**

To be the prestigious and outstanding university

#### **Mission**

- Be a Center of Excellence in developing sciences, technology, and arts
- Produce highly qualified, tolerant, peaceful, and competitive graduates
- Enhance the Indonesian prestige by rendering scientific outputs, technology, and arts, which are useful for human kinds

#### **Objectives**

- Be a research university, the center of science, technology, culture, and art
- Prepare students to be faithful and devout societies with academic competence or proficiency to develop, apply, and enrich science, technology, and art
- Develop and disseminate sciences, technology, art, and culture, and strive for their application to improve people's standard of living and enrich national culture
- Support the development of democratic and independent society.

#### 4.1.4 Faculties

The university currently consists of eleven faculties for undergraduate degree, they are:

##### 1. Faculty of Agriculture

- Department of Agribusiness
- Department of Agroecotechnology

##### 2. Faculty of Agricultural Technology

- Department of Agricultural Engineering
- Department of Agricultural Product Technology

##### 3. Faculty of Medical

- Department of General Practitioners
- Department of Nursing
- Department of Public Health
- Department of Psychology
- Department of Dentistry

##### 4. Faculty of Mathematics and Natural Sciences

- Department of Physics
- Department of Chemistry
- Department of Mathematics



- Department of Biology
- Department of Computer Science

**5. Faculty of Law**

- Department of Legal Studies

**6. Faculty of Economics**

- Department of Economics Studies
- Department of Management
- Department of Accounting

**7. Faculty of Animal Husbandry**

- Department of animal husbandry

**8. Faculty of Cultural Science**

- Department of Minangkabau Language, culture, and literature
- Department of History
- Department of Indonesian Language and Literature
- Department of English Language and Literature
- Department of Japanese Language and Literature



## 9. Faculty of Engineering

- Department of Environmental Engineering
- Department of Electrical Engineering
- Department of Industrial Engineering
- Department of Mechanical Engineering
- Department of Civil Engineering
- Department of Information system

## 10. Faculty of Social Sciences and Politics

- Department of Anthropology
- Department of Politics Studies
- Department of International Relations
- Department of Public Administration
- Department of Communications
- Department of Sociology

## 11. Faculty of Pharmacy

- Department of Pharmaceutical Science



## 4.2 Survey Result

This survey used questionnaire as tools to collect the data. The researcher had distributed 165 questionnaires to non-academic staff from eleven faculties in Andalas University. It can be seen in table 5.1 as followed:

**Table 4.1 Survey Result**

Survey	Number of Questionnaire
Distributed	165
Returned	114
Analyzed	114

*Source: Proceed from questionnaire by using SPSS*

### 4.2.1 Questionnaire Response

Researcher had already collected the data from respondents. From 165 questionnaires distributed, there were 114 questionnaires that can be returned and going to be proceed. After checking all questionnaires, researcher will continue to analyze the questionnaires because the respondents already answer all of item of questions. In detail, this chapter will explain about the review of respondents descriptive, analysis, and the impact of relationship between variables, and testing, hypothesis and discussion.

### 4.2.2 Descriptive Analysis

The purpose of descriptive analysis is to describe the characteristic of the respondents in this study such as gender, faculty, age, highest education,

employee status, employment degree, tenure as staff, and tenure on the current position of the non-academic staffs in Andalas University.

### 4.2.3 Descriptive of Research Sample

In this research, there were 114 questionnaires that can be proceed from 165 questionnaires distributed. After that, researcher will describe the data and put the answer that are given by respondents in to respondent characteristic. For more detail, the following table will describe the respondent characteristics:

#### 1. Respondent Characteristic based on Gender

Based on questionnaire result, researcher found that from 114 respondents, the majority is male. The percentage of male in this research is 57.0%, and respondent of female is 43.0%. In other words, the amount of male respondent is greater than female respondent. It can be seen in table 5.2 as followed

**Table 4.2**  
**Respondent Characteristic Based on Gender**

Gender	Frequency	Percentage
Male	65	57.0
Female	49	43.0
Total	114	100.0

*Source: Proceed from Questionnaire by using SPSS*

#### 2. Respondent Characteristic Based on Age

Based on the questionnaire result, researcher found that the range of age less than 25 years old is 1.80%, 25-35 years old is 24.60%, 35-45 years old is 25.40%, 45-55 years old is 43.90%, and the range of age that greater than 55 years old is 4.40%. In other words the majority of respondents in this research is the staffs that have range age between 45-55 years old. For more detail, it can be seen in table 5.3 as followed:

**Table 4.3**  
**Respondent Characteristic Based on Age**

Age (years)	Frequency	Percentage
<25 years	2	1.80
25-35 years	28	24.6
35-45 years	29	25.4
45-55 years	50	43.9
>55 years	5	4.40
Total	114	100.0

Source: Proceed from questionnaire by using

### 3. Respondent Characteristic Based on Faculty

From the questionnaire result, researcher found that from 200 respondents, 8.8% are from economic faculty, 10.5% are from animal husbandry faculty, 11.4% are from agriculture faculty, 9.6% are from agriculture technology faculty, 13.2% are from mathematic and natural science, 8.8% are from faculty of pharmacy, 7.0% are from engineering faculty, 13.2% are from cultural science faculty, 2.6% are from politics and social science faculty, 13.2 are from faculty of law, and 1.8% are from faculty of medical. It can be seen in table 5.4 as followed:

**Table 4.4**  
**Respondent Characteristic Based on Faculty**

Faculty	Frequency	Percentage
Economic Faculty	10	8.8
Animal Husbandry	12	10.5
Agriculture	13	11.4
Agriculture Technology	11	9.6
Mathematic and Natural Science	15	13.2
Pharmacy	10	8.8
Engineering	8	7.0
Cultural Science	15	13.2
Politics and Social Science	3	2.6
Faculty of Law	15	13.2
Faculty of Medical	2	1.8
Total	114	100.0

Source: Proceed from Questionnaire by Using SPSS



#### 4. Respondent Characteristic Based on Highest Education

From the questionnaire result, researcher found that from 200 respondents, 43.9% are graduated from senior high school, diploma degree are 14.0%, bachelor degree are 33.3%, and master degree are 8.80%. In other words the majority of the respondents are graduated from Senior High School. For more detail, it can be seen in table 5.5 as follows:

**Table 4.5**  
**Respondent Characteristic Based on Highest Education**

Highest Education	Frequency	Percentage
Senior High School	50	43.9
Diploma Degree	16	14.0
Bachelor Degree	38	33.3
Master Degree	10	8.8
Total	114	100.0

*Source: Proceed from Questionnaire by Using SPSS*

#### 5. Respondent Characteristic Based on Employee Status

From questionnaire result, researcher found that from 200 respondents, 88.6% the employee are civil servant and 11.4% the employee are still honorer. For more detail, it can be seen in table 5.6 as follows:

**Table 4.6**  
**Respondent Characteristic Based on Employee Status**

Employee Status	Frequency	Percentage
Permanent Employee	101	88.6
Non-Permanent Employee	13	11.4
Total	114	100.0

*Source: Proceed From Questionnaire by Using SPSS*

#### 6. Respondent Characteristic Based on Employee Degree

From questionnaire result, researcher found that from 200 respondents, 22.8% are employees with the second degree (degree II), 61.4% are employees



with the third degree (degree III), and 4.4% are employees with the fourth degree (degree IV). For more detail, it can be seen in table 5.7 as follows:

**Table 4.7**  
**Respondent Characteristic Based on Employee Degree**

Employee Degree	Frequency	Percentage
Degree II	26	22.8
Degree III	70	61.4
Degree IV	5	4.4
Missing System	13	11.4
Total	114	100.0

*Source: Proceed from Questionnaire by Using SPSS*

### 7. Respondent Characteristic Based on Tenure at Andalas University

From the questionnaire result, researcher found that from 200 respondents, 13.2% are the employees who have worked for less than 5 years, 10.5% are the employees who have worked for 5-10 years, 13.2% are the employees who have worked for 11-15 years, 14.9% are the employees who have worked for 16-20 years, and 48.2% are the percentages of employees who have worked for more than 20 years. For more detail, it can be seen in the table 5.8 as follows:

**Table 4.8**  
**Respondent Characteristic Based on Tenure at Andalas University**

Tenure as Staff	Frequency	Percentage
< 5 years	15	13.2
5-10 years	12	10.5
11-15 years	15	13.2
16-20 years	17	14.9
>20 years	55	48.2
Total	114	100.0

*Source: Proceed from Questionnaire by Using SPSS*

### 8. Respondent Characteristic based on Tenure on Current Position

From questionnaire result, researcher found that from 200 respondents, 16.7% of employees are working for 1 year on their current position, 13.2% of employees are working for 2 years on their current position, 15.8% of employees

are working for 3 years on their current position, 9.6% of employees are working for 4 years on their current position, and 44.7% of employees are working for more than 4 years on their current position. For more detail, it can be seen in table 5.9 as follows:

**Table 4.9**  
**Respondent Characteristic Based on Tenure on Current Position**

Tenure on Current Position	Frequency	Percentage
1 years	19	16.7
2 years	15	13.2
3 years	18	15.8
4 years	11	9.6
>4 years	51	44.7
Total	114	100.0

Source : Proceed from Questionnaire by Using SPSS

#### 4.2.4 Descriptive of Items Respond Each Variable

Description of each items obtained from field surveys is demonstrated in the following sections. The score of each item reflect that the level of perceived overall respondents for each item. The items are measured using 5 point Likert's Scale . The higher the score means the more positive respond of the respondent.

The following table shows the responds of respondents for effective compensation system statement items.

**Table 4.10**  
**Compensation System**

No	Items	Respondent's Answer					MEAN
		SA	A	N	DA	SDA	
1	The way in which my salary is determined is fully transparent to me	25	55	22	9	3	3.79
2	It's clear to me what my promotion possibilities are	9	37	41	24	3	3.22
3	It's clear to me what the criteria are for me to get promoted to the higher level	6	39	40	24	5	3.15

No.	Items	Respondent's Answer					MEAN
		SA	A	N	DA	SDA	
4	My compensation fit with my performance	8	50	29	25	2	3.32
5	My salary is good when compared to what I call earn in another company doing the same job	10	26	40	34	4	3.04
6	I find the compensation system to be fair	9	25	42	29	9	2.96
7	I can influence my total compensation by working harder	14	41	43	12	4	3.43
8	I have full control over my ability to get promoted	7	47	43	12	5	3.34
	<b>Total average mean</b>						<b>3.28</b>

Source: proceed from questionnaires by using SPSS

Based on survey result, it can be seen that the highest respond for the respondents answer is the item 7. It means that the respondents have influence of total compensation by working harder. Meanwhile the lowest score can be seen on the item 6 which reflect the system compensation systems are determined fairly.

The following table shows the respond of respondents for employee's motivation statement items.

**Table 4.11**  
**Employee's Motivation**

No	Items	Respondent's Answer					Mean
		SA	A	N	DA	SDA	
1	Compensation that I received make me get motivated to give the best effort	16	56	25	15	2	3.61
2	With the promotion possibilities existing in this university make me get motivated to work harder	18	48	27	20	1	3.54
3	I feel satisfied with the compensation system applied in this university	11	38	38	23	4	3.25
4	I feel satisfied with the promotion opportunities existing in this university	10	37	41	23	3	3.25
5	I think, giving the reward for the best employee can give motivation to increase their performance	34	53	18	7	2	3.96
6	I feel that the environment of university to do the job is very nice	20	39	43	9	3	3.56

No.	Items	SA	A	N	DA	SDA	Mean
7	I think, my boss always give the attention to their employees	16	38	37	21	2	3.39
8	In solving the problem, my boss always acts wisely	12	42	36	22	2	3.35
9	I feel that my boss always communicate about the task achievement to their employees	17	44	31	22	-	3.49
10	In doing the job, I feel comfortable on the control come from my boss	11	47	35	19	2	3.40
11	I think, this university has the clear compensation system	5	34	45	25	5	3.08
12	I'm enthusiastic with the salary level that I received from this university	7	31	52	21	3	3.16
13	For me, compensation is a motivation in doing the job	15	56	26	17	-	3.61
14	Family problem has no influence on my job	12	62	30	9	1	3.66
15	My family really support me to get working in this university	14	66	28	6	-	3.77
16	I feel safety working in this university	18	51	39	6	-	3.71
17	I want to reach successful in doing my job at this university	20	68	22	4	-	3.91
18	I have no complaint in doing my job	7	48	42	14	3	3.37
19	I feel satisfied with my present job	8	59	32	15	-	3.53
20	I feel satisfied with kind of my present job	20	44	44	6	-	3.68
21	I get spirit to do the job given to me	10	57	37	10	-	3.59
22	Usually, I'm enthusiastic with my present job	9	44	43	16	2	3.37
23	While at working, I feel the day will never end	8	40	35	29	2	3.20
24	<b>Total average mean</b>						<b>3.49</b>

Source: Proceed from questionnaire by using SPSS

Based on survey result, it can be seen that for the employee's motivation variable, the highest respond of the respondents answer is item 5. It means that most of respondent think that with giving the reward to the employees will make them get motivated to increase their performance. Meanwhile the lowest score respond of the respondents answer is item 11 that reflect this university has a clear compensation system.

The following table shows the respond of respondents for job satisfaction statement items.

**Table 4.12**  
**Job Satisfaction**

No	Items	Respondent's Answer					MEAN
		SA	A	N	DA	SDA	
1	I really like my present job	16	59	30	9	-	3.72
2	I do my job well, and it can give satisfaction	15	71	24	4	-	3.85
3	I put my full responsibility in my job	27	62	19	4	2	3.95
4	The reward that I got fro doing my job give me satisfaction	16	46	37	15	-	3.55
5	I feel happy because in this university, there is an opportunity to improve my knowledge and skills relate to my job	14	45	33	15	7	3.39
6	In partnership, I feel comfortable because I have competent partner who can help me in doing my job	20	56	31	7	-	3.78
7	I build good relationship with partner during and out of working time	30	57	26	-	1	4.01
8	I feel satisfied if my boss give the appreciation and recognition about my job	5	46	47	15	1	3.34
9	I feel satisfied because there is complete facilities provided in order to accomplish my job	20	45	37	12	-	3.64
10	I feel satisfied because, I'm working based on my skill and expert	16	52	36	10	-	3.65
11	I feel satisfied with the compensation system applied in this university	5	37	52	17	3	3.21
12	I feel satisfied with the total amount of compensation that I have received in this university	2	36	49	20	7	3.05
13	<b>Total average mean</b>						<b>3.59</b>

Source: Proceed from questionnaires by using SPSS

Based on survey result, it can be seen that for job satisfaction variable, the highest respond of respondents answer is item 7 which has mean 4.01. It means that most of respondents feel satisfied about the build good relationship with their partners during their working time. Meanwhile the lowest score respond of

respondents answer is item 12 with mean 3.05 that reflect respondent feel satisfied with the compensation system applied in this university.

#### **4.2.5 Measuring of Data Entry**

##### **1. Testing of Validity**

Validity refers to the strength of our conclusions, inferences or propositions. More formally, Cook and Campbell (1979) define it as the best available approximation to the truth or falsity of a given inference, proposition or conclusion. Hair et al (1998) argued that Validity is concern with how well the concept is defined by measure.

Factor loading greater than  $\pm 0.3$  are considered to meet the minimal level; loading value of  $\pm 0.40$  are considered more important; and if the loading are  $\pm 0.50$  or greater, they considered practically significant (Hair et al.1998).

Based on survey result can be explained that in Compensation System variable, there are two components. All of items in component 1 are valid because the value of factor analysis is greater than 0.5. But, there is only one item in component 2, it is item Sk1 that has value of factor analysis 0.841. Because of that the item Sk1 will be deleted. For Employee Motivation consist of five components and there are several items are not valid. They are item Mk14 which has the value of factor analysis 0.467, item Mk17 which has the value of factor analysis 0.485, and item Mk18 in component 5 which has the value of factor analysis 0.690. In Job Satisfaction, there is one item is not valid. It is item Kk8 in component 3 which has the value of factor analysis 0.854. For more detail, it can be seen in table 4.13 as follows:

**Table 4.13**  
**Validity Testing**

<b>Variable</b>	<b>Factor/item</b>	<b>Factor Loading</b>
Compensation System	Sk1	0.841
	Sk2	0.777
	Sk3	0.619
	Sk4	0.704
	Sk5	0.649
	Sk6	0.861
	Sk7	0.789
	Sk8	0.596
Employee's Motivation	Mk1	0.514
	Mk2	0.611
	Mk3	0.596
	Mk4	0.631
	Mk5	0.631
	Mk6	0.603
	Mk7	0.584
	Mk8	0.739
	Mk9	0.764
	Mk10	0.660
	Mk11	0.655
	Mk12	0.632
	Mk13	0.532
	Mk14	0.467
	Mk15	0.603
	Mk16	0.685
	Mk17	0.485
	Mk18	0.690
	Mk19	0.741
	Mk20	0.675
	Mk21	0.690
	Mk22	0.598
	Mk23	0.542
Job Satisfaction	Kk1	0.751
	Kk2	0.596
	Kk3	0.500
	Kk4	0.645
	Kk5	0.651
	Kk6	0.727
	Kk7	0.558
	Kk8	0.854
	Kk9	0.669
	Kk10	0.717
	Kk11	0.615
	Kk12	0.584

*Source: Proceed from questionnaire by using SPSS*

## **2. Testing of Reliability**

Reliability is intended to measure the extent to which a variable or set of variables is consistent in what is intended to measure (Hair et al.,1998). Reliability test is different with the validity test, validity relate to how an items is measure and reliability measure the evidence of consistency of the research instruments, it refers to degree to which same value will be returned if measure it again on other occasion. Based on Nunally (1978), scale reliabilities range from 0.6 to 0.96 indicate that the values exceed acceptable of reliability.

The way to determine the reliability level of one instrument in the research can be accepted if value of r alpha exists in range 0.60 – 1.00. We categorize reliable / good for range > 0.60 – 0.80, and very good / very reliable for range 0.80-1.00 (Santoso, 2001). For determining the reliability, researcher processed by using computer program SPSS 15 for windows with Cronbach's alpha formula.

Reliable test of three variables that have been tested are compensation system, employee's motivation, and job satisfaction can be seen in table 4.15 as followed:

**Table 4.15**  
**The Result of Reliability Test**

<b>No</b>	<b>Variable</b>	<b>Number of valid item</b>	<b>Cronbach alpha</b>	<b>Criteria</b>
1	Compensation System	7	0.843	Good reliability
2	Employee's Motivation	20	0.922	Very good reliability
3	Job Satisfaction	11	0.853	Good reliability

*Source: Proceed from Questionnaire by using SPSS*



Based on the table 4.15 showed that the value of cronbach alpha for Compensation System is 0.843. The value of cronbach alpha for Employee's Motivation is 0.922 and the value of cronbach alpha for Job Satisfaction is 0.853. Based on these data above means that all variables of the study has cronbach's alpha value greater than 0.6. Because of that, all questionnaires are highly reliable statement.

### 3. Testing of Normality

The most fundamental assumption of multivariate analysis is normality (Hair et al. 1998, p. 70). A simple test can be conducted to identify the distribution score of each variable. To get the value of normality, the author used SEM AMOS. Ferdinand (2002) suggested that the data will be normal if the value of cr for skewness and kurtosis in SEM AMOS should be absolutely  $< 2.58$ . To be more clearly, we can see from the table 4.16 that shows about the result of normality testing.

**Table 4.16**  
**Result of Normality Testing**

No	Variable	Min	Max	Skew	c.r.	Kurtosis	c.r.
1	Kk1	2,000	5,000	-,376	-1,640	-,219	-,476
2	Kk2	2,000	5,000	-,482	-2,100	,550	1,198
3	Kk3	1,000	5,000	-,982	-4,279	1,612	3,514
4	Kk4	2,000	5,000	-,122	-,530	-,720	-1,569
5	Kk5	1,000	5,000	-,504	-2,199	-,284	-,619
6	Kk6	2,000	5,000	-,295	-1,287	-,337	-,736
7	Kk7	1,000	5,000	-,504	-2,195	,720	-1,570
8	Kk9	2,000	5,000	-,128	-,560	-,730	-1,5911
9	Kk10	2,000	5,000	-,202	-,879	-,479	-1,044
10	Kk11	1,000	5,000	-,237	-1,034	,025	,055
11	Kk12	1,000	5,000	-,468	-2,041	-,198	-,432
12	Mk23	1,000	5,000	-,051	-,223	-,829	-1,806
13	Mk22	1,000	5,000	-,251	-1,092	-,227	-,495
14	Mk21	2,000	5,000	-,295	-1,287	-,273	-,595
15	Mk20	2,000	5,000	-,067	,291	-,703	-1,533

No.	Variable	Min	Max	Skew	c.r	Kurtosis	c.r
16	Mk19	2,000	5,000	-,435	-1,894	-,436	-,950
17	Mk16	2,000	5,000	-,074	-,323	-,512	-1,115
18	Mk15	2,000	5,000	-,448	-1,954	,194	,424
19	Mk13	2,000	5,000	-,391	-1,706	-,610	-1,330
20	Mk12	1,000	5,000	-,009	-,038	-,146	-,318
21	Mk11	1,000	5,000	-,157	-,685	-,406	-,884
22	Mk10	1,000	5,000	-,300	-1,308	-,477	-1,014
23	Mk9	2,000	5,000	-,121	-,527	-,973	-2,121
24	Mk8	1,000	5,000	-,161	-,703	-,654	-1,425
25	Mk7	1,000	5,000	-,107	-,468	-,711	-1,549
26	Mk6	1,000	5,000	-,296	-1,291	-,116	-,253
27	Mk5	1,000	5,000	-,923	-4,024	,732	1,596
28	Mk4	1,000	5,000	-,091	-,395	-,539	-1,176
29	Mk3	1,000	5,000	-,155	-,676	-,578	-1,259
30	Mk2	1,000	5,000	-,316	-1,377	-,742	-1,618
31	Mk1	1,000	5,000	-,588	-2,563	-,141	-,308
32	Sk8	1,000	5,000	-,585	-2,551	,271	,590
33	Sk7	1,000	5,000	-,343	-1,497	-,040	-,088
34	Sk6	1,000	5,000	,070	,305	-,536	-1,168
35	Sk5	1,000	5,000	,238	-1,037	-,629	-1,370
36	Sk4	1,000	5,000	-,318	-1,388	-,753	-1,640
37	Sk3	1,000	5,000	-,241	-1,051	-,499	-1,088
38	Sk2	1,000	5,000	-,084	-,367	-,552	-1,202
39	multivariate					188,901	18,290

Source: Proceed from questionnaire by using SEM AMOS

From table 4.16, we can see that all of item have the value of cr skewness and kurtosis < 2.58. It means that the result of each data was acceptable or normal.

#### 4.Measurement of Fit Model

##### 4.1 Structural Equation Model (SEM)

After checking the validity, reliability and normality, this section will be continued with description of statistical tool in order to assess the developed hypotheses. In this study, analysis procedure used SPSS 15 and SEM with AMOS 16 software.

Structural Equation Modeling (SEM) is a statistical technique for testing and estimating causal relations using a combination of statistical data and qualitative causal assumptions, SEM allows both confirmatory and exploratory modeling, meaning they are suited to both theory testing and theory development (Tabachnick & Fidell, 2001).

This research conducted absolute fit measure which identifies the overall model fit on the basis of the likelihood ratio chi-square statistic (Hair et al. 1998). This research got result of the ratio of chi-square to degree of freedom is 2.046, it means the ratio of chi-square to degree of freedom is acceptable because the value smaller than 5. Moreover it also supported based on expert recommendations (Anderson & Gerbing. 1984; Byrne.1994). Another measurement of the absolute fit index can be seen at the table 4.17 as followed.

**Table 4.17**  
**Evaluation of SEM with Goodness of Fit Measure**

Type of Measure	Goodness of Fit Measure	Recommended Level of acceptable Fit Tabachnick and Fidell (2000); Hair et all (1998); Byrne (2000)	Result of Initial Research Model
Absolute Fit Measure	(GFI)	Greater than .90	.632
	(RMSEA)	Under .80	.096
Incremental Fit Measure	(AGFI)	Greater than .90	.580
	(TLI)	Greater than .90	.711
	(NFI)	Greater than .90	.587
	(CFI)	Greater than .90	.731
Parsimonious Fit Measure	Normed Chi-Square	Lower Limit 1.0 Upper Limit 2.03/ 3.0 or 5.0	2.046
	AIC	Smaller positive value indicate parsimony	1144.414

Source: Proceed from questionnaire by using SEM AMOS

Fit statistic indices of this research model were designated several fit indices, the statistic result initial model can be seen in the table 4.17; GFI = 0.632; (RMSEA) = 0.096; (AGFI) = 0.580; (TLI) = 0.711; (NFI) = 0.587; (CFI) = 0.731; (RMR) = 0.072.

Joreskog (1993) pointed out that evaluation of the model and assessment of fit are not entirely statistical matters. Because of that, researcher revised the model in order to create the good model based on modification index in SEM AMOS that suitable with happening problem. The modification index will be guides researcher to determine which parameter would provide to maximize improvement the fit. SEM of Goodness with Fit Measure after Revised can be seen in table 4.18 as followed:

**Table 4.18**  
**Evaluation of SEM with Goodness of Fit Measure After Revised**

Type of Measure	Goodness of Fit Measure	Recommended Level of acceptable Fit Tabachnick and Fidell (2000); Hair et all (1998); Byrne (2000)	Result of Initial Research Model	Note for Testing
Absolute Fit Measure	(GFI)	Greater than .90	.671	Moderate
	(RMSEA)	Under .80	.086	Moderate
Incremental Fit Measure	(AGFI)	Greater than .90	.620	Moderate
	(TLI)	Greater than .90	.769	Moderate
	(NFI)	Greater than .90	.634	Moderate
	(CFI)	Greater than .90	.787	Moderate
Parsimonious Fit Measure	Normed Chi-Square	Lower Limit 1.0 Upper Limit 2.03/ 3.0 or 5.0	1.836	Acceptable
	AIC	Smaller positive value indicate parsimony	104,2534	

Source: Proceed from questionnaire by using SEM AMOS

Fit statistic indices of this research model above were designated several fit indices, the statistic result after revised model can be seen in the table 4.18; GFI = 0.671; (RMSEA) = 0.086; (AGFI) = 0.620; (TLI) = 0.769; (NFI) = 0.634; (CFI) = 0.787; RMR = 0.074. Based on table 4.18, we can see there is an increase value of each fit statistic indices. It means the model of fit more improvement rather than before.

These results have fulfilled the characteristic recommended level of acceptable fit of each index (see table 4.17 and 4.18). There are some indicators in moderating fit model, like GFI; AGFI; NFI. This research do not need to revise this model, as Gefen et al. (2000) and Jiang et al. (2002) indicated, GFI is best when the value is larger than 0.90 and is demonstrate marginally acceptable when the value is larger than 0.80; AGFI is acceptable when the value is larger than 0.80; the ratio of chi-square to degree of freedom is acceptable when the value is smaller than 5. Moreover it also supported based on expert recommendations, (Anderson & Gerbing, 1984; Cole, 1987; Marsh et al., 1988), the goodness-of-fit criteria used to test the model were the Goodness-of-Fit Index  $> 0.850$  (GFI; Joreskog & Sorbom, 1986), the Adjusted GFI  $> 0.800$  (AGFI; Joreskog & Sorbom, 1986), and the Root Mean-Square Residual  $< 0.100$  (RMS; Joreskog & Sorbom, 1986). Browne and Cudeck (1993) suggested that value of RMSEA in range 0.08-0.1 indicate to mediocre fit (good enough fit model) and the fit model was acceptable. It means according to the value of each indicator, the fit model is acceptable.

## **5. Hypothesis Testing**

The test statistic for parameter estimates is assessed by critical ratio (c.r.). It represents the parameter estimate divided by its standard error. Critical ratio values absolutely larger than 1.96 prove the path coefficient to be statistically

significant at  $p < .05$ . The chi – square of the theoretical model was 892.534 with 486 degree of freedom (df). It was statistically significant at  $p < 0.001$ . The table 4.19 shows the result of hypothesis analysis.

**Table 4.19**  
**Regression Weight**

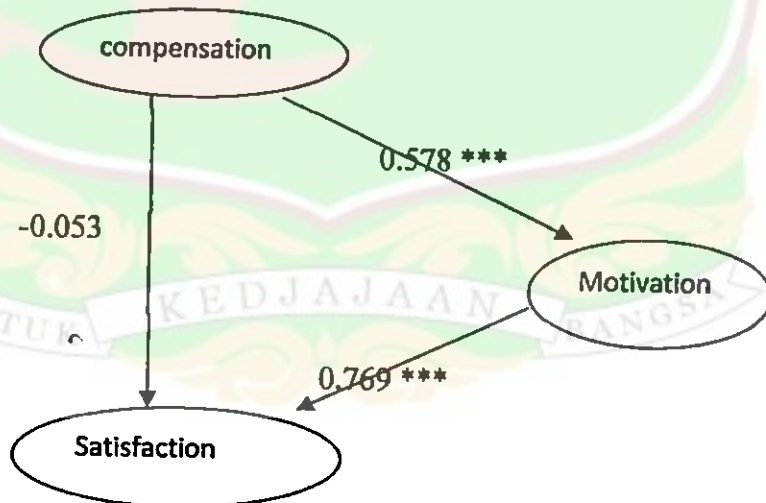
H	Path	Estimate	SE	CR	P	Judgement
H1	Compensation → Motivation	,578	,117	4,934	***	Significant
H2	Compensation → Satisfaction	-,053	,084	-,635	,525	Not Significant
H3	Motivation → Satisfaction	,769	,195	3,944	***	Significant

Source: Proceed from questionnaire by using SEM AMOS

Based on the theoretical model and the result of SEM AMOS , the researcher got measurement and result of the standardized regression weight (showed at appendix SEM analysis summary) that can be seen as follows:

**Figure 4.1**

**Result of Testing Model**



Note: \*\*\* significant at  $p < 0.01$

Source: Proceed from questionnaire by using SEM AMOS

The researcher tested the hypothesis By SEM and Amos software. It measured direct or indirect effect of the exogenous variables that can be specified by identifying paths among variables, a path analysis was conducted to test the overall causal model. As discussed in the earlier section, the model has been tested to assess the overall fit of the model. Also, individual tests of the hypothesized relationship were conducted. The critical t value (CR) used to assess the significance of the relationship between two path is 1.96 ( $p < .05$ ). A CR value above 1.96 means the relationship of the causal model is significant. The results of the hypotheses testing are shown in table 4.19.

**H1: Effective Compensation System has positive impact on Employee's Motivation.**

Hypothesis 1 investigated that effective compensation system has positive impact on employee's motivation. Because the standard path coefficient is 0.578, the critical ratio value is 4.934 ( $> 1.960$ ), and p with \*\*\* ( $< .01$ ) were significant, hypothesis 1 was supported.

**H2: Employee's Motivation has positive impact on Employee's Job Satisfaction.**

Hypothesis 2 investigated that employee's motivation has positive impact on employee's job satisfaction. Because the standard path coefficient is 0.769, the critical ratio value is 3.944 ( $> 1.960$ ), and p with \*\*\* ( $< .01$ ) were significant, hypothesis 2 was supported.

**H3: Effective Compensation System has positive impact on Employee's Job Satisfaction.**

Hypothesis 3 investigated that effective compensation system has positive impact on employee's job satisfaction. Because the standard path coefficient is -0.053, the critical ratio value is -0.635 ( $< 1.960$ ), and p with 0.525 ( $>.01$ ) were not significant, thereby hypothesis 3 was not supported.

Based on hypothesis test above, we can investigate the result of each hypothesis. The summary of result hypothesis can be seen in table 4.20 as follows:

**Table 4.20**  
**Summary of Hypothesis Testing**

	<b>Hypothesis</b>	<b>Result</b>
H1	Effective Compensation System has positive impact on Employee's Motivation	Supported
H2	Employee's Motivation has positive impact on Employee's Job Satisfaction	Supported
H3	Effective compensation System has positive impact on Employee's Job Satisfaction	Not Supported

**4.3 Discussion of the Research Findings**

The main objective of this study was to propose and test conceptual model of the relationship among the constructs of "compensation system", "employee's motivation", and "employee's job satisfaction". The final model of this is presented in figure 4.1 and show the relationship among the hypothesis which illustrated the key findings of the research.



#### **4.3.1 The Relationship between Compensation System and Employee's Motivation**

From the hypothesis, effective compensation system has positive impact on employee's motivation. As the hypothesized in table 4.19, the research is supported from previous study about the relationship between compensation and employee's motivation.

The previous study about the Relationship between compensation and employee's motivation in Commercial Bank of Pakistan (study taken by Khan, Ullah, and Farooq, 2010) observed that there is direct and positive relationship between compensation and employee work motivation. The change in compensation offered to employees necessarily change the work motivation and performance of employees. Better compensation, the higher the level of motivation and greater levels of employee's performance.

Engaged with this relationship, Ghazanfar et al., (2011) have observed about study of relationship between satisfaction with compensation and work motivation. The observation explained that the work motivation in the organization is influenced by the satisfaction of the employee with their compensation, which is offered by the organization. The data in the present study observed that fixed pay can increase work motivation (Ghazanfar et al., 2011). These result also consistent with the research from Heneman (1992) and Mount (1987) who have observed about merit-based pay system.

Study from Herpen et al., (2005) about the Effect of Performance Measurement and Compensation on Motivation, have observed that effective compensation system with the dimension of perceived fairness has a strongest

effect on employee's extrinsic motivation. While transparency and controllability of effective compensation system were found to have no effect on the level of extrinsic motivation. For intrinsic motivation, it is not influenced by any compensation system. However according to Dulebohn and Werling (2007), ability to motivate workers and retain desired employees is largely is influenced by compensation offered by an organization.

Based on the result and supported by previous study from Ghazanfar et al., (2011) in a study about Relationship between Satisfaction with Compensation and Work motivation and Herpen et al., (2005) about Effect of Performance Measurement and Compensation on Motivation found that there is positive relationship between compensation and employee's motivation. It was proved by the hypothesis 1 that also supports another previous study that explained about relationship between compensation and employee's motivation. It means that in this research, employee's motivation is directly and positively relate to compensation system. Therefore, the hypothesis 1 is consistent with the previous study.

#### **4.3.2 The Relationship between Employee Motivation and Employee Job Satisfaction**

From the hypothesis, employee's motivation has positive impact on employee's job satisfaction.. As the hypothesized in table 4.19, the research is supported from previous study about the relationship between motivation and job satisfaction.

Previous study from Oraman (2011) about Work Motivation and Job Satisfaction Dynamic of Textile Employee observed that there is significantly correlated between motivation and job satisfaction. It means that members of the organizations become more dependent on their organizations in satisfying of their needs. According to Oraman (2011), not everyone gets motivated by the same things. Where one gets motivated, obtain satisfaction, and consequently performs better from getting additional responsibility assigned, another may feel much better valued and encouraged to higher productivity if they merely being listened to, or given some flexibility in their work schedule (Marques, 2010).

The similar thing is also explained by Rain et al., (1991) who found that job satisfaction is a very important attribute which is frequently measured by organization. The happier people within their job, the more satisfaction can be achieved and furthermore, there is increase of motivation by the people to do their job. Moreover, Job satisfaction and motivation reinforce each other, strengthen each other, and promote each other. If the employees are satisfied on job performance, they tend to be motivated (Lather and Jain, 2005).

Engaged with this relationship, motivation reflect people's search for meaning and that job satisfaction may reflect the degree to which people have found meaning in their Work (Frank (1984; cited from Lather and Jain, 2005). It means that job satisfaction is derived from the gratification of higher-order needs such as social relation, esteem, and self actualization rather than lower-order needs (Sylvia and Hutchinson, 1985; cited from Lather and Jain, 2005).

Based on result and previous study from Oraman (2011) about Work Motivation and Job Satisfaction Dynamic of Textile Employee, Rain et al., (1991)

found that there is positive relationship between motivation and job satisfaction. It was proved by hypothesis 2 that also support another previous study that explained about relationship about motivation and job satisfaction. It means that in this research, employee's motivation is directly and positively relate to employee's job satisfaction. Therefore, the hypothesis 2 is consistent with the previous study.

#### **4.3.3 The Relationship between Compensation System and Job Satisfaction**

Previous study that is conducted by Vandenberghe and Trembley (2008) concluded that rewards satisfaction is seen to be positively related to job satisfaction in either public or private sector employees. Den Hartog and Verbug (2004) mentioned that experience satisfaction derived from fair and manner reward decision made by the organization.

Similarly, another previous study was conducted by Tella (2007) who observed about Work Motivation, Job Satisfaction, and Organizational Commitment of Library Personnel in Academic and Research Libraries in Oyo State, Nigeria found that there is significantly positive correlated between compensation and job satisfaction. The more fair the individuals are compensated, the higher job satisfaction will be achieve, moreover, there is increase of performance in doing the job.

Besides, research conducted by Dr. Kashifurrehman et al., (2007; cited from Khan, Ullah,& Farooq, 2010) in Pakistan measuring the effect of "Human Resources Strategies" like pay, promotion, and training on job satisfaction. Their

study was focused on workforces of service based companies in Pakistan. The research is concluded that pay, promotion, and training had positive and significant impact on job satisfaction. They also argued and suggested that employees in Pakistan give more importance to pay and promotion in order to increase people satisfaction on their job.

According to Luthan and Sommer (2005), different types of job satisfaction will lead to different intentions and behavior occurred from different types of motivation in getting different types of rewards. Besides, Lin and Milne (2007) recommended that rewards with outcome relationships were expected to vary based on employee satisfaction with their organization.

Relate on this research, the result of hypothesis 3 was not supported. It means that there is no significant relationship between compensation and job satisfaction. From that definition, the way that employees feel satisfied on their job is not directly contributed on the way they are compensated. Because from survey results, respondents think that job satisfaction cannot be measured by compensation system. It means that the level of job satisfaction relate to the way they are compensated is different for each individuals. Thus, the hypothesis test in the previous section have been contra with the previous studies. It means that in this research job satisfaction is not directly influenced by compensation system. Therefore, the hypothesis 3 is inconsistent with the previous study.

## **CHAPTER V**

### **CONCLUSION, LIMITATION, RECOMMENDATION, AND IMPLICATION**

#### **5.1 Conclusion of the Research**

According to the data analysis and the result performed within this research, Researcher concludes that:

1. The research is conducted to measure effect of effective compensation system on employee's motivation and employee's job satisfaction. The respondent are non-academic staff from eleven faculties at Andalas University.
2. According to the result and structural equation modeling, compensation system is directly and positively related to the employee's motivation. It means that effective compensation system has positive impact on employee's motivation of non-academic staff at Andalas University.
3. Based on hypothesis result, employee's motivation is directly and positively related to the employee's job satisfaction. It means that motivation has positive impact on job satisfaction among non-academic staff at Andalas University.
4. Effective compensation system is not directly contributed to job satisfaction among non-academic staff at Andalas University.

## **5.2 Limitation and Recommendation of the Research**

There some limitation and recommendation for the future research:

1. It is really limited sample in this research. In the next research hope using more samples, so it will contribute accurate result.
2. The area or scope of the research is only at Andalas University, in future research it should to take another university in order to get accurate result.
3. The respondent only non-academic staff at Andalas University. In the future research hope take another respondent such as lecture and managerial staff.
4. This research use effective compensation system to measure the level of employee's motivation and job satisfaction. In the future research hope take another variable to measure the level of employee's motivation and job satisfaction to compare and get different result.

## **5.3 Implication of the Research**

There are some implication of the research:

1. While there is no single strategy to manage people, all of who have different need, backgrounds, and expectation. By creating an environment that promotes job satisfaction, any organization can develop their employees who are motivated, productive, and fulfilled by adopting good HR practice.
2. In compensating the employees, management should be based on objective criteria of performance and perceived as fair. The low level employee

perceived the difference in salary, facilities, loans, etc as demotivating factor.

3. In order to improve employee job satisfaction, manager should pay their attention to employee's motivation because motivation is the key to organizational effectiveness and is predictor for performance and job satisfaction.
4. Individuals at all level in the organization want to be compensated fairly and recognized for their achievement. Management should compensate the employees with transparency, controlled, and fairly. Besides, management should sincerely appreciated employees by praising them on regular basis for doing good job. If appropriate an increment also can be given. The management can even establish a formal recognition program such as "employee of the month".
5. Employees will be more motivated to do their job well if they have ownership of their work. this requires giving employees enough freedom and power to carry out their task so that they feel they "own" the result.



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