



The Relationship Between Salary Ratio and Employee Compensation Satisfaction in the Compensation System

Ziyin Chen^(✉)

Faculty of Business, Law and Politics Hull, University of Hull, Hull HU6 7RX, UK
15078385552@sina.cn

Abstract. Domestic and international scholars have studied pay satisfaction. Different pay percentages come from fixed and performance pay and performance pay has a relatively significant impact on employees' pay satisfaction. The assessment of pay satisfaction is mainly carried out in five aspects: pay level, pay increase, pay management, and produce form. And historically, the research on compensation satisfaction is divided into three stages: from a single study to research focusing on structure, and now explore concentrate on a role. The understanding of compensation satisfaction has also changed from single to multidimensional. The measurement methods of compensation satisfaction include particular and standard measurements, among which standard height includes MSQ, JDI and PSQ.

Keywords: Employee Compensation Satisfaction · Compensation satisfaction definition and history · Definition and measurement methods

1 Introduction

Pay for performance intensity is constrained by organizational resources and employee perceptions, is based on individual performance, team performance, or organizational performance, and may exist in different combinations given the overall pay for performance intensity, which is influenced by corporate culture and strategic orientation [1]. Compensation is one of the few areas that employees are most concerned about when working. Compensation is the key to maintaining the core competitiveness of modern companies: From the perspective of cost control, the proportion of compensation in companies' operating costs is continuously increasing [2].

Many scholars in China have studied this direction, and most of them focus only on the distribution of performance pay or the impact of performance pay on employee satisfaction. For example, in 2014, Xie Jianbin [3] studied the effect of pay for performance and pay fairness on employees' pay satisfaction by examining both aspects. The results showed that performance pay did not have a significant positive effect on distributional equity. The strength of the link between performance and income did not substantially affect employees' pay equity perceptions. However, the research direction

of this literature is narrow and does not address the impact of base salary on employee pay satisfaction.

In 2010, Zu Wei, et al. [1] studied the effect of pay for performance intensity on employee pay satisfaction with a sample of 506 pay satisfaction questionnaires and their objective pay data from 14 companies. The results show that there may be a moderate interval of pay-for-performance intensity. Pay-for-performance intensity may also vary among organizations and at different stages of development in the same organization. The higher the pay-for-performance intensity, the better. The optimal pay-for-performance intensity for maximizing compensation satisfaction is higher than that of the average employee because the middle and senior management have greater control over performance. But again, this article only discusses pay for performance on employee compensation satisfaction done research.

All of the literature listed above only studied the effect of pay for performance on employee satisfaction and did not break down the composition of wages. Breaking down the composition of wages would provide a more comprehensive understanding of the composition of employee compensation satisfaction and know which aspects have a more significant impact on employee satisfaction.

Foreign scholars have also studied this area, and their research is more multifaceted and earlier [4]. In 2005, Currall [5] noted that regarding its impact on organizational outcomes, pay satisfaction was positively associated with school district-level academic performance and negatively associated with average teacher intention to quit.

Heneman [6] show the results indicated a positive relationship between pay-for-performance perceptions and pay-raise satisfaction, pay-level satisfaction, and overall pay satisfaction even after the effects of the salary level, salary increases, performance ratings, job tenure, job The impact of salary level, salary increases, performance ratings, job tenure, job satisfaction, and promotions were controlled.

In recent years, practice teaching has been dramatically developed in foreign countries. In contrast, foreign scholars in this area of research are earlier than domestic scholars, and research aspects are relatively more. At present, enterprises in foreign developed countries promote the full realization of organizational strategies by integrating human resource planning and corporate strategic planning [4].

Although China's research on human capital has made a breakthrough, there is still room for progress. And the concern aspect is not as extensive as foreign countries [4].

2 Definition and Research History

In his book *Work and Motivation*, the study of compensation satisfaction began in 1964 when Vroom [7] explained the expectancy theory of motivation theory at work. Vroom believed that differences in satisfaction led to differences in performance. Compensation satisfaction is assessed from five dimensions: pay level, salary increase, pay administration, pay form (benefits), and pay structure [8]. The definition of compensation satisfaction by foreign scholars can be summarized into two main aspects: the first is to measure employees' compensation satisfaction from the satisfaction of pay level, and scholars who have done relevant studies in this regard include Vroom [7], Lawler [9] and so on.

The second aspect is to assess the satisfaction of pay in terms of the quantity of pay and pay system, and Green [10] and others have conducted studies in this regard.

According to time and content, the historical research on pay satisfaction can be divided into three stages. In 1965, Adams [11] proposed the “equity theory”, which means that when people are in an exchange relationship, there must be inputs and outputs. Outputs and these two are a fixed ratio; Lawler [23] proposed the “gap theory”, which believes that pay satisfaction is determined by the difference between what employees expect to earn and what they get. The second phase focused on the study of structure. Many scholars explored this area during this period. The multidimensional system - four-factor theory proposed by Heneman et al. [12] was recognized by most researchers [5]. They believe that compensation satisfaction is an emotional response to the quantity of employees’ pay and the compensation management system. It includes four aspects: pay level, benefits, salary increase, compensation structure and management. The third phase is until today and focuses on studying the effect of role. Heneman et al. [12] argue that pay satisfaction impacts employees’ perceptions and behaviours such as tardiness, turnover, intention to leave, early retirement, cheating behaviour, and job performance. And an in-depth analysis revealed an inherent relationship between equity theory and gap theory.

3 Research Perspective

The percentages in the salary are divided into base salary and performance pay, and the salary structure is broken down to consider whether employees with different salary percentages will receive additional salary satisfaction. The base salary is usually related to the employee’s position, the final base salary will include a total attendance bonus, etc. Base salary do not receive much external influence. Performance-based wages are variable performance-based wages that include individual performance-based wages, team performance-based wages, and organizational performance-based wages [1]. But the combination of both is the ultimate wage. According to Maslow’s hierarchy of needs theory, there are different stages of human needs. Therefore, after reaching a particular location, a simple basic wage cannot satisfy the basic needs of employees and the relative wage satisfaction decreases. Enterprises have generally accepted performance pay, and there is a large amount of research on the incentive effect of performance pay and its influencing factors [13].

Previously, there have been numerous studies on the link between pay for performance and pay satisfaction. Colin Green et al. [10] showed that pay for performance causes tension and stress because it leaves a portion of employees’ earnings in a state of uncertainty. There is a positive relationship between pay for performance and satisfaction with pay level, satisfaction with pay level, and overall pay satisfaction. However, when payment for implementation is too stressful, the resulting stress can have significant side effects on the individual and decrease pay satisfaction. In a 2008 study, GREEN [14] showed empirically that the implementation of pay for performance led to an increase in overall employee satisfaction, pay satisfaction⁶, job satisfaction and work time satisfaction.

In this regard, a hypothesis can be made that the higher the pay for performance, the higher the employee’s pay satisfaction since the fixed nature of the base salary has no significant effect on the amount of the actual salary. Long, Lirong, Zhao, Haixia

and He, Wei [15] found that the more control employees perceive they have over their performance, the more they prefer performance pay. Their findings suggest that there may be a moderate range of pay-for-performance intensity and that the appropriate content may increase their pay satisfaction.

Francis Green [14] found that performance pay can create uncertainty and stress for employees. His conclusion states that a specific range of pay-for-performance intensity can increase employee satisfaction.

Therefore, human needs are constantly changing, basic pay cannot always satisfy human needs, and performance pay can only increase employee satisfaction to a certain extent.

4 Research Method

The understanding of compensation satisfaction has shifted from a single dimension to a multidimensional one [16]. Early studies focused on a single pay level satisfaction: for example, Lawler [9] understood pay satisfaction in terms of pay level and benefit level; Miceli et al. [24] argued that it should be understood in both quantitative and systemic dimensions. However, scholars have reached different conclusions due to differences in countries and geographical locations and differences in respondents. In 2000, Sturman & Short surveyed employees in healthcare organizations in the United States in terms of five dimensions (pay level, pay enhancement, benefits, pay structure, and bonuses); in 1998, Law surveyed Hong Kong workers' pay in terms of two dimensions (pay level and benefits) satisfaction. However, scholars have not yet reached a consensus on the specific dimensions that should be included in a pay satisfaction survey, which has led many scholars to neglect the study of pay enhancement, benefits, and pay structure in their research.

Academic measurement of pay satisfaction has gone through a process from a single global rating to summation scores. [17] The former is an overall measure of employee compensation satisfaction through a series of questions about compensation, simple to operate and widely applicable. However, this method also has the limitation that it only yields an overall score but does not dissect company-specific issues. The total score method improves on these problems by first measuring compensation satisfaction scores for critical dimensions and then deriving an overall score with different weights based on the general level of each size. Although this method is more complex, it is more practical for managers. Interim and standard measures are the main methods of measuring compensation satisfaction: adhoc measurement [18] and standard measurement [19]. Adhoc measurement dominated in the early days. It measures compensation satisfaction by setting questions according to the study's needs. It has a more arbitrary question design, and the study results cannot be compared [16]. Standard measurement refers to the use of pay satisfaction measurement scales, mainly including the MSQ (Minnesota Satisfaction Questionnaire) [20], and also the five-aspect JDI (Job Descriptive Index Questionnaire) [21], and the 18-item Salary Satisfaction Questionnaire (PSQ), standard measurement has three main methods. Both the first and second salary satisfaction questionnaires are included, but they are only measured as one of the independent scales, where the focus is on overall satisfaction. The third questionnaire considered compensation satisfaction more appropriately measured as a stand-alone scale, again focusing on

overall satisfaction. These 18 questions were aggregated into four factors corresponding to satisfaction with pay levels, satisfaction with pay enhancement, satisfaction with pay structure and management, and satisfaction with benefits, which were later accepted by academia and adopted by many scholars in China [15]. Later Williams [22] enabled a comprehensive compensation satisfaction questionnaire containing 29 questions, but whether the method is universal has not been certified by most scholars for the time being.

5 Conclusion

Compensation satisfaction is one of the most important aspects of employees' work, so it has been studied by many scholars both at home and abroad. However, relatively speaking, the research of foreign scholars started earlier and is more mature. The definition of compensation satisfaction has gone through the assessment of five dimensions of pay quantity and pay system. The assessment of pay satisfaction generally starts with basic salary and performance pay. Through research, base salary has little effect on employees' compensation satisfaction, while performance pay affects employees' satisfaction to a certain extent. For research methods in this area, academic measurement of compensation satisfaction has gone through a process from a single global rating to summation scores. The former has limitations and cannot analyze specific issues, while the latter is more complex but more practical. Interim and standard measures are the main methods of measuring compensation satisfaction. Adhoc measurement dominated in the early days; while standard measures include MSQ, JDI, and PSQ.

This research review can, to a certain extent, provide a scientific measurement reference for Chinese enterprises to diagnose the current situation of compensation management and carry out timely compensation reform.

References

1. Zu, W. Long, L.Y. Zhao, H.X., et al. (2010) The Impact of Performance-based Pay Intensity on Pay Satisfaction: An Empirical Study. *Chinese Economy and Management Science*, 9: 63–70.
2. He, W. Long, L.R. (2011) The relationship between actual earnings levels, internal comparisons of earnings, and employee compensation satisfaction-the moderating role of traditionality and department size. *Management World*, 4: 106–118.
3. Xie, J.B. (2014) An Empirical Research: The Influence of Fairness for Performance Salary on Employee Pay-Satisfaction. *Industrial Engineering and Management*, 2: 39–43, 50.
4. Xu, Q.J. Zhao, W.F. (2013) A commentary on the status of foreign academic research on corporate compensation management in the last decade. *Theoretical Economic Research*, 5: 34–42.
5. Cural, S.C. Towler, A.J. Judge, T.A., et al. (2005) Pay Satisfaction and Organizational Outcomes. *Personnel Psychology*, 58: 613–640.
6. Heneman, R.L. Greenberger, D.B. Strasser, S. (1988) The relationship between Pay-for-performance Perceptions and Pay Satisfaction. *Personnel Psychology*, 41: 745–759.
7. Vroom, V.H. (1964) *Work and Motivation*. New York: Wiley.

8. Mulvey, P.W. Miceli, M.P.&Near, J.P. (2010) The Pay Satisfaction Questionnaire: A Confirmatory Factor Analysis. *Tarlor&Francis Online*, 139–141.
9. Lawler, E.E. (1971) Pay and organizational effectiveness. McGraw-Hill, New York.
10. Green, C. Heywood, J.S. (2008) Does Performance Pay Increase Job Satisfaction?. *Economica*, 75: 701–728.
11. Admas, L.S. (1965) Inequity in social exchange. *Advance in Experimental Social Psychology*, New York.
12. Heneman, H.G. Judge, T.A. (2000) Compensation attitudes: a reviewed recommendations for future research. In: Rynes, S.L. Gerhart, B. et al, *Compensation in organizations: progress and prospects*. Jossey-Bass, San Francisco. 129–141.
13. Zhao, H.X. (2009) A Review of Foreign Research on the Effectiveness of Variable Compensation Incentives and Their Influencing Factors. *Foreign Economics & Management*, 4: 61–67.
14. Green, F. (2004) Why has Work Effort Become More In-tense?. *Industrial Relations*, 43: 709–741.
15. Long, L.Y. Zhao, H.X. He, W. (2010) The Impact of Performance-based Pay Intensity on Pay Satisfaction: An Empirical Study. *Chinese Journal of Management*, 7: 1321–1328.
16. Yu, H.B. Zheng, X.M. (2008) Measurement, Antecedents and Effects of Pay Satisfaction. *Chinese Basic Science*, 1: 84–87.
17. Zhao, J.X. Shi, J.X. (2015) Literature Review of Compensation Satisfaction Studies *Science paper Online*. 1–10.
18. Heneman, H.G. Schwab, D.P. (1985) Pay Satisfaction: its multidimensional nature and measurement. *International Journal of Psychology*, 20: 129–141.
19. Zhang, X. (2012) Discussion on compensation satisfaction factors and quantitative analysis. *China's Foreign Trade*. 2: 148.
20. Weiss, D. Dawis, R. England, G., et al. (1967) *Manual for the Minnesota Satisfaction Questionnaire*. University of Minnesota, Minneapolis.
21. Smith, P.C. Kendall, L.M. Hulin, C.L. (1969) The measurement of satisfaction in work and retirement: A strategy for the study of attitudes. *Attitude Measures*.
22. Williams M.L. Brower, H.H. Ford, L.R. (2008), A comprehensive model and measure of compensation satisfaction. *Journal of Occupational and Organizational Psychology*, 81: 639–668.
23. Lazarus, H. Lawler, E.E. (1972) Pay and Organizational Effectiveness: A Psychological View. *Industrial and Labor Relations Review*, 285–305.
24. Miceli, M.P. (1991) Antecedents of pay satisfaction: a review and extension. In: Rowland, K.

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial 4.0 International License (<http://creativecommons.org/licenses/by-nc/4.0/>), which permits any noncommercial use, sharing, adaptation, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if changes were made.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.

