Explaining Compensation Satisfaction Among Public Officers from Equity and Expectancy Perspective

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Abstract. Managing compensation is an interesting and sensitive issue in organizations, including public organizations. This study examines the effect of each aspect of compensation on satisfaction among public officers. Based on the equity theory and the expectancy theory, this research focuses on the central concept observed about compensation, with a total of 122 public officials who work in two government agencies in Medan, North Sumatra, participating as respondents. The results showed that among the four aspects of compensation observed and tested in this study, the findings show that only the incentive aspect had an essential effect on employee satisfaction with compensation. The three other aspects of compensation were found to have no significant effect on employee satisfaction with compensation. The practical implication for public officers who work in the public sector, the organizational incentive pattern is very attractive to them. This study also argues that these same challenges can also serve as drivers shaping the future of public compensation as a theory and practice. While conclusion also offers a new perspective in favor of the argument advanced here.

Keywords: Compensation Aspects; Satisfaction Toward; Public Officers.

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INTRODUCTION

Today’s public organizations operate in a fiercely competitive global that has increased the pressure to transform the business and management of human capital. Increased technology and changing regulations of developing countries has escalated global public challenges for products, services, and employees. Meanwhile, the demand for effectiveness in managing employees in the public sector is increasing, employees who work in the public sector must encourage themselves to be more motivated in providing quality public services (Agustina et al., 2021; Hidayati & Sunaryo, 2019) and increase their felt obligation in their work (Harijanto et al., 2022; Pradesa, 2018; Pradesa et al., 2019). How to manage and keep the best talent in the organization is one of the key important issues, including in public organizations (Poocharoen & Lee, 2013; Reilly, 2008; Thunnissen & Buttiens, 2017).
A major shift in the social, economy, politic, technology, demographics, and legislation over the past two decades has changed the nature of public work and compensation strategies such as total rewards required for organizational success. As an important part of human resource management practices compensation management is fundamental to build good employment relationships in organization (Berber et al., 2017; Bryant et al., 2020). Current challenges that arise is not only about how to manage high-performing employees in various organizational sector but also by providing better compensation, benefits, and incentives in the non-profit sector. Therefore, compensation management would be main focus for managing best talent and ensuring successful human resource management practices in the organization (Davis & Gabris, 2008).

Managing compensation in public organization have been discussed and debated by many experts, frequently by comparing it with the private sector (Reilly, 2013a, 2013b). The main reason behind it is about increasing number among employees who tend to work in larger profit-oriented organizations that could reduce the overall amount of talent in the public sector, and potentially eliminate the best talent who work in public organizations. There is growing attention and sense of urgency for public employees who work in public organizations to work at a high level of performance (Baderan & Ingo, 2018; Mahdang et al., 2016). It is driven by purpose of potential maximization of employees even though they are often unable to reduce the number of employees even though and or have limited budgets.

Employees are attracted to positions in organization that provide adequate or above standard level compensation. Obtaining and keeping the most talented employees can be achieved by offering the best compensation packages (Thunnissen & Buttiens, 2017). Compensation received by someone is a form of appreciation for the expertise and experience they have. This would enhance employees’ engagement so that they could feel comfortable and be more productive in their job. While the general understanding emphasizes that compensation is always closely related to salary. The truth is deeper understanding of the relationship between aspects of compensation in driving satisfaction with compensation can help organizations prevent the types of very large income losses, severe performance inefficiencies, and radical reductions in labor productivity.

Nowadays, performance-related pay has been well applied in public sector organizations (Bhattacharyya, 2013; Davis & Gabris, 2008; Park, 2018). In developing country such as Indonesia, this compensation system is well recognized when it related with individual performance (Hanif, 2016). The number of academic articles assessing compensation in public
sector organizations has increased rapidly since 2000 (Guajardo, 2021) and this has continued to increase until now, including Akbar et al., (2017); Anggrainy et al., (2017); and Gayatri et al., (2017). However, compensation research lean to have lagged behind in reflecting current modern compensation practices (Park, 2018). While managing compensation is very important in attracting and keeping the best talent to work in the organization (Schlechter et al., 2014), it can be noted that satisfaction with the payment system is strongly related to perceived organizational support (Miceli & Mulvey, 2000) and increasing employee performance (Armantari et al., 2021; Ramzan et al., 2014). In public organization, both remuneration and compensation have become a driving factor in the provision of public service quality (Putri & Ardiana, 2019; Sancoko, 2011). This is about the importance of managing compensation in public organizations.

Providing compensation for employees is very important in terms of understanding the theory of justice (equity theory). The concept of fairness used in providing compensation is crucial factor that affects how and why an employee could works for a particular organization. Fair compensation means that all sacrifices made by employees in contributing to the organization are considered in proportion to the amount of compensation received (Arisandi et al., 2020). This concept of fairness leads to a balance between the level of productivity and the level of compensation (salary, wages, allowances, and other benefits) it receives. Several studies have emphasized the importance of fairness in good compensation practice in an organization (Arisandi et al., 2020; Farla et al., 2019; Suhartini, 2005).

Most organizations have a defined compensation philosophy that applies to all employees (Madhani, 2019; McKinney et al., 2013). This philosophy will determine where the organization targets its compensation elements, such as base salary, cash bonuses, long-term incentives, and benefits received from employees. Meanwhile employee compensation is all forms of payment provided to employees and arises from work and has two components: direct payments (in the form of wages, salaries, incentives, commissions, and bonuses), and indirect payments (in the form of financial benefits such as insurance and money holidays paid for by the organization). Meanwhile, adequate compensation is that the number of wages is more related to the standard of living and labor regulations. Such as minimum physical needs and regional minimum wages.

An appropriate amount of the compensation received by employees will attract many potential workers to join or work for the organization. In contrary, organization which provide small and improper compensation will have less interest from potential candidates to join. Therefore, a proper and high level of compensation tends to help organizations to retain
employees (Milkovich & Newman, 2008), with the criteria that the compensation provided by the organization is adequate to support themselves and their families.

Traditional compensation programs include financial compensation primarily on benefits that are expensive, limited in flexibility, and designed to be "one size fits all" regardless of its design (Milkovich & Newman, 2008). The traditional total reward program design for employees offers important compensation and benefits to individuals in return for desired behavior (Milkovich & Newman, 2008). The main motivational theories that form the basis of compensation plan design include needs-based theory, reinforcement theory, expectancy theory, equity theory (or justice theory), and agency theory. The traditional design of a total reward program is based on extrinsic and intrinsic motivation theory but more emphasis is placed on extrinsic theory which suggests external rewards such as compensation are the main motivator of employee performance. Compensation systems provide the basis for the exchange relationship between individuals and organizations and have meaning beyond remuneration for the performance of a job. Research has shown that "well-designed plans that link pay with employee behavior generally result in better individual and organizational performance" (Milkovich & Newman, 2008).

Traditional model of a total reward system is transactional and consists of financial and non-financial rewards given to an employee in return for work done for a job. Financial benefits include direct payments in the form of cash (e.g., basic salary-, short- and long-term incentives, overtime, cost of living adjustments) and indirect payments in the form of benefits (e.g., health care, life insurance, pensions and leave paid). Non-financial rewards include intangible returns in the form of security, opportunities to have, challenging jobs, and personal status (Milkovich & Newman, 2008). The basic purpose of the reward system is to attract and retain employees, influence employees to make decisions that support organizational goals, increase organizational efficiency through quality and performance improvements (Akbar et al., 2017; Anggrainy et al., 2017; Weldon, 2012), and controlling labor costs (Milkovich & Newman, 2008), even as a key to aligning services and added value to organizations (Madhani, 2019; Tocher et al., 2006).

The majority of studies in previous literature that examine the dimensions of compensation satisfaction were defined long ago by Heneman & Schwab (1985), in which consist of satisfaction with salary levels, salary increases, levels of benefits, and salary structures and administration. Salary rate refers to the form of direct compensation received by an individual (wages or salaries). A raise refers to the rate of change in salary that an individual receives. Benefits reflect indirect payments to individuals in the form of payments for time off, insurance, and others (Milkovich & Newman, 2008). Meanwhile salary and administration structure refers to the
hierarchical relationship created between the payment rates for various jobs in the organization and the procedures by which the compensation payment system is managed (Heneman & Schwab, 1985).

Previously Judge (1993) has provided representative conclusions about research on the dimensions of salary satisfaction: "it is clear that the dimensions of salary satisfaction are not independent, and in fact some are highly related". It is very clear that fairness in providing compensation is certainly important for employees in an organization (Scott, 2018), although nowadays employees working in the public sector are familiar with a performance-based compensation payment model (Park, 2018) or even a merit system (McKinney et al., 2013). However, an interesting point can still be explored from the compensation system or practice in public organizations. In Indonesia, for example, the findings of Saleh (2020) have shown that indirect compensation is more dominant than direct compensation for the public officers’ performance. Several previous studies (Akbar et al., 2017; Anggrainy et al., 2017; Hidayat et al., 2017) have reviewed the important relationship between compensation for employee performance or work performance. This empirical and theoretical description shows the relevance of compensation in the management of human resources in an organization, especially a public organization.

Despite an increase in the existing literature, little attention has been paid to the factors affecting satisfaction with compensation practices at the local government level. The majority of previous studies tended to examine the impact of compensation on job satisfaction and employee performance (Anggrainy et al., 2017; Harahap & Khair, 2019; Saleh, 2020). This study attempts to fill in the gaps in how aspects of compensation recognized by employees can affect the extent to which they are satisfied. It is believed that one of the problems is the extent to which human resources in public organizations perceive each aspect of the compensation received and how well among each aspect increase employee satisfaction. More specifically, it has been identified from some of the previous literature that very few have examined the effect of any aspect of compensation received by public sector employees on how this can promote employee satisfaction.

The important difference between this study and previous research is the use of a theoretical perspective, both equality and expectation theory. It is believed that this theory of equality and expectation can explain how the perception of the compensation aspect received by employees in encouraging the satisfaction they feel. What is more interesting about two theories that arguably related each other in compensation management, but in practical terms it might be
one theory could explain it better than another. This study combines equity theory (as a classic explanation in organizational justice) with expectation theory (as a classic job satisfaction theory) to explain about what is the most important aspect compensation that make public officer satisfied. To be emphasized, this study does not measure the extent to which aspects of compensation can drive employee performance. Based on theoretical perspective used in this study, research question is the extent to which aspects of compensation received by public officer can boost the level of satisfaction they feel. This study tries to combine both theories as a basis for building conceptual framework. It is believed that every aspect of compensation could perceived by individuals based on an assessment of its fair value received and also refers to their expectations.

METHODS

As previously stated, the purpose of this study is not to compare the form of compensation and its effect on employee performance. The main purpose of this research is to review the extent to which aspects of the compensation itself can encourage employees to be more satisfied with the compensation they receive. Based on this explanation, the conceptual framework proposed in this study is as follows.

![Figure 1. Conceptual Framework](image)

To test the model presented above, the following hypothesis can be formulated:

Hypothesis 1: Salary could significantly affect compensation satisfaction
Hypothesis 2: Incentive could significantly affect compensation satisfaction
Hypothesis 3: Benefit could significantly affect compensation satisfaction
Hypothesis 4: Facility could significantly affect compensation satisfaction
The paradigm applied in this study is quantitative, with a cross-sectional character for the specified research locus. This research was conducted at two government agencies in Medan, namely the Research and Development Agency of North Sumatra Province and the Department of Population and Civil Registration of North Sumatra Province. A total of 122 employees participated in this study and were willing to become respondents and answer the research questionnaire that was distributed. This research is categorized as an explanatory study (explaining the effect of the compensation aspect on satisfaction with compensation) which is designed to collect data through closed questions. The choice of this method is based on the hope of obtaining information about what employees think about the aspects of compensation and the extent to which this is able to encourage the level of satisfaction with the compensation that is felt. This study is explanatory to determine the important determinants of satisfaction with perceived compensation. The instrument was developed in this study by referring to concept of compensation and justice theory as well as expectation theory as the basis for operationalize research indicators. There are 5 research instruments to measure the variables observed in this study, namely aspects of salary, aspects of incentives, aspects of benefits, and aspects of facilities as independent variables, and satisfaction with compensation as dependent variable. Based on the conceptual framework and research hypotheses, multiple regression analysis was used in this study to answer research questions and test each of the proposed hypotheses.

RESULTS AND DISCUSSION

Based on the theoretical and empirical basis as well as the methods used in this study, primary data is processed and analyzed to reveal the most important aspects of compensation (salary, incentive, benefit, and facility) in which are received by public officers in encouraging about how much they are satisfied. Public officers also assessing the aspects of compensation received was also disclosed in results. Furthermore, equality and expectancy theory are used as a lens to discuss the findings revealed, especially when bearing on pattern of relationships between variables in the research model.

| Table 1. Mean, Standard Deviation, and Correlation between Variables |
|---------------------------------|----------|----|----|----|----|----|
|                                 | Mean    | SD  | 1  | 2  | 3  | 4  |
| 1. Salary                       | 3.88    | 2.645| .774|    |    |    |
| 2. Incentive                    | 3.87    | 2.540| .743**| (.690)|    |    |
| 3. Benefit                      | 4.07    | 2.782| .604**| .664**| (.787)|    |
| 4. Facility                     | 4.08    | 2.973| .546**| .666**| .664**| (.827)|
| 5. Satisfaction Toward          | 3.89    | 2.183| .591**| .722**| .546**| .544**| (.716)|

Notes: **p < 0.01; *p < 0.05; The Cronbach alpha for each scale is italicized and shown diagonally.
Table 1 shows the mean answers from the respondents for each variable observed in this study, as well as the standard deviation value. The mean values for the variables found ranged from 3.87 to 4.08. From the compensation aspect, the facility aspect was the most highly rated by respondents when compared to the other three aspects. Meanwhile, the incentive aspect was found to have the lowest value when compared to other aspects of compensation. In addition, the correlation between variables can be seen with a positive correlation value, ranging from 0.546 to 0.743. Meanwhile, the value of Cronbach's alpha for each variable was found to be above the critical value (greater than 0.60) which ranged from 0.690 to 0.827. These results indicate that all the variables observed in this study have an accepted reliability value.

![Figure 2. Path Coefficient](image)

Table 2 shows the results of the beta coefficient for the relationship between the variables in the research model. Each influence on the relationship between variables shows the value of the standard beta coefficient which shows the effect value of the relationship between variables.

<table>
<thead>
<tr>
<th>Relationship</th>
<th>Beta Coefficients</th>
<th>t_statistic</th>
<th>Sign.</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary → Satisfaction Toward Compensation</td>
<td>.105</td>
<td>1.072</td>
<td>.286</td>
<td>NS</td>
</tr>
<tr>
<td>Incentive → Satisfaction Toward Compensation</td>
<td>.570</td>
<td>5.358</td>
<td>.000</td>
<td>Sign.</td>
</tr>
<tr>
<td>Benefit → Satisfaction Toward Compensation</td>
<td>.037</td>
<td>.228</td>
<td>.820</td>
<td>NS</td>
</tr>
<tr>
<td>Facility → Satisfaction Toward Compensation</td>
<td>.073</td>
<td>.460</td>
<td>.647</td>
<td>NS</td>
</tr>
</tbody>
</table>

Source: data processed and analyzed in this study
Based on Table 2, the hypothesis that has been proposed in this study is tested. Hypothesis testing uses a significance level of 5 percent with the t table criteria of 1,960 (n = 122) with the following explanations:

**Hypothesis 1: Salary could significantly affect satisfaction toward compensation**

Based on the findings of the research results shown in Figure 2 and Table 2, it is revealed that the value of the effect of the salary aspect on satisfaction with compensation was found to be insignificant ($\beta_1 = 0.105$ Sign = 0.286). Significance values are found above the 5 percent tolerance level. The first hypothesis in this study is rejected. The results show that the employee's assessment of the salary aspect does not contribute to the increase in employee satisfaction with compensation.

**Hypothesis 2: Incentive could significantly affect satisfaction toward compensation**

Based on the findings of the research results shown in Figure 2 and Table 2, it is revealed that the value of the effect of the salary aspect on satisfaction with compensation was found to be significant ($\beta_2 = 0.570$ Sign = 0.000). The second hypothesis in this study is confirmed. The results show that the employee's assessment of the incentive aspect can contribute significantly to increasing employee satisfaction with compensation.

**Hypothesis 3: Benefits could significantly affect satisfaction toward compensation**

Based on the findings of the research results shown in Figure 2 and Table 2, it is revealed that the value of the effect of the aspect of allowances on satisfaction with compensation was found to be insignificant ($\beta_3 = 0.037$ Sign = 0.827). The third hypothesis in this study is rejected. The results show that the employee's assessment of the benefits aspect does not contribute significantly to the improvement of employee satisfaction with compensation.

**Hypothesis 4: Facility could significantly affect satisfaction toward compensation**

Based on the findings of the research results shown in Figure 2 and Table 2, it is revealed that the value of the effect of the facility aspect on satisfaction with compensation was found to be insignificant ($\beta_4 = 0.073$ Sign = 0.647). The fourth hypothesis in this study is rejected. The results show that the employee’s assessment of the facility aspect does not contribute to the increase in employee satisfaction with the compensation.

**Table 3. Coefficient of Total Determination and Model Significance**

<table>
<thead>
<tr>
<th>Model</th>
<th>$R$</th>
<th>$R$ Square</th>
<th>$F$</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.731a</td>
<td>.534</td>
<td>33.489</td>
<td>.000b</td>
</tr>
</tbody>
</table>

Source: data processed and analyzed in this study
Based on the above results, it can be concluded that only one of the four proposed research hypotheses is accepted. The effect of incentive aspect on compensation has significant effect on the satisfaction of employees' perceived compensation. While other relationship among variables such as salary, benefits, and facilities were found insignificantly affect satisfaction with compensation.

Table 3 shows that the R-square value which was found to be 0.534 indicates that the variance of the model is moderate. Meanwhile, the F value is 33.489 with a significance of .000, which means that this model as a whole is good and can be considered as a predictive model in determining satisfaction with the compensation received by employees. This means that the influence model from the aspects of salary, incentives, allowances and facilities on compensation satisfaction can be confirmed to meet the feasibility of the model.

The result show that incentives as one aspect of compensation was found to have a significant effect on satisfaction with compensation. This finding is appealing because of the unit of analysis studied on public officers. Based on observations and interviews in the field with several respondents, compensation in the form of salaries or allowances for employees may be more likely to be perceived as static and tends to be "given". The amount of salary or allowances received has been regulated in such a way in the law on the State Civil Apparatus, so that the relative amount can be known with certainty. The amount of salary or allowances will not change unless there is a job promotion or stipulation of government regulations. Likewise, the facility scheme received by employees is also stipulated in regulations and is binding.

In contrast to the three aspects of compensation, incentives are still seen as attractive to public officers. This incentive is interesting due to the nature of incentives which tend to be uncertain in number and dynamic in nature. When it is obtained then this will increase about employees good and positive feelings. The number of incentives often received by employees is relatively low, or not as same amount as the regular pay or benefits received. But the concept of incentives itself considered as a form of means of motivating employees in the form of material. The form of incentives provided is often a stimulus or impetus on purpose for employees. Therefore, it will build bigger and stronger spirit for employee in working for the organization. Incentives provide employee with a psychologically different form of reward in return for employee effort.

The results of this study are interesting when viewed from the basis of compensation theory in organizations. In a clear compensation structure in a public organization, an employee
can perceive every aspect of compensation at different levels as well as the impact of each aspect to satisfaction toward compensation. Result of this study confirm the previous argument (Heneman & Schwab, 1985; Williams et al., 2007) that satisfaction with compensation can be multidimensional, considering the multidimensional aspects of self-compensation (salary, allowances, incentives, and facilities).

From an agency theory perspective, findings of this study allows a greater contribution to compensation research when there are sources of deviations from basic assumptions, such as assumptions of uniform risk avoidance, recognized and incorporated into compensation practice (Gayatri et al., 2017; Greene, 2018). Adding incentives as part of variable salaries to the compensation portfolio received by employees tends not to cause perceptions of employees to bear a greater risk because the amount of basic salary and benefits, they receive is still constant.

The key themes and measures of success of compensation practice provide opportunities for uniqueness for the type of organizational policy that is important for compensation professionals responsible for designing and implementing total compensation systems. Professionals from compensation managers especially those from the public sector can consider this study to take practical steps to align the total reward system with organizational culture. It refers to effectiveness of total reward programs in key areas of human resource management in an organization.

This study shows that only one of the four research hypotheses tested is confirmed or acceptable. In other words, only the incentive aspect as part of public officer compensation was found to have an important effect on satisfaction with compensation. The aspects of salary, benefits, and facilities have no important meaning on increasing satisfaction with compensation for public officers who work at the level of North Sumatra Province. This finding is interesting from the perspective of compensation management practices, especially in public organizations, because it captures a typical phenomenon from the description of the object of research. In terms of criteria the research model was built based on theoretical concepts and previous empirical results and was found to have a good model feasibility, with good instrument reliability and reliability so that it could be considered for use in other research objects. This study empirically confirms several previous studies (Heneman & Schwab, 1985; Judge, 1993) which show the importance of employee satisfaction for the compensation they receive.

Considering the research findings, this study can confirm that the theory of expectations tends to be more dominant than the theory of justice in developing compensation practices in public organizations. What is more encouraging is that an employee is satisfied with
compensation because of his expectations, not because of whether the employee has been treated fairly or not. Although compensation can encourage performance and other forms of positive attitudes, understanding empirical phenomena about how employees perceive aspects of compensation can provide important insights for many parties.

This study is inseparable from several limitations, including the nature of the assessment of the research instrument which is self-assessment, the data which is cross-sectional only captures the phenomenon at one time. Based on the findings that have been obtained in this study, it is hoped that there will be an impetus to investigate the complex relationship between aspects of compensation and how this has the potential to influence the attitudes and behavior of government employees regarding their work. Further research can examine other aspects of the public sector compensation system, such as promotion opportunities, on the attitudes and behavior of other employees.

CONCLUSIONS

The realities of a rapidly changing compensation practices paint a far more different picture for the organization and demand new ways of thinking. In conclusion, managing compensation in public sector is a complex set of activities that are enacted within the organization to support overall public organizational strategies. Because only one of relationship among variables which has important meaning. Findings indicate that incentives play a key role in ensuring employee satisfaction toward compensation in public organization. The study showed that salaries, benefits, together with facility found to have no significance meaning to increase satisfaction toward compensation.

Thus, this study may contribute to positive practical and theoretical contribution by sharing insights on compensation practices that increase satisfaction toward compensation in public organization. First of all, this study asks attention for a theme that in point of view has been little bit neglected in recent times. Practitioners of Public Administration should be sensitive for this subject, because they must have an idea where the state is for. The employee as the unit of analysis in this study shows various possibilities in the potential for further studies. The compensation policy in public organizations has been clearly defined in the regulations, but how employees perceive this aspect of compensation is another interesting matter.

That leads to the next question: in which ways should this be further explored? Public Administration programs in compensation run the attention of becoming instrumental for further
practical development. Policies and decisions could be analyzed on the values that they contain and where these values are derived off. Insights from the study may drive the adoption of compensation strategies such as highlighting the provision of incentives on a regular basis that could motivate employee to focus on the long-term objectives of the public organization.

REFERENCES:


