

Effect of Compensation Administration on Employees' Retention

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ABSTRACT

Bearing in mind that employees are the most valuable assets in modern organizations, this study examines the relationship between compensation administration and employee's retention. The population of the study comprises 70 full-time employees of hotels and restaurants in Niger State, Nigeria. Using a five-point Likert scale, a self-administered questionnaire was used to obtain data from the participants. Also, the study adopts simple random sampling to give equal chance to all the participants. The Statistical Packages for Social Sciences (SPSS version 25) was employed for data analysis. Findings indicate a positive relationship between effective compensation administration and company's ability to retain its employees. More so, statistical result demonstrates a positive relationship between payments of salary and allowances and employees' intention to remain in the organization. This study recommends a robust compensation administration to enable organizations retain their best hands who may intend to quit. This is because a good compensation system helps to retain and enhance employee's job satisfaction and decision to remain in the organization. In conclusion, the need for effective compensation administration cannot be over-emphasized as it is essential for employee's retention. Implications and suggestions for future research are presented at the end of this study.

Keywords: Administration, compensation, job satisfaction, productivity, employees' retention.

INTRODUCTION

Employees are the key resource of every organization and the success or failure of organizations depends on the ability of the employers to attract, retain and reward talented and competent employees (Ahmed, Khan, Ahmad, & Ahmad, 2022). Employee's willingness to stay on the job largely depends on compensation packages of the organization among others (Hoque & Tshutsha, 2022). In an attempt to ensure employees' optimal satisfaction and retention, organizations need to consider a variety of appropriate means to reward employee to get the desired result (Falola, 2014). It has been argued that the degree of employees' satisfaction and their readiness to remain in an organization is a function of compensation packages (Magaisa &

Musundire, 2022). Organizations that have goals to achieve would require satisfied and happy staff in her workforce. Importantly is the fact that for any organization to take-off and achieve its strategic goals, her ability to attract, retain and maintain competent and satisfied employees must be total (Bernardino, 2022). The role of human resources in an organization is very important, especially for organizations based on services. Companies must prioritize finding, hiring, motivating, training, and developing employees who are closest to the culture and desired performance (Ahmed, Khan, Ahmad, & Ahmad, 2022).

There are various factors that influence employees to stay in the company, one of these factors is compensation. Through compensation, employees are enthusiastic to work because of the inner willingness driving their work performance. Wening (2015) asserted that employees do not always get the desired job satisfaction due to a non-conducive working atmosphere. Similarly, Becker (2016) explained that employees who have affective commitment do get emotional with their work. Hence, employees with affective commitment will work with feelings of pleasure and enjoy their role in the company. According to Ragupathi (2013), employees' retention is a technique employed by the management to make employees stay in an organization for a long period of time. Furthermore, Karthi (2012) stated that employees' retention is a process where employees are encouraged to remain in an organization until the project is completed or within the maximum period.

A major challenge for every organization is how to retain its valuable and talented employees most especially a private sector organization. The management can control the problem of employees quitting the organization within no time to a great extent but cannot put a complete full stop to it. Essentially, a high potential employee is the center of attention at every workplace but could also be a major problem if not properly managed. Every organization tries its best to hire employees from the competitors and thus provide lucrative opportunities to attract them. Productivity, the need for financial benefit and involving employees in organizational decisions relating compensation has been a great challenge to managers of private and public organizations. Owing to these challenges, employees become dissatisfied and thus look forward to changing the present job and join the competitors.

A few studies have examined various factors that could predict employees' retention, but the present study is different from the existing studies (Abdulfattah & Hamas, 2021; Ayinde, Ayansina, Ibrahim, & Oyebode, 2021; Efthymiou, Usher, O'Connell, Warnock-Smith, & Conyngham, 2021; Tajuddin, Ambad, & Hasan, 2021). Our study seeks to advance the current state of knowledge in several ways. First, we contribute by empirically examining how financial and non-financial incentives influence employees' decisions to stay in hospitality sector in Nigeria. Existing studies were done in other countries and by implication, their findings may not subsist in Nigerian setting due to cultural and environmental differences (Bernardino, 2022: Hoque & Tshutsha, 2022; Kumar, 2022; Fernando & Sutha, 2022; Vaidya, Undavia, & Patel,

2022). Second, we extend previous research by incorporating first line employees in restaurants and hotels operating in Nigeria. The reason is simple, this set of employees are faced with core challenge of work pressure and financial challenges at home due to the fact that they work for long hours, including night shifts but earn little compared to the efforts they put into their responsibilities. More so, this set of employees have been ignored in previous studies as existing studies focused on employees in hospitals and finance houses (Almutairi, 2021; Efthymiou, Usher, O'Connell, Warnock-Smith, & Conyngham, 2021; Gladys, Kumar, Vinoth, & Sanjay, 2021; Soomro, Ahmed, Hussain, Maitlo, & Lashari, 2021).

Research questions

- i. What is the relationship between financial compensation and employees' retention?
- ii. Does non-financial compensation affect employee's retention?

Objective of the study

The specific objectives of the present study include:

- i. To examine the relationship between financial compensation and employees' retention
- ii. To identify the relationship between non-financial compensation and employee's retention

CONCEPTUAL FRAMEWORK

Compensation

Compensation is a systematic approach of providing monetary and non-monetary incentives to employees in exchange for task performed. According to Arul (2013), compensation means a wide range of financial and non-financial rewards to employees for services rendered. Bernardino (2022) also noted that compensation represents all forms of tangible and non-tangible benefits that employee receives as part of employment relationship. In the same vein, Brown (2003) stated that compensation is a return in exchange between employee and employer as an entitlement for being an employee of the organization, or as a reward for a job done. It is a tool used by management to enable the company attain its generic goals. Managing compensation effectively is concerned with measuring job value designing and maintaining pay structure, paying for performance and productive employee benefits. Armstrong and Brown (2005) noted that compensation management is concerned with the formulation and implementation of strategies and policies that aim to compensate people fairly, equitably and consistently in accordance with their value to the organization. According to Odunlade (2012), compensation is a basic motivator which consists of monetary and non-monetary incentives. Armstrong (2005) stated that compensation management is an integral part of human resources management approach to productivity improvement in the organization. It deals with the design,

implementation and maintenance of compensation system that are geared to the improvement of organizational, team and individual performance.

Generally, compensation has two broad categories, namely financial and non-financial compensation. Firstly, monetary benefit refers to the cash component of the wage structure based on which other elements of compensation may be structured. It is normally a fixed amount which is subject to changes based on annual increments or subject to periodical pay hikes. Monetary incentives refer to the monthly rate of pay, irrespective of the number of hours put in by the employee (Arul, 2013). Rahman (2011) opined that salary is an effective tool for employee's motivation and retention. Monetary benefit means amount of monetary reward that a worker receives for task performed. Fernando and Sutha (2022) defined salary as payment for work, which can take a number of different forms, including a basic wage or salary, supplementary cash payments, such as shift pay and overtime pay. Hussein, Taher, and Hameed (2021) also defined monetary benefit as the financial reward offered by a company for the time, skills and effort made available by the worker for satisfying job requirements aimed at accomplishing organizational objectives.

Secondly, non-monetary benefits are the greatest incentives over the long run. Non-monetary benefits are incentives such as job advancement, medical aid, status and recognitions offered to employees. Imhoff (2006) stated that non-monetary benefits are work recognition, opportunity for career advancement and opportunity for further learning and development. Falola, Ibidunni and Olonkundun (2014) supported that non-monetary benefits come in form of more enabling authority, award, promotion, holidays, better work environment, written recognition, gifts, formal dinners and informal parties. Some employees are motivated by a well written recognition and awards, some are also motivated by a better work environment and decided to stay in an organization that offered a low monetary benefit. Willis (2001) stated that non-monetary benefit is one of the methods of compensation that motivate employees and retain talented employees in the organization. Ngobo and Naido (2015) supported that non-monetary benefits are crucial factors which significantly relate to employee's retention that cannot be ignored. A better work environment without huge monetary benefits served as an effective means of keeping employees and also encourages successful employee retention practice. Barney (1986), It is noted that firms that do not have the required cultures cannot engage in activities that will modify their cultures and generate sustained superior financial performance because their modified cultures typically will be neither rare nor imperfectly imitable. Firms that have cultures with the required attributes can obtain sustained superior financial performance from their cultures. According to Miller, Erickson & Yust (2001) employees get benefited by work environment that provide sense of belonging. This therefore means that a good work environment can serve as a source for employee retention.

Compensation administration

Compensation administration is a segment of administering the organization focusing on planning, organizing, and controlling the direct and indirect payments employees receive for the work they perform (Ezeh, 2014). Compensation Administration as the name suggests, implies having a compensation structure in which the employees are rewarded or those who perform better are paid more than the average performing employees (Hewitt, 2009). This encourages top-performers to work harder and helps to build a competitive atmosphere in the organization. Armstrong and Brown (2005) postulate that compensation administration is an integral part of human resource management approach in managing people and as such it supports the achievement of business objectives and it is strategic in the sense that it addresses long term issues relating to how people should be valued for what they want to achieve; It is therefore integrated with other human resources management functions, especially those concerned with human resources development. Bob (2011) opined that compensation management constitutes measuring job values, designing and maintaining pay structures, paying for performance, competence and skill, and providing employee benefits. However, compensation management is not just about money. It is also concerned with that non-financial compensation which provides intrinsic or extrinsic motivation.

Compensation administration and employee retention

According to Ahmed, Khan, Ahmad, and Ahmad (2022), employees today are not willing to work for cash only, they expect 'extra'. This extra is known as employee benefits or fringe benefits, employee benefits are non-financial form of compensation offered in addition to financial incentives to enrich workers' lives. Employees' benefits as a whole have no direct effect on employees' performance but inadequate benefits do contribute to low satisfaction level, which may manifest in the forms of increased absenteeism and employees' turnover (Ebrahim, Razak, Mustakim, Mokhtar, & Saudid, 2021). A well designed compensation and benefits plan will benefit a firm.

More so, effective compensation administration leads to job satisfaction, motivation, low absenteeism, low employees' turnover, and improved service delivery (Degbey, Rodgers, Kromah, & Weber, 2021; Gladys, Kumar, Vinoth, & Sanjay, 2021; Msangi, 2021). In terms of job satisfaction, employees would be happy with their jobs and would love to work for such an organization that pays fair compensations employees. Also, in relation to motivation, employees work for the company which gives them higher pay. Some value achievement more than money, they would associate themselves with firms which offer greater chances of promotion, learning and development (Degbey, Rodgers, Kromah, & Weber, 2021; Gladys, Kumar, Vinoth, & Sanjay, 2021; Msangi, 2021). In addition, effective compensation administration leads to low absenteeism. When worker's compensations are adequately managed, employees will have the zeal and enthusiasm to be regular at work (Efthymiou, Usher, O'Connell, Warnock-Smith, & Conyngham, 2021). Similarly, employees will not be willing to work for any other organization

as long as they are treated well and get their compensations at the right time. So, there will be a low rate of employee turnover (Gladys, Kumar, Vinoth, & Sanjay, 2021). Compensation should commensurate with employees' input to attract and retain committed employees. According to Muhammad and Almal (2016), a positive and significant relationship exists between compensation and employees' retention.

Employee retention

Employee retention refers to how an organization keeps their workers from leaving the organization thus coming up with retention strategies to ensure that workers remain in the company. Adams (2019) asserted that employees' retention refers to policies and practices used by the organizations to prevent valuable employees from leaving their jobs. Similarly, Soomro, Ahmed, Hussain, Maitlo, and Lashari (2021) opined that employee retention involves taking measures to encourage employees to remain in the organization for the maximum period of time. Employees can remain in organizations which focus on how to keep their employees satisfied. Rezwan and Takahashi (2021) stated that employees' personality is an important factor in employee retention to enhance organizational performance. Thus, for organizations to remain competitive, they need to have in place employees who are focused, equipped with the necessary skills and committed to their work. It means therefore, that crafting and implementing retention practice is a core function of human resource management. It follows that before implementing employee retention practice, companies have to understand employee's expectation in the workplace. Failure to understand employees' expectations results to erroneous practice and low retention intentions. Effective implementation of employee retention on increases employee loyalty, commitment and minimizes employee turnover cost. By having a better handle of why the employees are leaving or want to leave the organization, effective retention practices can be adopted and reduce turnover (James & Mathew, 2012). Investment on employee training and career development is considered important factor in employee retention. Organization has the incentive to make investment in form of training & development only on those workers, from whom organization expect to return and give output on its investment. Organizations increase development for talented employees, through proficiency analysis, input on employee interests, need development and multisource appraisal of capabilities and formulate plans for action.

EMPIRICAL REVIEW

Muhammad and Yahaya (2014) conducted a research to test the effect of compensation on organizational performance using 126 employees as the sample size. Structural Equation Model (SEM) was used to analyze data. The outcome indicated compensation is positively related to employees' performance. The result implies that compensation has a strong effect on employees' retention. Owais and Syed (2012) conducted a study to determine the impact of compensation on job performance and work-family conflict in Saudi Arabia. This research was based on primary data collected from 400 employees of the organization to measure work

performance in Saudi Arabia. This study describes relationship between job performance, compensation and work-family conflict by considering the impact of compensation, which is also directly and indirectly connected with work-family conflict, through job performance of the employees in Saudi Arabia. Researchers often identify compensation among the most important factors for potential employees in considering to accept a job offer, however what is not so clear is the impact that pay has in regard to retention of the new employee after hire (Barber & Bretz, 2000).

METHODOLOGY

The study's population consists of 70 full-time employees currently working in hotels and restaurants in Nigeria. Descriptive design was adopted with administration of questionnaires. With the help of experts in instrument validation, the researchers developed questionnaires for the present study.

More so, the present study adopted a self-administered questionnaire with 5-point Likert's scale ranging from 1 "Strongly disagree" to 5 "Strongly agree". A total of 70 questionnaires were administered. However, only 62 copies were returned while 50 copies were considered valid for further analysis. Analytical tools include the statistical package for social sciences (SPSS) and tabular presentation.

RESULTS

Table 1 revealed that 26(52%) of respondents are Male, while 24(48%) of respondents are Female with 50(100%) valid percentage. This indicates that Male respondents are more than female respondents. Table 2 above revealed that 5(10%) of respondents are within the age limit of 21-25 years, 28(56%) of the respondents are within the age range of 26-36 years, 9(18%) of respondents are with the age range of 36-45 and 8(16%) of the respondents are within the age range of 46-55 years with 50(100%) valid percentage. This show from the analysis that majority of respondents who respond to the questions are within the age range of 26-36 years. Table 3 shows that 8(16%) of respondents strongly agree with idea, 25(50%) of the respondents agree with the idea and 17(34%) of the total respondents disagree with the idea with 50(100%) valid percentage. This indicate that majority of staff in the organization agree that the salary received by staff in the organization meets their immediate needs. Table 4 above shows that 7(14%) of respondents strongly agree with the observation, 33(66%) of the respondents agree with the observation while 10(20%) of the respondents disagree with 50(100%) valid percentage. This indicate that majority of respondents agree with fact that allowance received by staff in the organization meet their expectations.

Table 5 shows that 13(26%) of the respondents strongly agree, 22(44%) of the respondents agree, 10(20%) of the respondents disagree, and 5(10%) of the respondents strongly disagree with 50(100%) valid percentage. This indicate that majority of respondents agree with fact that

additional inputs of the employees get rewarded by the organization. Table 6 above shows that 21(42%) of the respondents strongly agree, 23(46%) of the respondents agree and 6(12%) of the respondents disagree with 50(100%) valid percentage. This indicate that majority of respondents agree with the fact that promotion system in the organization affects the moral of the employees. Table 7 above shows that 28(56%) of the respondents strongly agree, 9(18%) of the respondents are agree, 12(24%) of the respondents disagree while 1(2%) of respondents didn't decide with the 50(100%) valid percentage. This indicate that majority of respondents strongly agree with the fact that the organization compensation in organization motivates employees Job satisfaction.

Table 8 shows that 11(22%) of the respondents strongly agree, 30(60%) of the respondents agree and 9(18%) of the respondents disagree with 50(100%) valid percentage. This revealed that majority of respondents agree with the fact that organisations reward hardworking employees to sustain high productivity in your organization. Table 9 above shows that 13(26%) of the respondents strongly agree, 26(52%) of the respondents agree, 5(10%) of the respondents undecided, 5(10%) of the respondents are disagree and 1(2%) of the respondents strongly disagree. With 50(100%) valid percentage. This indicate that majority of the respondents agree with the fact that the organization allows employee to participate in decision making.

DISCUSSION

Compensation is said to be significantly related to job satisfaction. Hence, a good compensation administration leads to job satisfaction and retention of employees. It was gathered from the empirical analysis that there is a significant relationship between compensation and employee retention rate. The finding agreed with the assertion by Armstrong (2005), which stated that compensation management is an integral part of human resources management approach to retain best hands in the organization. Therefore, the findings of this research are similar to previous works (Abdulfattah & Hamas, 2021; Armstrong, 2005; Efthymiou, Usher, O'Connell, Warnock-Smith, & Conyngham, 2021; Gladys, Kumar, Vinoth, & Sanjay, 2021; Soomro, Ahmed, Hussain, Maitlo, & Lashari, 2021). Majority of staff in the organization agreed that the salary received by the staff meets the immediate needs of the employees. In other words, this finding relates to the study on monetary incentives by Rahman (2011) who opined that salary is an effective tool for employee's motivation and retention. Also, high percentage of employees agreed that the additional input of employees get rewarded by the organization they work for and that organization they work for allow employees to participate in decision relating to compensation in the organization. This would in no doubt make employees to stay and contribute to the organizational objectives. Empirically, this result agrees with the works of Abdulfattah and Hamas (2021), Efthymiou, Usher, O'Connell, Warnock-Smith, and Conyngham (2021), Miller, Erickson and Yust (2001), Rezwan and Takahashi (2021), which found that employees' participation in decision-making, effective compensation policy, job satisfaction, work environment, and personal factors are related to employees' retention rate.

Conclusion

The present study has statistically proved that compensation administration is significantly and positively related to job satisfaction and employees' retention in organizations. This implies that an effective compensation package enhances employees' morale and influence employees' decision to stay in the organization. Hence, the researchers conclude that a good compensation administration leads to job satisfaction and retention of employees in organization.

Recommendations

Based on the findings of the study, the following recommendations are put forward to strengthen employee's retention in hospitality sector:

Firstly, the managements of organizations in hospitality sector are advised to provide a good compensation package to employees to encourage them to remain in the organization. Secondly, the managements are also advised to consistently ensure that the employee's inputs are rewarded effectively. Thirdly, the managements in hospitality sector are encouraged to undertake a good promotional system to positively affect the morale of the employees in their organizations. Last but not the least, the managements are advised to reward hardworking employees to sustain high productivity and increase employees' retention.

For the purpose of future research, this study suggests that future studies should cover wider geographical area and more public sector organizations, so that generalization can be made.

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Table 1

Gender distribution

Responses	Frequency	Percent	Valid percent	Cumulative percent
Male	26	51.5	52.0	52.0
Female	24	47.5	48.0	100.0
Total	50	100	100.0	

Administered questionnaire (2021)

Table 2

Age distribution

Responses	Frequency	Percent	Valid percent	Cumulative percent
21-25 years	5	9.8	10.0	10.0
26-36 years	28	54.9	56.0	66.0
36-45 years	9	17.6	18.0	84.0
46-55 years	8	15.7	16.0	100.0
Total	50	100	100.0	

Administered questionnaire (2021)

Table 3

The salary received by staff in your organization meets their immediate needs

Responses	Frequency	Percent	Valid percent	Cum. percent
Strongly Agree	8	15.7	16.0	16.0
Agree	25	49.0	50.0	66.0
Disagree	17	33.3	34.0	100.0
Total	50	98.0	100.0	

Administered questionnaire (2021)

Table 4

The allowance received by staff in your organization meet their expectations

Responses	Frequency	Percent	Valid percent	Cumulative percent
Strongly agree	7	13.7	14.0	14.0
Agree	33	64.7	66.0	80.0
Disagree	10	19.6	20.0	100.0
Total	50	98.0	100.0	

Administered questionnaire (2021)

Table 5

Additional inputs of the employees get rewarded and compensated by the organization

Responses	Frequency	Percent	Valid percent	Cumulative percent
Strongly Agree	13	25.5	26.0	26.0
Agree	22	43.1	44.0	70.0
Disagree	10	19.6	20.0	90.0
S. Disagree	5	9.8	10.0	100.0
Total	50	98.0	100.0	

Administered questionnaire (2021)

Table 6

Promotion system in your organization affects the moral of the employees

Responses	Frequency	Percent	Valid percent	Cumulative percent
Strongly Agree	21	41.2	42.0	42.0
Agree	23	45.1	46.0	88.0
Disagree	6	11.8	12.0	100.0
Total	50	98.0	100.0	

Administered questionnaire (2021)

Table 7

The organization compensation in your organization motivates employee's Job satisfaction.

Responses	Frequency	Percent	Valid percent	Cumulative percent
Strongly agree	28	54.9	56.0	56.0
Agree	9	17.6	18.0	74.0
Disagree	12	23.5	24.0	98.0
Undecided	1	2.0	2.0	100.0
Total	50	98.0	100.0	

Administered questionnaire (2021)

Table 8

Hardworking employees are rewarded to sustain high productivity in organization

Responses	Frequency	Percent	Valid percent	Cumulative percent
Strongly agree	11	21.6	22.0	22.0
Agree	30	58.8	60.0	82.0
Disagree	9	17.6	18.0	100.0
Total	50	98.0	100.0	

Administered questionnaire (2021).

Table 9

Your organization allows employee to participate in decision making as it affect compensation

Responses	Frequency	Percent	Valid percent	Cumulative percent
Strongly agree	13	25.5	26.0	26.0
Agree	26	51.0	52.0	78.0
Undecided	5	9.8	10.0	88.0
Disagree	5	9.8	10.0	98.0
Strongly disagree	1	2.0	2.0	100.0
Total	50	98.0	100.0	

Administered questionnaire (2021)