

Review

Compensation Factors and their Impact on Job Satisfaction: Analysis of Salaries, Benefits, and Rewards

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Abstract: Job satisfaction is an important factor in the success of modern organizations, directly influencing employee motivation, productivity and loyalty. This paper explores the main components of compensation: salaries, benefits and rewards, as central elements of strategies used to motivate employees. While salary plays a vital psychological and social role, it alone is not enough to ensure high job satisfaction. In the current business environment, perceptions of fairness and competitiveness have become equally important in shaping how employees view their work. Material and non-material benefits enhance work quality and help maintain a balance between professional and personal life. The reward system, treated separately in this analysis, includes recognition, bonuses, personal development opportunities, and other motivational tools. Most research confirms a positive correlation between compensation systems and job satisfaction, although some findings highlight limited or neutral effects under certain conditions. Based on the findings, it is concluded that modern compensation approaches should go beyond offering competitive pay and attractive benefits. A comprehensive reward system, tailored to individual needs and values, is essential for sustaining long-term satisfaction and reducing employee turnover.

Keywords: *Job satisfaction; compensation factors; salary; benefits; rewards.*

1. Introduction

Job satisfaction is one of the most extensively researched topics in the field of human resources. This is the result of a widely accepted belief that a satisfied employee is a productive employee, and that organizational success is not possible without engaged and satisfied workers [1]. In addition, job satisfaction is closely linked to organizational commitment, as well as to customer or client satisfaction, which stems not only from the quality of the product or service but also from the interaction with employees as representatives of the organization.

Job satisfaction plays a crucial role in shaping the work environment, as it directly affects productivity, motivation, and employee loyalty. Several factors influence employee satisfaction, with compensation factors such as salary, benefits and reward systems, holding particular significance due to their economic, psychological and social impact on employees.

Job satisfaction also significantly affects overall quality of life, including social relationships, family connections and perceived health. Conversely, it has a direct influence on job performance, absenteeism and employee turnover [2].

Today's labor market is characterized by increasing competition for talented and qualified workers, making the recognition of appropriate compensation essential for maintaining employee satisfaction. While salary is often the primary factor considered when making employment decisions, as organizations evolve, reward systems and additional benefits become essential elements of employee motivation and engagement.

This paper analyzes compensation factors as the most important elements shaping job satisfaction. Through a review of the literature, we will examine the influence of salary, benefits, and performance-based reward systems on the work environment and explore the relationship between these factors and job satisfaction. By analyzing these components, the study aims to offer a deeper understanding of their significance in modern organizations, particularly within the context of a competitive labor market and rising employee expectations.

2. Job satisfaction

There are numerous definitions of the concept of job satisfaction, some of the earliest being attributed to Hoppock, who defined job satisfaction as a combination of psychological, physiological, and environmental factors that lead an individual to genuinely state: 'I am satisfied with my job' [3]. One of the most well-known researchers in this field, Spector, described job satisfaction as the way individuals perceive their job and its various aspects [4]. Fisher and Hanna, as early as 1931, saw job satisfaction as a product of unregulated mood tendencies, while Locke, in the latter half of the 20th century, refined the definition by stating that job satisfaction is a pleasurable or positive emotional state resulting from the appraisal of one's job experiences [5]. Job satisfaction encompasses the attitudes and feelings employees hold toward their work. These attitudes can be both positive and favorable, or negative and unfavorable [6].

Therefore, job satisfaction represents a complex attitude an individual has toward their workplace. It is a pleasant emotional response that arises when the job is perceived as a means of achieving personal goals and values [7]. It reflects how employees perceive their job, influenced by various external factors [8]. An important element in analyzing the concept of job satisfaction is employee expectations. Workers form attitudes toward their job based on its characteristics, the social status gained through it, and their experiences in the work environment. If economic benefits, social recognition, job characteristics, and expectations align with their desires, employees are more likely to be satisfied. Positive attitudes toward the overall work environment, based on their workplace experiences, are referred to as job satisfaction [9]. Job satisfaction occurs when an individual's expectations align with actual outcomes [8]. 'Job satisfaction is a subjective and individual feeling that reflects whether personal needs and feelings are fulfilled at work' [10] (pp. 111).

Job satisfaction also depends on the employee's perception of organizational justice. If employees perceive that the organization adheres to fairness principles in its treatment of them and their colleagues, they are more likely to feel satisfied and adopt organizational goals as their own [11,1]. The concept of organizational justice stems from the earlier theoretical framework known as

Adams' equity theory. According to Adams, individuals develop an internal sense of what constitutes fair compensation for their efforts. Based on this, they compare their own inputs and outcomes with those of a 'referent' employee (someone with similar tasks and status within the organization). Inputs include effort, time, expertise, loyalty, tolerance, flexibility and personal integrity, while outcomes refer to salary and bonuses, job security, recognition, reputation and opportunities for promotion or responsibility [12,13].

Two main approaches to job satisfaction have been identified: the holistic approach, which views job satisfaction as a single-dimensional, general attitude derived from overall work experience; and the facet approach, which considers it a multidimensional concept, analyzing specific job elements such as pay level, leadership style, interpersonal relationships, promotion opportunities, professional development and the overall work environment [14].

2.1. Determinants of job satisfaction

In line with various approaches to defining job satisfaction, the literature presents different typologies of factors that determine it. To assess job satisfaction, it is important to consider not only how satisfied an individual is with different aspects of the job but also how well these experiences align with their expectations. It is precisely the gap between expectations and reality that determines overall satisfaction, rather than the absolute level of satisfaction with individual aspects. For example, a person may be dissatisfied despite a high salary if their primary expectations are focused on career advancement [15].

One of the well-known theorists who defined the concept of job satisfaction, Locke, identified factors influencing job satisfaction such as job characteristics, level of compensation, opportunities for advancement, work environment, relationships with colleagues, personal value systems and quality of interpersonal relations [16]. Ong et al. emphasize three primary factors: stress, lack of communication and salary [17].

Authors generally highlight combinations of various factors influencing job satisfaction. Some of these combinations include a sense of achievement, relationships with supervisors and management, as well as colleagues, job security, responsibility, salary, advancement opportunities, role clarity, involvement in decision-making processes and a pleasant work environment [18-20].

Janjić and Ilić classify factors affecting job satisfaction into organizational and individual categories. Organizational factors include organizational structure, working conditions, nature of the job, employee interaction and reward systems, while individual factors cover the alignment of personal interests with the job, work experience and age, position and status, and overall job satisfaction [15].

Mishra divides factors determining job satisfaction into personal characteristics (gender, age, education work experience), job-related factors (job type, required skill level, professional status, responsibility) and management-controlled factors (salary, working conditions, benefits, job security, promotion opportunities) [21].

A similar classification is found in Greenberg & Baron [22]:

- Organizational factors: reward systems, perceived quality of control, decentralization of power, work and social incentives, pleasant working conditions;
- Personal characteristics: personality traits (self-esteem, stress), status and work experience, job-interest congruence, general job satisfaction.

More recent studies, reflecting contemporary working conditions, consider factors such as transportation and work-life balance among others. Nevertheless, it is clear that compensation factors remain an integral part of any classification of factors determining job satisfaction.

3. Compensation factors: salaries, benefits, and reward system

Compensation factors play an important role in shaping employees' attitudes toward work, as they affect their motivation, commitment, and willingness to remain with the organization. They represent the financial remuneration employees receive in exchange for their work, including base salary, bonuses and other forms of monetary payments. Although these factors are mostly monetary equivalents, they can also take non-material forms.

Material compensation is divided into direct material gains that employees receive in cash and indirect material benefits that are not part of the salary nor paid as cash but significantly contribute to improving their material standard [23]. Within direct material compensation, individual strategies include salary increases based on job performance, bonuses, individual awards and one-time cash payments, while group strategies include employee participation in profits, profit sharing and ownership stakes in the company. Indirect material compensation includes benefits such as scholarships, tuition fees, managerial perks, health and pension insurance, life insurance and more [24].

Some authors classify material compensation as direct and indirect, with direct compensation representing direct cash rewards for work, while indirect compensation is seen as separate from job performance and is acquired simply through employment in the organization [25]. Non-material motivators for employees include well-designed jobs, demonstration of desirable management styles, employee participation, management by objectives, flexible working hours and other non-material compensation and motivational strategies [26].

Compensation encompasses all forms of financial remuneration, as well as tangible benefits and services employees receive through their employment. It includes total earnings, such as cash components like base salary, performance bonuses and cost-of-living allowances, as well as non-cash elements such as pension funds, health insurance and similar rights. Additionally, compensation can include relational benefits, such as non-material gains arising from the nature of the job and organizational culture, including opportunities for professional development, a sense of belonging, work challenges and personal status within the organization [27].

The compensation package includes the base salary increased by various allowances, a variable incentive part that can be defined at the individual, team, or organizational level, and benefits that include both material and non-material provisions for employees [28]. Compensation consists of several major elements:

- base salary, which is usually guaranteed to the employee,
- a variable incentive part depending on work performance,
- benefits that can take various forms, such as work autonomy, opportunities for professional development, a sense of security and recognition, and
- special allowances tailored to specific organizational circumstances, such as travel expenses, use of a company vehicle, cost-of-living adjustments, or provision of childcare services for employees' children [29].

3.1. Salary

Salary represents the financial compensation that an employer pays to an employee in exchange for their work, knowledge, skills and time spent on the job. It may include the base salary, allowances, bonuses and other forms of payment defined by the employment contract and applicable legislation. According to a definition from the field of human resource management, salary can be described as the amount paid to employees in accordance with their job duties and contributions, in the form of fixed and variable compensation, with the aim of encouraging desirable work behavior [6]. The total salary or compensation that an employee receives from the employer is referred to as remuneration, which can be both material and non-material. Material remuneration includes base salary, salary increases to maintain purchasing power and incentives that can be short-term or long-term [30].

3.2. Benefits

Benefits include various forms of perks such as health insurance, pension programs, paid leave, flexible working hours and other conveniences that contribute to improving employees' quality of life and work-life balance. In the literature, there are two approaches to defining employee benefits. According to one approach, benefits represent the non-monetary aspects of compensation, while the other approach classifies both monetary and non-monetary aspects as employee benefits. Employee benefits thus can be understood as a diverse and broadly defined category divided into several types of perks:

- Traditional, tangible non-monetary benefits such as health insurance, pension funds and paid days off;
- Non-traditional benefits, including scholarship programs, financial support and other forms of assistance;
- Intangible benefits, which refer to elements such as flexible working hours, remote work opportunities and quality of the work environment [31].

Benefits that encourage work motivation and engagement may include various perks such as free professional development programs, subsidized childcare, opportunities for career advancement or internal mobility within the organization, public recognition for achievements, chances for employees to actively participate in shaping the work environment, and providing support to others through socially valuable work [32].

The literature often refers to the term fringe benefits, which encompasses a set of organizational practices, policies and programs that provide paid time off, employee services, protection programs, allowances for use of a company car or mobile phone, housing benefits, relocation allowances, use of company-owned property, gym memberships, tuition reimbursement, financial counseling, clothing allowances, and more [33-35].

3.3. Reward system

The reward system refers to the strategies and practices that an organization uses to recognize and reward employees for achieving certain goals, results or behaviors. Although salary and benefits are integral parts of the reward system, rewarding is more dynamic compared to base salary and benefits and is often used as a motivational tool. It may include bonuses for achieved targets, awards for innovation, recognition for exceptional work or commitment and various forms of

incentives tied to employee performance. Since the reward system is based on a reward strategy and involves multiple elements and activities, it will be considered separately from salary and bonuses.

The concept of total rewards encompasses various elements that value employees' contributions, including financial compensation, additional perks, work-life balance initiatives, recognition programs, performance management systems, as well as strategies for talent development and retention [31]. This system can be described as a mechanism through which employees receive money, goods and services from the employer as compensation for their work [30].

A strategic approach to rewarding forms the foundation for creating a reward system, which consists of a series of interconnected processes and practices. Together, these elements enable effective reward management aimed at benefiting both the organization and its employees. The main components of the system include financial and non-financial rewards integrated into a unified framework known as the total rewards system [6].

Reward and compensation management, as an integral part of the human resources function, involves designing and implementing strategies and policies aimed at providing fair, equitable, and consistent compensation to employees in accordance with their job performance and contribution to organizational value [36].

Compensation systems have evolved from purely financial remuneration to the concept of total compensation, which includes intangible aspects such as training, competency development, workplace relationships, communication, managerial support and work-life balance. These factors have become particularly important to younger employees, who often value the work environment and company values more than the position itself [37-39].

To achieve a high level of job satisfaction, organizations should incorporate compensation factors into a broader human resource management strategy. This involves not only providing competitive salaries and attractive benefits but also developing a functional reward system that clearly recognizes and values employee contributions. Furthermore, it is essential to ensure transparency regarding compensation and to allow employees some degree of participation in designing their compensation packages [40].

4. Compensation factors and their role in job satisfaction: a literature review

According to most experts, compensation factors represent the most important elements influencing job satisfaction. Since money is essential for securing basic living conditions, financial remuneration for work performance is the primary deciding factor both during recruitment and after employment. Compensation factors affect employee behavior, performance and job satisfaction. In the literature, compensation factors are often referred to as motivation or motivators for employees, directly influencing their performance.

Numerous studies have been conducted on the impact of compensation factors on job satisfaction, with results generally showing a positive correlation. Through a review of the literature, we will present research that has demonstrated both positive and negative correlations between compensation factors and job satisfaction.

The motivation experienced by employees in the workplace directly affects their job satisfaction. A satisfied employee is more likely to demonstrate higher work efficiency compared to when they are dissatisfied with their job [41]. Compensation is one of the most important

determinants of the quality and effectiveness of human capital, and according to some authors, the most significant one [42]. From a psychological perspective, it has a strong influence on shaping employees' attitudes and professional behavior. Attractive and competitive compensation packages continue to be regarded as crucial factors influencing job satisfaction because they fulfill the financial and material needs of employees [43].

An effective reward system can increase employee motivation, improve performance, and contribute to overall job satisfaction [41]. Studies have shown a positive relationship between salary level and job satisfaction, especially when employees perceive their pay as fair relative to their work and contribution to the organization [44]. However, salary is not the only factor influencing satisfaction; it is also crucial how employees perceive the fairness and competitiveness of their pay compared to the market and colleagues within the organization [45]. Appropriate benefits can contribute to greater employee loyalty and reduced turnover; for example, support from supervisors, opportunities for professional development and work-life balance strongly affect job satisfaction [46].

A study conducted among employees of higher education institutions in South Africa, confirmed that compensation, i.e., remuneration, has a significant impact on job satisfaction, whereas their research showed that benefits do not have a significant effect on job satisfaction [47]. A study of job satisfaction among university professors in China found a positive link between monthly income and job satisfaction. The results also showed that perceived organizational support and psychological capital were the first and second most important positive factors contributing to job satisfaction [48].

A study among employees at public polytechnic colleges in Indonesia showed no positive correlation between compensation, job satisfaction and job performance. It also did not confirm that job satisfaction mediates the relationship between compensation and employee performance. In other words, an increase in compensation does not automatically lead to better job performance. One possible reason is that employees often perceive compensation as a basic obligation of the employer, i.e., as deserved remuneration for their contribution to the organization, rather than as an additional incentive [49].

On the other hand, research by Gonzales, Selva, and Sunyer found that satisfaction with salary does not have a statistically significant impact on overall job satisfaction. However, a strong, direct, and positive influence was found for factors such as supervisor support, work-life balance and career development opportunities on employees' job satisfaction [46].

Research on job satisfaction among family doctors showed that monthly income is one of the factors influencing job satisfaction, while the effort-reward imbalance model and excessive work commitment showed a negative correlation with overall job satisfaction [50].

The research findings of Murtiningsih indicate that the compensation positively affects job satisfaction, as do training and development [51]. The analysis of the impact of various compensation packages on job satisfaction in the public construction sector in Nigeria showed a significant connection between pension payments upon retirement and job satisfaction, as well as between severance payments and job satisfaction [52].

In the knowledge economy the human resources have become a key pillar of long-term organisational sustainability and competitiveness [53]. The findings in the Republic of Serbia show that the job satisfaction of employees in the public sector showed that earnings, cooperation with the closest colleagues, the possibility of advancement, reward policy, cooperation and good relations

with superiors and the nature of the job are directly related to overall job satisfaction [54], while the team quality has the greatest influence on the bank employees' job satisfaction [55]. Employees must be able to develop professionally by creating an environment that encourages their creativity, innovation, initiative to implement business changes and processes as only those companies that know how to motivate and value their employees can successfully compete in today's market [56].

5. Conclusion

Job satisfaction is one of the prerequisites for the successful operation of modern organizations, where compensation factors play a decisive role in shaping it. A review of the literature shows that fair and well-designed compensation not only influences employee motivation but also significantly contributes to their engagement, productivity and willingness to remain with the organization.

Although salary remains the primary and often decisive factor when choosing a job, non-monetary aspects are gaining increasing importance in today's work environment. Younger generations of employees, in particular, value benefits that enable work-life balance, support from leadership, opportunities for professional development and a sense of fairness within the workplace.

Most studies confirm a positive correlation between compensation factors, whether financial (such as salary and bonuses) or non-financial (such as benefits and development opportunities) and job satisfaction. However, the results also indicate variations in the degree of this influence depending on the context, including industry, sector, organizational culture and individual employee expectations. These insights highlight the importance of a strategic and flexible approach to designing compensation packages tailored to the specific needs and values within each organization.

Effective compensation management involves more than just paying a competitive salary. It includes creating a motivating work environment where financial and non-financial rewards are carefully integrated to foster long-term loyalty, engagement, and employee satisfaction.

Conflicts of Interest: The authors declares no conflict of interest.

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