

## **Impact of employee compensation, workplace environment and performance appraisal on employee satisfaction: evidence from hospitality sector in India**

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### **Abstract**

*In a present complex and competitive scenario, organizations need to retain talented and competent employees who perform excellent work in a congenial environment. Service industries are taking important steps to improve human resource and to attain employee satisfaction. The purpose of the research is to examine the positive and significant impact of employee compensation, workplace environment and performance appraisal on the employee satisfaction in the context of hospitality sector. Four variables were being examined, which includes employee compensation, workplace environment and performance appraisal as an independent variable and employee satisfaction as a dependent variable. For this purpose data was collected from one hundred fifty employees from various hotels in India especially M.P State through questionnaires. Data from target respondents was analyzed in the form of descriptive and reliability analysis. Reliability test was applied to validate questionnaire. Linear and multiple regressions were applied to find the impact of independent variables on dependent variable. Findings of the study revealed that employee compensation have significant impact on employee satisfaction, workplace environment have significant impact on employee satisfaction and performance appraisal also have a positive influence on employee satisfaction and they jointly have significant impact on employee satisfaction. Our study provides a refresh insight of the positive influence of employee compensation and workplace environment. This study has several managerial implications.*

**Keywords:** *Employee compensation, employee satisfaction, performance appraisal, workplace environment.*

## 1. Introduction

In this competitive era, service sector are facing competition due to increased awareness demands of employees and customers. Now days, it has become a dominant part of policy making to satisfy employees in order to increase the retention rate and the quality of service. Organization need to reduce turnover and absenteeism. Many service organizations only focus on customer needs and demands and they formulate the policies regarding how to attract and retain the customer, but they lack in understanding the importance of employee satisfaction and how to make them satisfy. Various research studies are done earlier to identify several factors that lead to employee satisfaction. In this research we addressed the basic question: Is employee compensation, workplace environment and performance appraisal factors are responsible in satisfying employee needs and to identify the relationship between these variables. We validated these problems by applying linear and multiple regressions on the employees of hotel industry in India.

### 1.1 Employee Satisfaction

Employee satisfaction is the central focus for every organization because it is the cause of customer satisfaction and financial success of an organization. Due to this, every organization are trying to focus on improving human resources, empower them, train them, providing better facilities, implementing fair and sound salary structure to attain employee satisfaction which will ultimately lead to competitive advantage and help in achieving financial objectives. Job satisfaction describes how content an employee with his or her job. (Spector, 2000) explained job satisfaction in terms of how people feel about their jobs and different aspects of their jobs. (Ellickson and Logsdon, 2002) supported this view by defining "Job satisfaction as the extent to which employees like their work.

### 1.2 Employee Compensation

Any kind of financial benefit provided to employees is said to be compensation. it can be in the form of salary, bonus, commissions, fringe benefits. Every employee wants a proper compensation for their work. So organization must make a sound compensation system in order to retain efficient and skilled employees. Several studies revealed that supervisory capacity skill level and decision making authority are the key qualities that have a positive influence on compensation levels.

### 1.3 Performance appraisal

According to Coens and Jenkins (2000), Performance appraisal is a mandated process in which, all employees or a group of employees work behaviors are individually rated, judged or described by a rater for a specific period of time. Merchant, (1999) stated that it is a combination of all the factors like proposed strategies, reward and recognition systems.

### 1.4 Workplace environment

Workplace environment includes physical space and facilities of the work place, relationship with superiors and subordinates, availability of various equipments, technologies and machineries required for job, equality of treatment, communication system, etc. Raziq (2015) stated that it includes all the characteristics of the job, like the way job is carried out and completed, involving the task like activities such as training, control on one's own job related activities and an intrinsic value for a task".

## 2. Objectives of Study

1. To standardize a questionnaire for employee compensation, workplace environment, and performance appraisal and employee satisfaction.
2. To study the impact of employee compensation on employee satisfaction.
3. To examine the effect of workplace environment on employee satisfaction.
4. To find out the impact of performance appraisal on employee satisfaction.
5. To test the hypothesized model.

6. To study the significant relationship of employee compensation, workplace environment, performance appraisal on employee satisfaction.
7. To open new vistas for future research.

### **3. Review of literature**

#### **3.1 Employee compensation and employee satisfaction**

Opkara (2002) stated that employee satisfaction is a result of various factors of human resource practices such as, compensation, promotion, relationship with supervisor, co-workers and various opportunities for promotion. Compensation is considered a key variable in increasing or decreasing employee satisfaction. (Fyre, 2004) reported that employee satisfaction and compensation have significant relationship with each other.

Handel (2000) observed that compensation, in any form such as commissions, cash, stock option, increases employee satisfaction. On the other hand Miller (1980) suggested that the employees who get high remuneration tend to be more satisfied in comparison to employees who get less remuneration. Ayesha (2013) studied the relationship between compensation factor and employee satisfaction and stated that these variables are significantly related with each other. Massod et.al (2013) analyzed the relationship between various human resource practices especially employee compensation, employee empowerment, performance appraisal and employee satisfaction and stated that employee compensation plays a vital role in employee satisfaction. On the basis of above review, we can formulate the hypothesis as,

#### **H1: There is a significant impact of employee compensation on employee satisfaction**

#### **3.2 Workplace Environment and Employee Satisfaction**

Herberg et.al (1959) explained two types of job related factors in his motivational theory. These factors are Hygiene factors and motivational factors. The presence of hygiene factors may not increase satisfaction but absence of these factors may cause dissatisfaction. Motivational factors have long lasting impact as they raise positive feelings towards job and convert no dissatisfaction into satisfaction and absence of hygiene factors leads to dissatisfaction. Ceylon (1988) stated that well situated workplace temperature, airing, ventilation, proper lighting good environment will lead to employee job satisfaction. Bakotic and Babic (2013) analyzed that the workers who works under pressure and in difficult condition their satisfaction level reduces and suggested that the organization need to improve working conditions in order to enhance employee satisfaction. Raziq (2015) examined the impact of working environment on employee satisfaction. For this purpose he studied various service industries such as educational institutes, banking sector and telecommunication and found a positive relationship between working environment and employee job satisfaction. He further stated that working hours, job safety and security, relationship with co-workers and top management support are the prominent factors of employs satisfaction.

Spector (1997) explained that if any business organization fails to provide sound working environment then it will lead to reduction in performance of an employee. Lane et.al(2010) analyzed various factors of working environment such as wages, working hours, organization structure and communication between employee and management and stated that they have a positive impact on employee job satisfaction.

#### **H2; workplace environment have significant impact on employee satisfaction**

#### **3.3 Performance appraisal and employee satisfaction:**

Several studies were done to examine the relationship between employee satisfaction and performance appraisal in Human resource management (Pettijohn et.al 2001).

Teagarden (1992) suggested that there should not only traditional method applied for performance appraisal, as it dissatisfies the employees. Efforts should be made by the managers to adopt various new performance appraisal techniques which suit the job profile. Cowling and

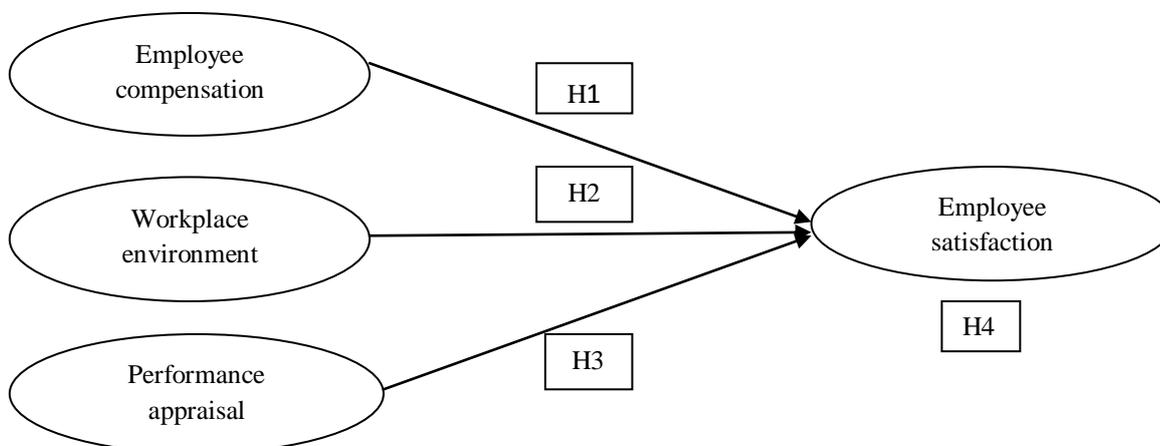
Newman (1995) revealed that performance appraisal has the tendency to improve employee satisfaction as it offers personal recognition. Saveri and Syme (1996) conducted a study on hospital pharmacist with an aim to examine the satisfaction and other issues of human resource such as appropriate evaluation system, rather than pay or job security. Findings of their study suggested that appropriate evaluation system leads to increased commitment and satisfaction. Karimi et.al (2011) studied the influence of performance appraisal on employee job satisfaction in international nonprofit organization and the result revealed that there is a strong relationship exists between performance appraisal and employee job satisfaction. Massod et.al (2013) established the relationship between performance appraisal and employee satisfaction and revealed that performance appraisal have significant impact on employee satisfaction. Muhammad et.al (2013) studied the effect of antecedents of employee satisfaction which included control/autonomy, influence, challenge, performance measures, feedback, instrumentality and job security. Findings suggested that performance measures are positively related to employee satisfaction.

**H3; Performance appraisal have significant impact on employee satisfaction.**

**H4; Employee compensation, workplace environment, performance appraisals have significant impact on employee satisfaction.**

#### 4. Research Methodology

##### 4.1 Overview of the conceptual model



**Fig.1 shows the relationship between variables**

##### 4.2 Scope of the Study

It covers the various hotels located in India especially in M.P State.

##### 4.3 Research Design and Method

This study is based on the data collected from employees and customers of the hotels situated in M.P. For testing the hypothesis, questionnaires have been developed and distributed to employees and customers of hotel industry. Data was collected from the various hotels such as Hotel Chankya Inn and red fox from New Delhi, Hyphen hotel and corporate suites from Noida,

hotel landmark, central park, tansen residency and sitamanor from Gwalior, hotel sheeshmahal from Orchha, hotel misty meadows and heritage golf view from Pachmari. Pilot study was done to check the relevance of the questionnaire.

**4.4 Sample Design:** For this study convenience sampling is used for selecting the employees from hotels.

**4.5 Sample Size and element:** It includes one hundred fifty employees' customers from hotel industry. Customers and employees from hotel industry were used to collect data.

**4.6 Sampling Technique:** Various hotels were selected on the basis of Judgement Sampling where in 10 hotels has been selected.

**4.7 Data Collection and analysis:** Data was collected from both employees and customers of the hotels situated in India especially Madhya Pradesh. SPSS 20 was used to analyze the data. Cronbach alpha was used to assess the reliability of variables. Linear regression and multiple regressions were applied to find out the relationship between the variables.

**4.8 Measurement Instruments:** With the help of literature review the standardized questionnaire was used to measure the variables of the study. Responses were taken on five point likert scale ranging from 1 to 5 where 1 represents strongly disagree and 5 represents strongly agree.

**4.8.1. Employee Job Satisfaction:** Instrument to measure employee satisfaction was taken from Daulatram; B.Lund (2003) five statements are taken to measure it.

**4.8.2. Employee Compensation:** Five item scale was used to measure compensation which was taken from June et.al. (2006).

**4.8.3 Workplace Environment:** instrument to measure workplace environment was taken from Lee (2006) out of which five questions were taken to study.

**4.8.4. Performance Appraisal:** instrument used to measure performance appraisal was taken from June et.al. (2006) and four items were taken to study.

## 5. Rationale of the study

In the above literature, strong emphasis is placed on the significant importance of employee compensation and satisfaction, and the positive association between human resource practices and employee satisfaction. Thus, both sound working environment and performance appraisal are commonly noted as a crucial prerequisite for enhancing satisfaction among employees. The primary contribution of this study is in its design, which allows for a more accurate assessment of variable effects and relationships. Second contribution of this study is in the way that the data were aggregated.

The present study attends to explore the positive influence of employee compensation, performance appraisal and working environment on employee satisfaction and seeks to explain the significance of all the variables. Hence this study is rationale for measuring the combined impact of all the independent variables on the dependent variable in the hotels of India.

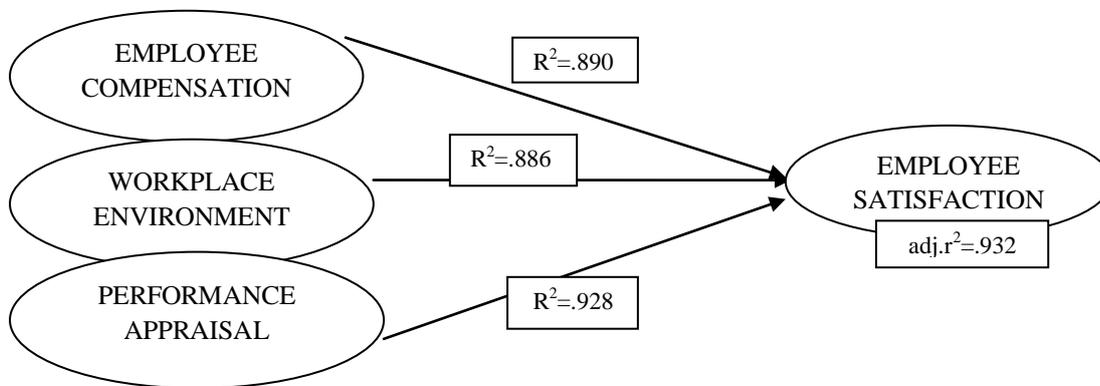
## 6. Results and Discussion

**6.1 Test Of Reliability** Data has been tested for reliability using SPSS 20 software and cronbach alpha was applied to check the reliability. Alpha values are:

**Table 1. Reliability**

S.No.	Variables	Cronbach Alpha	Number Of Items
1	Employee Job Satisfaction	.954	5
2	Employee compensation	.956	5
3	Workplace environment	.946	5
4	Performance appraisal	.942	4

### 6.2 Significant relationship in the model



**Fig 2. Shows the significant relationship between variables.**

### 6.3 Linear Regression:

**H<sub>1</sub>: There is a significant impact of employee compensation on employee satisfaction.**

**Table 2. Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.943 <sup>a</sup>	.890	.889	1.88767	.890	1198.457	1	148	.000	2.007

a. Predictors: (Constant), employee compensation

b. Dependent Variable: employee satisfaction

Model summary table indicates the value of R Square is .890 which means that employee compensation is explaining 89% variance in employee satisfaction, whereas the beta value in coefficient table is .943 at 0% level of significance. Thus we can say that there is a significant impact of employee compensation on employee satisfaction. Hence our Hypothesis has been accepted.

**Table 3. Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	.888	.494		1.799	.074
Employee compensation	.942	.027	.943	34.619	.000

a. Dependent Variable: employee satisfaction

**H<sub>2</sub>: There is a significant impact of working environment on employee satisfaction**

**Table 4. Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.941 <sup>a</sup>	.886	.886	1.91957	.886	1154.084	1	148	.000	1.931

Predictors (constant): workplace environment

Dependent variable: employee satisfaction

In the above model summary table, the R Square value is .886 indicating that workplace environment contributes 88.6% variance in defining employee satisfaction and Durbin Watson value is 1.931 stating that there is no autocorrelation.

**Table 5. Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	1.036	.499		2.077	.040
Working environment	.932	.027	.941	33.972	.000

a Dependent Variable: employee satisfaction

The beta value is .941 at .000 level of significance indicates that there is significant relationships exist between workplace environment and employee satisfaction. Hence hypothesis two has been accepted.

**H<sub>3</sub>: There is a significant impact of performance appraisal on employee satisfaction****Table 6. Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.963 <sup>a</sup>	.928	.928	1.52721	.928	1909.072	1	148	.000	1.950

a. Predictors: (Constant), performance appraisal

b. Dependent Variable: employee satisfaction

By examining the model summary table the value of r square is .928 indicating that performance appraisal contributes 92.8% variation in defining employee satisfaction and the value of Durbin Watson is 1.950 which is greater than 1.5 indicating that there is no autocorrelation.

**Table 7. Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.457	.401		1.139	.257
1 Performance appraisal	1.207	.028	.963	43.693	.000

The beta value for performance appraisal is .963 at 0% level of significance indicating that the relationship is significant. So we can say that there is a significant relationship exists between performance and employee satisfaction.

**H<sub>4</sub>: Employee compensation, workplace environment, performance appraisal has significant impact on employee satisfaction.****Table 8. Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.966 <sup>a</sup>	.933	.932	1.48432	.933	677.226	3	146	.000	1.886

a. Predictors: (Constant), workplace environment, performance appraisal, compensation

b. Dependent Variable: employee satisfaction

By examining the model summary table the value of adjusted r square is .932 indicating that workplace environment, performance appraisal and employee compensation jointly contributes 93.2% variation in defining employee satisfaction and the value of Durbin Watson is 1.886 which is greater than 1.5 indicating that there is no autocorrelation.

**Table 9. Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.308	.393		.784	.435
1 Employee compensation	.189	.297	.190	.639	.524
Performance appraisal	.912	.094	.728	9.655	.000
Workplace environment	.056	.287	.056	.194	.846

a. Dependent Variable: employee satisfaction

The beta value for employee compensation, performance appraisal and workplace environment is .190, .728, .056 at .524, .000, .846 level of significance respectively. It indicates that performance appraisal has a significant impact on satisfaction of employees but working environment and compensation not having significant relationship (significance value is greater than .05) the largest beta value is the performance appraisal hence this variable is making strongest contribution in predicting employee satisfaction.

## 7. Implications of Study

The results of this study have contributed to the body of knowledge in the field of employee response behavior in the hospitality sector in India. Theoretically speaking, the results showed a positive and significant relationship between sound human resource practices and employee satisfaction. There are few practical indications that we can draw from this study for academicians, researchers and various service industries. For researchers, it acts as a knowledge base for further studies related with this topic. For service industry the result will provide a great help in formulating various policies for appraisal and employee compensation. It provides guidelines to enhance employee satisfaction and for making sound workplace environment.

**8. Limitations of the study:** This study has some limitations, firstly this study examined relationship between employee satisfaction and compensation it took only some dimensions under each variable. Secondly the study was done on few cities of M.P. all cities were not covered in it, so the generalization of the results and findings are not warranted. Thirdly, the data was collected within a period of time, so the findings are confined for a particular period and cannot be generalized for longer period of time. Fourthly, we applied linear regression and multiple regressions but if other measurement versions were used, then the result would be different.

## 9. Conclusion

In this study we developed a model with the help of literature that depicted the relationship of human resource practices i.e. employee compensation, workplace environment and performance appraisal on employee satisfaction, in hospitality industry. The results lead to strongly support that these variables have significant impact on employee satisfaction and they are the key components for the growth and success of organization. Every service organization must focus on employee satisfaction as it is the key consideration for management to boost service quality and customer satisfaction and this will help in increasing organizational performance. Organizations should try to make their work environment favorable for

employees that will encourage them so that they will be able to handle customers properly. Providing salary according to the talent is not sufficient, every employee wants a positive work environment so managers must create an environment which is comfortable for the employees so that they can perform their daily duties effectively. In a nutshell it can be said that, to take an organization onto peak performance, service industries or hotels should focus on providing various benefits to the employees.

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