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**A COMPARATIVE ANALYSIS OF INEQUALITY IN INCOME AND  
JOB SATISFACTION IN TWO SELECTED ORGANISATIONS\***

**ABSTRACT**

The labour market over the years has been an important source that offers explanation for earnings and income inequality. The structure of the labour market has a significant consequence on employment status and it serves as an important determinant of household income and welfare. The Nigerian labour market is characterised by differences in income and job satisfaction among employees of various organisations. Therefore, this study was carried out to report on the results of a questionnaire which was designed to determine the link between income and job satisfaction of employees of two selected organisations in Nigeria. The results show that education has a lot to do with differences in income. Also, the differences in the level of profitability of these organisations is another factor necessitating wage differences. It also revealed that there is a close link between the incomes earned and the level of job satisfaction of employees in the two organisations studied. This accounts for the differences in the level of productivity of the employees in these organisations. These findings are important to personnel managers responsible for developing recruitment strategies directed at getting the best out of every employee to ensure that the remuneration can meet the needs of the employee.

**Keywords: Income Inequality and Job Satisfaction**

**1.0 INTRODUCTION**

Income inequality implies different things to different people. It could be conceptualized as the dispersion of distribution, whether one is considering income, consumption or other

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welfare indicator or attribute of a population. Conceptually distinct as they may be, income inequality is often studied as part of broader analyses covering satisfaction and welfare. Inequality is a broader concept than welfare, in that it is defined over the whole distribution, not only the censored distribution of individuals or household below a certain poverty line.<sup>1</sup> Therefore in any human organization, the quantity and quality of available personnel influence the level of productivity of the organization. Employees are therefore one of the most essential resources of an organization. They coordinate all the other resources to achieve maximum results. It can therefore be said that without employees, organization would cease to exist.

In all of this, the employee stands out by virtue of his role as a *change agent*. In this capacity, the employee does not only manage change, he also initiates changes in any environment in which he finds himself. In order to recruit and retain the right caliber of staff, there has to be adequate job satisfaction embodied in compensation packages in the organization. Compensation is a function of human resource management, which involves rewarding employees for performing organizational tasks. Compensation management is one of the most complex functions of human resource managers. It can be viewed as a matter that is closest to the heart of every employee and employer.<sup>2</sup> It includes all the monetary and non-monetary goods and commodities used to reward employees in order to derive job satisfaction.

The concept of job satisfaction has therefore been of great interest to social scientists for a number of reasons. First, is the personal value system which assumes that work which enables satisfaction of one's needs further the dignity of the individual. Secondly, there is the desire to improve productivity and organizational functioning by improving the quality of work experiences of employees. The third reason is the evidence that has linked the degree of satisfaction with work to the quality of one's life outside the work role- especially one's physical and mental health.

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<sup>1</sup> Cowell, F.A. (1999) Measurement of Inequality in Atkinson, A.B. and F. Bourguignon (eds), Handbook of Income Distribution, Amsterdam, North Holland.

<sup>2</sup> Banjoko, S.A., 2002. Human Resource Management: An Expository Approach. Lagos. Punmark Press.

Employers/management and employees are in a dependent relationship such that employees have their skills, knowledge, manpower, experience and information to offer in exchange for rewards from employers that may be financial or non-financial. Financial compensation includes pay that is received in form of wages, salaries and bonuses or commissions as well as vacations, insurance, paid sick leave and scholarship payment. Non-financial compensation affects an employee's motivation, productivity and satisfaction.<sup>3</sup> This includes recognition, promotion, praise and self-esteem.

Compensation according to Belcher<sup>4</sup> is "a double input-output exchange between a worker and an employer". It determines how well an employee lives in the society. The main objectives of a compensation structure is to attract quality workers from the market, retain and maintain the best employees the organization already has and motivate them towards greater productivity to achieve the organization's corporate goals. Some workers view compensation as a return in an exchange relationship between them and their employers.

Others view it as something they are entitled to as members of the organization. In whatever perspective it is looked at, it should be competitive and easy to administer<sup>5</sup>.

Job satisfaction results when there is a fit between job characteristics of an employee and his wants. Job satisfaction is dynamic and has to be maintained in every organization. A worker's level of job satisfaction therefore is a function of the range of specific satisfaction and dissatisfaction that he experiences with respect to the various dimensions of work. This paper attempts to partially fill this gap in our understanding of income (compensation) and job satisfaction evidence in an employee's level of productivity.

## **1.1 OBJECTIVES OF THE STUDY**

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<sup>3</sup> Ivancevich, J.M. 2003, Human Resources Management: 9<sup>th</sup> Edition, New York, McGraw Hill.

<sup>4</sup> Belcher, D.W. 1979. Compensation Management, Engle Cliffs, Prentice-Hall.

<sup>5</sup> Kerlinger, D.E. and Nalbandian 2003. Public Personnel Management: Context and Strategies. New Jersey, Prentice-Hall.

The objectives of this paper are to:

- i) Determine the link between differences in income and job satisfaction of an employee in an the organization.
- ii) Examine how the productivity of an employee is determined via his income and the satisfaction he gets from doing his job.

The results of this study should prove useful to (a) Chief Executives interested in providing a positive atmosphere for productive and high quality work in organizations, (b) researchers interested in determining whether workers earnings are similar in organizations and (c) government in planning to harmonize the conditions of service in organizations both in the private and public sectors of the economy.

## **2.0 LITERATURE REVIEW**

Compensation is a contractual relationship in the work place involving input of efforts and output of wages to workers<sup>6</sup>.

Compensation consists of direct and indirect monetary and non-monetary rewards<sup>7</sup> define compensation as the totality of financial and other non-financial rewards that an employee receives for his labour or services. In his view, compensation determines an employee's economic worth, social status, reflects economic growth and maturity within the organization. The purpose of every compensation package is to attract, retain, maintain and motivate employees<sup>8</sup>, identifies the components of a compensation package as individual pay, incentives and supplementary pay or benefits. In essence, job satisfaction is a function of values, rewards/compensation and degree of control. Values in this context relates to a whole set of non-work related factors unique to particular individuals.

Amaram<sup>9</sup> posits that compensation is just one of the thirteen (13) components of a reward system. Other compensation include feedback, security and work/among

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<sup>6</sup> Fajana, S. 2002. Human Resource Management: An Introduction. 2<sup>nd</sup> edition. Lagos.

<sup>7</sup> Banjoko, S.A. Op. Cit. P2.

<sup>8</sup> Flippo, E.B. 1984. Personnel Management. New York, McGraw Hill.

<sup>9</sup> Amaram, D.J. 2005. Issues in Compensating the Modern Workforce. Dias Technology Review, Vol. 2 No. 1.

others. However, compensation must be stressed because not much of the others can be achieved without adequate and financial and other rewards.

He opined that cost could be managed by using a good reward system. With recent advancement in technology, it has become more cost effective to retain employees rather than recruiting new ones. Compensation must be seen to be fair and equitable to employees. According to Elbers et al<sup>10</sup>, intrinsic and extrinsic elements of job satisfaction need to be equally synchronized to make basic pay or salaries more quantitative achievement.

One of the crucial elements of the compensation package is basic pay. The basic pay is the amount people receive for work<sup>11</sup>. In past time, salary secrecy was used to minimize comparison of salaries among employees leading to job dissatisfaction. This is however an outdated policy. Organizations now prefer to be open with their salaries. It can be said that a worker that is satisfied with his/her basic salary will prefer to remain on the job. Therefore, fixing prices of jobs should include a philosophy of equal work that enhances or boosts satisfaction. Besides the basic pay is Performance Incentives payments made to an individual or a group of people based on the amount of time worked or output achieved<sup>12</sup>. They are also referred to as variable pay. They tie rewards to an individual's performance- they are performance-based rewards.

According to Armstrong<sup>13</sup>, the aim of incentives is to “motivate employees to higher levels of performance; to make greater contribution by increasing efforts and output and producing better results expressed in profit sales, objectives and productivity”. Auten et al<sup>14</sup> shed light on incentives, saying that employees will be more satisfied if pay increase are reflected by relative performance. Some authorities have argued whether incentives actually improve job performance. Wright cited in Armstrong<sup>15</sup>

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<sup>10</sup> Elbers, C. et al. 2003. Are Neighbours Equal? Estimating Local Inequality in Three Developing Countries. WIDER Discussion Paper, No 20003\52.

<sup>11</sup> Amaram, D.I. Op.Cit.p.457.

<sup>12</sup> Fajana, S. Op.Cit.

<sup>13</sup> Armstrong, M. 1995. A Handbook of Personnel Management. 5<sup>th</sup> Edition.

<sup>14</sup> Auten, G. et al. 1999. The Effects of Income Taxes on Household Income, Review of Economics and Statistics. Vol. 81, No. 4, pp. 681-93.

<sup>15</sup> Armstrong, M. Op. Cit. P 223.

emphasize that “if employers decide to reduce their employees earnings, it may result in employees restricting their output”. Bernadin and Russel<sup>16</sup> have contributed to this assertion, saying “Incentives only motivate temporarily to alter their behaviour”.

Once the reward is taken away, employees will revert back to their old patterns of behaviour. It has also been observed that employee benefits and job satisfaction are related. Many definitions of benefits tend to agree that they are additional costs and additional remuneration to the employer and the employee respectively. Bernadin and Russel<sup>17</sup> define the benefits as a form of indirect compensation that is intended to maintain and improve the quality of life of employee. Banjoko<sup>18</sup> views them as supplementary or “in kind” payments made available to all employees of the organization in addition to their basic salaries.

Benefits are directed “towards assisting employees to maintain a particular lifestyle and providing for their long term welfare and security”. Bernadin and Russell<sup>19</sup> this provision and security on the job leads to a sense of satisfaction on the job. Carell et al<sup>20</sup> have purported that various benefits offered to employees create high job satisfaction and company commitment and are used to retain employees in their place of work. Hence, the needs of the employees require to be put into consideration, as already satisfied needs do not yield more satisfaction. This is in consonance with the economist’s marginal utility theory.

## **2.1 RELATIONSHIP BETWEEN COMPENSATION, JOB SATISFACTION AND JOB PRODUCTIVITY**

When pay of an organization is administered contingent on performance, there is the possibility of achieving increase in productivity and satisfaction. Banjoko<sup>21</sup> indicates that the relationship between pay and productivity is contingent on the fact that increased pay is tied to higher productivity.

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<sup>16</sup> Bernadin, H.J. and J.E. Russel. 1998. Human Resources Management: An Experimental Approach. 2<sup>nd</sup> Edition p 546.

<sup>17</sup> Bernadin, H.J. and J.E. Russel. Ibid p. 34.

<sup>18</sup> Banjoko, S.A. Op. Cit. P103.

<sup>19</sup> Ibid. P314, Bernadin, H.J et al op.cit p314.

<sup>20</sup> Carell, M.R. et al. 2000. Human Resources Management: Strategies For Managing a Diverse and Global Workforce. Florida, Harcourt College.

<sup>21</sup> Ibid. p. 105.

Employees therefore believe that better productivity will always lead to more pay and that their efforts will always result in better productivity and hence attain job satisfaction.

In this context, job satisfaction therefore refers to an overall affective orientation on the part of individuals toward work roles which they are presently occupying. It has become the general belief in recent times that a happy worker is a productive worker. Thus, an unhappy worker cannot perform maximally on the job. A satisfied worker on the other hand, will be less resistant to managerial efforts aimed at increasing productivity and performance. It can be said from the foregoing exposition that performance and job satisfaction are functions of compensation. It is a cycle. The totality of this is that performance invokes rewards, which invariably leads to higher expectations, the result of which is a feeling of satisfaction in employees.

## **2.2 CONCEPTUAL FRAMEWORK**

The empirical research on job satisfaction has relied on two basic concepts—the maintenance motivation theory of Herzberg and the need concept proposed by Maslow. Maslow argued that every adult human being has basic needs which he classified as physiological, security, esteem, social and self-actualization. Once a lower need is satisfied, every adult turns to satisfy the next higher need because Maslow perceives the five classifications of need as being in hierarchy. This is why people exhibit decreasing percentages of satisfaction as one higher-order need replaces a lower need in predominance. Since the 1960's, Maslow's theory of motivation has been used in a number of studies of on-the-job need satisfaction of managers. The importance of labour market in explaining earnings and income inequality cannot be overemphasized. The structure of the market itself has a significant impact on the employment status and serves as an important determinant of household income and welfare.

The labour market consists of several sources of income, including direct remuneration in the form of cash income, and non-cash income (fringe benefits). While these different forms of income sources contribute significantly to dimensions

of inequality, income security has relied to a relatively large extent upon the direct remuneration from the labour market. It is in the light of the foregoing that Liebrandt, Bhorat and Woolard<sup>22</sup>, used twelve income\job items to analyse the relationship between income (compensation) and job satisfaction (income is used to meet our needs) and concluded that a higher pay brings about an increase in the satisfaction and welfare of the employee. This study would adopt this stance which have been used in some other studies. The general trend of findings in these works has been that the job satisfaction of respondents improves as one gets higher pay.

### **3.0 METHODOLOGY**

This study is based on responses to a ‘Structured Liebrandt Job Satisfaction Questionnaire’ (SPLSQ) administered on two Organisations in Lagos, Nigeria. One of the Organisations (herein after called “ORG A”) provides banking services, while the second “ORG B” provides educational services. The choice of these organisations stems from the fact that they belong to different industries and provide ‘essential’ services. Based on this structure, the condition of service in the two organisations are different in some respects. The questionnaire used 10 income\job items based on Maslow’s theory of human motivation. The questionnaire was administered to a random sample of 200 employees in the two organisaions. A total of 190 respondents reported their perceptions of the income\job satisfaction opportunities in their respective organisations. Of this figure only 180 were usable.

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<sup>22</sup> Liebrandt, M., H. Bhorat and I. Woolard. 2001. Househols Inequality and the Labour Market in South Africa. *Contemporary Economic Policy*, Vol. 19, No. 1.



#### 4.0 RESULTS, ANALYSIS AND DISCUSSION

Table 1

Average Job Satisfaction Scores of top and middle level employees

Org A versus Org B

Income\Job categories and items	Top Level Employees			Middle level Employees		
	Org A	Org B	Level of sig.	Org A	Org B	Level of sig.
I. Job Security	.632	.596	.03	.576	.510	
II. Income Scale						
1.(opportunity to help others)	.643	.617		.505	.498	
2.(opportunity for social clubs)	.809	.743	.002	.409	.240	
III. Education						
1.(School Certificate\OND)	.576	.387		.321	.267	
2.(First Degree)	.615	.600		.286	.275	.002
3.(Higher Degrees)	.872	.757		.672	.582	
IV. Work Experience						
1.(1-5years)	.687	.605		.585	.522	
2.(5- 10years)	.645	.640		.702	.542	
3.(10 years and above)	.485	.439		.857	.583	
V. Training Opportunities						
1.(opportunity for growth and development)	.515	.400	.03	.643	.534	.003
2.(feeling of self fulfillment)	.303	.133	.001	.877	.858	
3.(feeling of accomplishment)	.782	.615	.02	1.000	.810	.03
VI. Non-Specific Reasons	.642	.600	.001	.892	.533	

(source, field survey and author's calculations, 2008)

Only levels of significance below 0.5 are shown. The t-test statistic was used.

Note: The higher the mean value, the lower the income\job satisfaction.

The above table presents a summary of the average job satisfaction scores of the top and middle level employees in both organisations. Top level employees are those officers who carryout management and related assignment and on Salary Grade Level (SGL) 13 and above and need not have obtained any professional management qualification. The middle level employees are the officers on SGL 6-12 and carryout routine management functions. It was observed that where statistically significant differences were found, employees in ORG B reported less perceived job satisfaction, (i.e lower mean score) than managers in ORG A. Top level employees in ORG A perceive more opportunities for growth, development, self-fulfillment and accomplishment in their departments than their counterpts in ORG B. This could perhaps be ascribed to the higher income received in this organisation than in ORG B.

There were only three statistically significant differences found when middle level employees were compared. An examination of each item score shows that for six of the 10 income\job items, employees in ORG A indicate more satisfaction, i.e. lower mean scores with the employees in ORG B reporting more satisfaction in the other four items.

Tables 2 and3 classify the employees' 10 income\job items into five income\job categories. These tables are used so that comparisons between the theoretical propositions of Maslow and Liebrandt and the findings of the present study can be made.

## Top Level Employees in ORG A versus ORG B.

Rank	ORG A		ORG B	
	Income\Job category	Score	Income\Job category	Score
1.	Training Opportunities	.533	Training Opportunities	.383
2.	Work Experience	.606	Work Experience	.561
3.	Job Security	.632	Education	.566
4.	Education	.688	Job Security	.596
5.	Income Scale	.726	Income Scale	.680

(source, field survey, 2008)

Note: The aggregate scores for each of the five categories are totaled and averaged to derive the score.

The income\job category scores in table 2 indicate that the findings for the top level employees in ORG A and ORG B do not square with the income\job hierarchy model nor with the majority of research findings reported which use industrial managers, union officials and military personnel as subjects.

The ORG A top level employees indicate that income scale is the most satisfied category and that training opportunities is the least satisfied. The ORG B top level employees report that the most satisfied income\job category is also income scale and the least is also training opportunities. In both cases, the Liebrandt's theory is not supported by the findings of this study.

Table 3.

Job Satisfaction Scores in Rank order: Middle Level Employees in ORG A versus ORG B.

Rank	ORG A		ORG B	
	Income\Job category	Score	Income\Job category	Score
1.	Education	.426	Income Scale	.369
2.	Income Scale	.457	Education	.375
3.	Job Security	.576	Job Security	.510
4.	Work Experience	.715	Work Experience	.549
5.	Training Opportunities	.840	Training Opportunities	.734

(source, field survey, 2008)

Note: The aggregate score for each of the five categories are totaled and averaged to derive the score.

Table 3 above reports the category scores for the middle level employees. Rank orders of the category scores are similar to the hierarchy of income\job satisfaction postulated by Liebrandt.

#### 4.1 IMPLICATIONS

The implications of these findings are:

1. The type of occupation and the structure of the organization in which a respondent is employed has a significant influence on the relative satisfaction. Closely related to this is also the compensation paid to employees. It would seem the opportunities currently afforded in the ORG A are more promising. This could be as a result of the high profitability of the organisation.
2. For the management of these organisations to get the best out of their employees in the top level in both ORGs A and B, the employees must be adequately compensated. This would make them to provide efficient monitoring and supervisory role to the lower cadre of employees.

3. The findings also reveal that for middle level employees, there is little difference in job satisfaction for employees in ORG A or ORG B. These findings are important for planning recruitment strategies for staff aspiring to enter middle level employees' positions.
4. Lastly, the study reveals that employees in both organisations at the top and middle cadres have to be educated in order to earn a reasonable pay that will enhance their job satisfaction.

## **5.0 CONCLUSION**

The results of the study suggest the usefulness of programmes designed specifically to retain and advance the degree of job satisfaction of top-level and low level employees in two organisations. These programmes should be adapted to the size, level of management and the present job dissatisfaction of the employee. Besides, There is a need to design programmes to periodically monitor the job satisfaction of employees would seem to offer some promise to those responsible for developing cohesive, productive and psychologically satisfied employees at all levels of the management hierarchy in organisations. The result of the study shows that it might be necessary to harmonize the salary structure of organisations through the use of Government Wage Legislations to remove the present distortions arising from the nature of service rendered by different arms of the same service.