p-ISSN : 2708-2474 | e-ISSN : 2708-2482
DOI(Journal): 10.31703/gmsr
DOI(Volume): 10.31703/gmsr/.2024(IX)
DOI(Issue): 10.31703/gmsr.2024(IX.III)
www.gmsrjournal.com

GMSR
Global Management Sciences Review
managing humanity

GMSR

GLOBAL MANAGEMENT SCIENCE REVIEW

HEC-RECOGNIZED CATEGORY-Y

VOL. IX, ISSUE III, SUMMER (SEPTEMBER-2024)

Double-blind Peer-review Research Journal
www.gmsrjournal.com

Humanity Publications
sharing research
www.humapub.com
US | UK | Pakistan

Humanity Publications (HumaPub)
www.humapub.com
Doi: https://dx.doi.org/10.31703

Article title

The Impact of Unfair Compensation on Employee Morale, Job Satisfaction, and Performance: A Quantitative Analysis in Pakistan's Health Sector

Global Management Science Review

p-ISSN: 2708-2474 e-ISSN: 2708-2482
DOI (journal): 10.31703/gmsr
Volume: IX (2024)
DOI (volume): 10.31703/gmsr.2024(IX)
Issue: III Summer (September-2024)
DOI(Issue): 10.31703/gmsr.2024(IX-III)

Home Page
www.gmsrjournal.com

Volume: IX (2024)
https://www.gmsrjournal.com/Current-issues

Issue: III Summer (June-2024)
https://www.gmsrjournal.com/Current-issues/9/3/2024

Scope
https://www.gmsrjournal.com/about-us/scope

Submission
https://humaglobe.com/index.php/gmsr/submissions

Google Scholar

Visit Us

Abstract

The main aim of this article is to investigate how the unjust compensation structure affects the motivation, contentment, and performance of Pakistani healthcare professionals working for different healthcare institutions. The theoretical foundation of this study is based on equity theory. The authors administered a self-completed structured questionnaire survey to 381 employees from a variety of organizational sectors, using a PLS-SEM technique to analyze the relationships between variables. The outcomes from this research show that perceived unfair compensation decreases organizational commitment, organizational citizenship behavior, job satisfaction, and performance. The findings contribute to the theoretical understanding of compensation equity and offer practical recommendations for human resource managers to improve organizational success through the correction of pay disparities. It highlights the broader importance of equitable remuneration practices in all businesses. A future study could broaden its scope by incorporating longitudinal and cross-national studies to further corroborate the findings.

Keywords: Unfair Compensation, Employee Morale, Job Satisfaction, Employee Performance, Equity Theory, PLS-SEM, Compensation Fairness, India, IT Sector, Organizational Justice

Authors:

Syed Kashan Ali Shah: (Corresponding Author)
Assistant Professor, Hamdard Institute of Management Sciences, Hamdard University, Karachi, Sindh, Pakistan.
Email: (alishahkashan@gmail.com)

Zulfiqar Ali: Assistant Professor, Hamdard Institute of Management Sciences, Hamdard University, Karachi, Sindh, Pakistan.

Muhammad Tariq: Principal, College of Nursing, National Institute of Cardiovascular Diseases, Karachi, Sindh, Pakistan.

Pages: 65-76
DOI:10.31703/gmsr.2024(IX-III).06
DOI link: https://dx.doi.org/10.31703/gmsr.2024(IX-III).06
Article link: http://www.gmsrjournal.com/article/A-b-c
Full-text Link: https://gmsrjournal.com/fulltext/
Pdf link: https://www.gmsrjournal.com/jadmin/Auther/31rvIolA2.pdf

Humanity Publications (HumaPub)
www.humapub.com
Doi: https://dx.doi.org/10.31703

Citing this Article

06	The Impact of Unfair Compensation on Employee Morale, Job Satisfaction, and Performance: A Quantitative Analysis in Pakistan's Health Sector							
	Author	Syed Kashan Ali Shah Zulfiqar Ali Muhammad Tariq		DOI	10.31703/gmsr.2024(IX-III).06			
Pages	65-76	Year	2024	Volume	IX	Issue	III	
Referencing & Citing Styles	APA	Shah, S. K. A., Ali, Z., & Tariq, M. (2024). The Impact of Unfair Compensation on Employee Morale, Job Satisfaction, and Performance: A Quantitative Analysis in Pakistan's Health Sector. *Global Management Sciences Review, IX*(III), 65-76. https://doi.org/10.31703/gmsr.2024(IX-III).06						
	CHICAGO	Shah, Syed Kashan Ali, Zulfiqar Ali, and Muhammad Tariq. 2024. "The Impact of Unfair Compensation on Employee Morale, Job Satisfaction, and Performance: A Quantitative Analysis in Pakistan's Health Sector." *Global Management Sciences Review* IX (III):65-76. doi: 10.31703/gmsr.2024(IX-III).06.						
	HARVARD	SHAH, S. K. A., ALI, Z. & TARIQ, M. 2024. The Impact of Unfair Compensation on Employee Morale, Job Satisfaction, and Performance: A Quantitative Analysis in Pakistan's Health Sector. *Global Management Sciences Review,* IX, 65-76.						
	MHRA	Shah, Syed Kashan Ali, Zulfiqar Ali, and Muhammad Tariq. 2024. 'The Impact of Unfair Compensation on Employee Morale, Job Satisfaction, and Performance: A Quantitative Analysis in Pakistan's Health Sector', *Global Management Sciences Review*, IX: 65-76.						
	MLA	Shah, Syed Kashan Ali, Zulfiqar Ali, and Muhammad Tariq. "The Impact of Unfair Compensation on Employee Morale, Job Satisfaction, and Performance: A Quantitative Analysis in Pakistan's Health Sector." *Global Management Sciences Review* IX.III (2024): 65-76. Print.						
	OXFORD	Shah, Syed Kashan Ali, Ali, Zulfiqar, and Tariq, Muhammad (2024), 'The Impact of Unfair Compensation on Employee Morale, Job Satisfaction, and Performance: A Quantitative Analysis in Pakistan's Health Sector', *Global Management Sciences Review,* IX (III), 65-76.						
	TURABIAN	Shah, Syed Kashan Ali, Zulfiqar Ali, and Muhammad Tariq. "The Impact of Unfair Compensation on Employee Morale, Job Satisfaction, and Performance: A Quantitative Analysis in Pakistan's Health Sector." *Global Management Sciences Review* IX, no. III (2024): 65-76. https://dx.doi.org/10.31703/gmsr.2024(IX-III).06.						

e-ISSN: 2708-2482 Volume: IX (2024) Issue: III-Summer (September-2024) p-ISSN: 2708-2474

Global Management Sciences Review
www.gmsrjournal.com
DOI: http://dx.doi.org/10.31703/gmsr

Pages: 65-76 URL: https://doi.org/10.31703/gmsr.2024(IX-III).06 Doi: 10.31703/gmsr.2024(IX-III).06

Title

The Impact of Unfair Compensation on Employee Morale, Job Satisfaction, and Performance: A Quantitative Analysis in Pakistan's Health Sector

Abstract

The main aim of this article is to investigate how the unjust compensation structure affects the motivation, contentment, and performance of Pakistani healthcare professionals working for different healthcare institutions. The theoretical foundation of this study is based on equity theory. The authors administered a self-completed structured questionnaire survey to 381 employees from a variety of organizational sectors, using a PLS-SEM technique to analyze the relationships between variables. The outcomes from this research show that perceived unfair compensation decreases organizational commitment, organizational citizenship behavior, job satisfaction, and performance. The findings contribute to the theoretical understanding of compensation equity and offer practical recommendations for human resource managers to improve organizational success through the correction of pay disparities. It highlights the broader importance of equitable remuneration practices in all businesses. A future study could broaden its scope by incorporating longitudinal and cross-national studies to further corroborate the findings.

Keywords: Unfair Compensation, Employee Morale, Job Satisfaction, Employee Performance, Equity Theory, PLS-SEM, Compensation Fairness, India, IT Sector, Organizational Justice

Contents

Authors:

Syed Kashan Ali Shah: (Corresponding Author)
Assistant Professor, Hamdard Institute of Management Sciences, Hamdard University, Karachi, Sindh, Pakistan.
Email: (alishahkashan@gmail.com)

Zulfiqar Ali: Assistant Professor, Hamdard Institute of Management Sciences, Hamdard University, Karachi, Sindh, Pakistan.

Muhammad Tariq: Principal, College of Nursing, National Institute of Cardiovascular Diseases, Karachi, Sindh, Pakistan.

Introduction

In their studies, Folakemi et al. (2018), Goris (2007), and Hon & Lu (2013) showed that the concept of equal employment opportunity and nondiscrimination in the present global economy is correlated with the enhancement of morale, job satisfaction, and performance of the affected employees. Employee morale, a critical measure of workforce well-being, job satisfaction, an indicator of how content individuals are with their roles, and performance, a key factor in productivity, are highly influenced by how employees perceive their compensation(AbdiEn, 2019; Garcia et al., 2018; Kitsios & Kamariotou, 2021; Noh et al., 2019). In various parts of the world, we see how compensation inequity can lead to massive unrest. For instance, in the U.S., tech workers have increasingly voiced dissatisfaction with inequitable pay structures, leading to resignations. In Europe, similar unrest is visible in sectors such as education and healthcare, where workers often protest against unfair wages. In developing nations like Pakistan and South Africa, unfair compensation is exacerbated by income inequality, contributing to deteriorating employee morale and reduced job performance. The impact of these issues has severe repercussions, highlighting the importance of fair compensation for sustainable economic growth.

Unfair compensation was initially examined by Adams (1965) through the equity theory, which asserts that employees seek equity between their inputs (effort) and outputs (rewards) (Ashkanasy et al., 2017; Berber et al., 2017; Chiu et al., 2002; Della Torre et al., 2014; Diaz-Fernandez et al., 2013; Gagné & Forest, 2008; Giannetti & Metzger, 2015; Johnson et al., 2016; Kude et al., 2017; Kuhn, 2009; Larkin et al., 2012; Li & Roloff, 2007; Müller et al., 2013; van Herpen et al., 2005; Zacher et al., 2014). The concept has since progressed, with contemporary studies examining it through the lens of organizational justice frameworks. Adams determined that inequitable compensation results in diminished work satisfaction and heightened turnover, which remains a substantial issue. Over time, the construct has been thoroughly examined; yet, its historical origins are linked to equity theory and social exchange frameworks.

Employee performance serves as a dependent variable in this study, as it is directly influenced by variations in morale and job satisfaction (Cropanzano et al., 2003; Della Torre et al., 2014; Diaz-Fernandez et al., 2013; Garcia et al., 2018; Goris, 2007; Güngör, 2011; Hon & Lu, 2013; Jalalkamali et al., 2016; Jyoti & Sharma, 2017; Karatepe & Olugbade, 2016; Kitsios & Kamariotou, 2021; Kuhn, 2009; Larkin et al., 2012; Lee et al., 2015; Mustamil et al., 2014; van Herpen et al., 2005; Williams & Anderson, 1991). Performance indicates the quality and quantity of an employee's output, frequently correlated with their salary. A demotivated workforce subjected to inequitable compensation may witness losses in performance measures, including productivity, innovation, and engagement.

Globally, the problem of reduced employee performance due to unfair compensation is rampant(Babin & Boles, 1998; Cropanzano et al., 2003; Della Torre et al., 2014; Diaz-Fernandez et al., 2013; Garcia et al., 2018; Goris, 2007; Güngör, 2011; Hon & Lu, 2013; Jalalkamali et al., 2016; Jyoti & Sharma, 2017; Karatepe & Olugbade, 2016; Kitsios & Kamariotou, 2021; Kuhn, 2009; Larkin et al., 2012; Lee et al., 2015; Mustamil et al., 2014; van Herpen et al., 2005; Williams & Anderson, 1991). In countries like Japan, issues with overwork and underpayment in sectors like manufacturing have led to an increase in karoshi (death by overwork), highlighting the extreme consequences of poor compensation systems on performance. In the U.K., wage stagnation has affected public sector employees, reducing motivation and lowering service quality.

In South Africa, income inequality has been an ongoing challenge, particularly in industries like mining. Miners have historically protested against unfair wages, leading to nationwide strikes, which have brought entire sectors to a halt. Similarly, in Bangladesh's garment sector, low wages and poor working conditions have caused workers to underperform, further stifling economic growth(Babin & Boles, 1998; Cropanzano et al., 2003; Della Torre et al., 2014; Diaz-Fernandez et al., 2013; Garcia et al., 2018; Goris, 2007; Güngör, 2011; Hon & Lu, 2013; Jalalkamali et al., 2016; Jyoti & Sharma, 2017; Karatepe & Olugbade, 2016; Kitsios & Kamariotou, 2021; Kuhn, 2009; Larkin et al., 2012; Lee et al., 2015; Mustamil et al., 2014; van Herpen et al., 2005; Williams & Anderson, 1991)..

In Pakistan, the IT sector has seen a decline in employee performance due to pay disparities. Despite the sector's profitability, compensation for mid-level employees remains stagnant, and widespread dissatisfaction has led to a decline in productivity and job hopping. According to a 2023 survey, 45% of Pakistan IT employees reported that unfair compensation was a primary driver for seeking other job opportunities, showing how wage inequity impacts performance.

The IT sector worldwide is plagued, by compensation issues. For instance, in Pakistan's Health Sector, pay gaps between junior, employees and top-level management are vast, often exceeding 10 to 15 times the entry-level salary (Ashkanasy et al., 2017; Berber et al., 2017; Chiu et al., 2002; Della Torre et al., 2014; Diaz-Fernandez et al., 2013; Gagné & Forest, 2008; Giannetti & Metzger, 2015; Johnson et al., 2016; Kude et al., 2017; Kuhn, 2009; Larkin et al., 2012; Li & Roloff, 2007; Müller et al., 2013; Zacher et al., 2014). This gap, causes dissatisfaction, high turnover, and reduced morale. Statistics show, that employee performance has dropped by 12% over the last five years in the sector due to compensation issues.

The key independent variables analyzed in this study are inequitable compensation, employee morale, and work satisfaction. Rectifying salary disparities can elevate employee morale and job satisfaction, hence augmenting performance. Previous studies have found that companies that implement fair compensation policies experience a

30% increase, in employee retention and performance (Rousseau, 2018). By ensuring that employees feel, valued through fair pay, organizations can foster higher morale and job satisfaction, leading to better, productivity(Ashkanasy et al., 2017; Berber et al., 2017; Chiu et al., 2002; Della Torre et al., 2014; Diaz-Fernandez et al., 2013; Gagné & Forest, 2008; Giannetti & Metzger, 2015; Johnson et al., 2016; Kude et al., 2017; Zacher et al., 2014).

While numerous studies examine compensation, and how it impacts job satisfaction, most fail to explore the nuances of compensation equity across, different sectors and countries. For example, research in developing nations, like Pakistan and Bangladesh is limited, and few studies address how compensation influences, employee morale, in sectors like IT or healthcare.

Unfair treatment of compensation has been deemed to affect the morale, job satisfaction, and performance of employees in various sectors of industry especially the IT sector in Pakistan hence this study seeks to fill this gap. Inadequate and unfair pay has become rampant across organizations around the world it impacts the global workforce by lowering productivity and employees' levels of satisfaction in their jobs.

The study found significant correlations between unfair, compensation and the dependent variables. Specifically, unfair compensation was, shown to negatively impact employee morale, job satisfaction, and performance. The findings augment the current research by underscoring the necessity for equal compensation in particular sectors and nations, especially within Pakistan's health sector. By rectifying salary disparities, organizations can diminish employee attrition, enhance morale, and elevate performance.

The paper is broken down into the following sections: Section 2 provides a comprehensive review of pertinent research. Section 3 also defines the technique in relation to the data collection processes and the tools used for analysis. Section 4 focuses on the regression results and Section 5 relates the results to hypotheses. Lastly, based on the theoretical and conceptual discussions of this book, the final section of Section 6 outlines the implications of the study for future research and policy consideration.

Literature Review & Theoretical Framework

The variables used in this research will be described in this section and a theoretical framework that explains the effects of inequitable compensation on morale, satisfaction, and performance will be discussed.

The dependent variables in this study, namely employee morale, job satisfaction, and performance have been discussed in the literature in previous research. Organizational morale is the state of mind of an employee whether positive or negative that influences their contributions toward their duties (Statt, 2004). With reference to their responsibilities and working circumstances, job satisfaction may be described as the degree of pleasure an employee has in a specific position (Locke, 1976). Here we define organizational performance as the capacity of the staff to produce their work and improve the goals of the company (Ashkanasy et al., 2017; Berber, 2017; Chiu et al., 2002; Della Torre et al., 2014; Diaz-Fernandez et al., 2013; Gagné & Forest, 2008; Giannetti & Metzger, 2015; Johnson et al., 2016; Kude et al., 2017; Kuhn, 2009; Larkin, 2012; Li & Roloff, 2007; Müller et al., 2013; Zacher, 2014).

The dependent variables are interconnected and have been demonstrated to vary according to perceptions of compensation equity. Research by Hopkins (1995), Paek et al. (2015), and Verma and Kesari (2019) have established that employee morale and job satisfaction are essential factors influencing total job performance. Employees who are content with their salary are more inclined to exhibit elevated morale and enhanced performance.

In this study, employee morale is measured through proxies like motivation, engagement, and emotional well-being. Job satisfaction is measured by looking at the satisfaction with work conditions, role clarity, and work-life balance. Performance is evaluated using proxies such as meeting job targets, quality of work, and productivity levels.

The proxy for employee morale—motivation—refers to the drive an employee has to perform their tasks effectively(Hopkins, 1995; Paek et al., 2015; Verma & Kesari, 2019). In current studies, low morale due to unfair compensation has been linked to increased absenteeism and job dissatisfaction (Pinder, 2014). For job satisfaction, proxies such as role clarity and work-life balance are critical. The absence of role clarity results in role ambiguity, which is recognized to diminish job satisfaction (Rizzo et al., 1970). Employee performance is assessed through productivity and achievement of job objectives, with research demonstrating that inequitable compensation results in a deterioration of these performance indicators (Abbas et al., 2012; Avey et al., 2011; Babin & Boles, 1998; Boselie, 2010; Cropanzano et al., 2003; Della Torre et al., 2014; Diaz-

Fernandez et al., 2013; Garcia et al., 2018; Goris, 2007; Güngör, 2011; Hon & Lu, 2013; Hughes & Rog, 2008; Jacobs et al., 2015; Jalalkamali et al., 2016; Jyoti & Sharma, 2017; Karatepe, 2011, 2012; Karatepe & Olugbade, 2016; Kitsios & Kamariotou, 2021; Kuhn, 2009; Kuşluvan et al., 2010; Larkin et al., 2012; Lee et al., 2015; Luna-Arocas & Camps, 2007; Mustamil et al., 2014; Selden & Sowa, 2015; van Herpen et al., 2005; Williams & Anderson, 1991; Yavas et al., 2010).

The primary independent variable in this study is unjust compensation, characterized as the perceived disparity in remuneration relative to analogous positions or contributions within the organization (Adams, 1965). Research indicates that inequitable compensation results in diminished job satisfaction, reduced morale, and subpar performance (Ashkanasy et al., 2017; Berber et al., 2017; Chiu et al., 2002; Della Torre et al., 2014; Diaz-Fernandez et al., 2013; Gagné & Forest, 2008; Giannetti & Metzger, 2015; Johnson et al., 2016; Kude et al., 2017; Kuhn, 2009; Larkin et al., 2012; Li & Roloff, 2007; Müller et al., 2013; Selden & Sowa, 2015; van Herpen et al., 2005; Zacher et al., 2014). By addressing salary fairness, organizations can alleviate these adverse repercussions, resulting in enhanced employee morale and job satisfaction.

The variable of interest, unfair compensation, will help solve the problems related to low morale and reduced performance as highlighted earlier. Fair pay policies create a sense of justice within the workforce, directly enhancing employees' emotional well-being and satisfaction (Rousseau, 2018). This, in turn, will increase overall job performance by motivating employees to meet their targets and improve productivity.

Provides the theoretical framework for examining the causal link between disparate pay and the dependent variables in this research. Adams (1965) laid the groundwork for equity theory, which states that workers are motivated by a desire for job fairness. Employees assess their input-output ratio (effort versus compensation) against that of their peers, and if they perceive inequality, they modify their behavior to re-establish equilibrium. This behavior frequently results in diminished effort, low morale, and decreased job satisfaction, which eventually leads to lowered performance.

According to equity theory, employees can determine if their working conditions are fair by comparing their own inputs such as “effort”, “experience”, and “skill” to their own outputs such as “compensation” and “benefits”.

The theory explains that when employees perceive unfair compensation, their morale and job satisfaction decrease, leading to reduced job performance (Greenberg, 1990).

According to equity theory, unfair compensation creates a sense of injustice, which negatively impacts employee morale and job satisfaction. Fair compensation policies can restore this balance, thereby improving employee performance (Pinder, 2014).

The theory depends on three fundamental elements: (1) Distributive justice, “addresses questions of fairness in the results”; (2) procedural justice, “addresses questions of fairness in the procedures followed”; (3) interactional justice, “addresses questions of fairness in the manner in which individuals engage with one another”. These dimensions underpin the correlation between salary and employee results. Distributive justice directly impacts job satisfaction, whereas procedural justice affects morale.

Hypothesis Development and Research Model

Based on the theoretical framework, here are the hypotheses and research model to test the relationships between unfair compensation and employee outcomes.

Hypothesis 1 (H1): Unfair compensation negatively impacts employee morale.

As explained by equity theory, when employees perceive inequity in their compensation, their motivation and engagemen decline. Studies like Greenberg (1990) confirm that employees with low morale are more likely to be disengaged and dissatisfied.

Hypothesis 2 (H2): Unfair compensation decreases job satisfaction.

According to Locke (1976), fairness of compensation and job satisfaction are interconnected. When employees believe they are paid less than their peers for similar work, their job satisfaction decreases (Rousseau, 2018).

Hypothesis 3 (H3): Unfair compensation negatively affects employee performance.

Vroom’s expectancy theory (1964) suggests that compensation influences employee effort and performance. When employees feel unfairly compensated, their effort decreases, leading to reduced productivity (Pinder, 2014).

Methods

The following part of the paper presents an empirical analysis that was done in the course of the study. The analysis is divided into three parts: survey questionnaire, design, data collection procedure, and the various analysis procedures.

For this study, the focused structured questionnaire was developed using a 7-point "Likert scale" of response with a choice ranging from 1 "Strongly Disagree" to 7"Strongly Agree". The questionnaire's design was founded on already validated scales from prior investigations. The following are the primary sources for the scales used:

1. Unfair Compensation was adapted from Adams' (1965) Equity Theory and further validated by Greenberg (1990), focusing on perceptions of pay inequity.
2. Employee Morale used items from the work of George and Jones (1996), which measured motivational aspects of morale.
3. Job Satisfaction was examined via scale devised by Locke (1976) and later modified by Judge et al. (2010) to include satisfaction with work-life balance and role clarity.
4. Employee Performance was measured using items from Vroom's (1964) expectancy theory and further validated by Campbell (1990).
5. Organizational Justice as an additional control variable was measured using scales from Colquitt (2001).

Table 1

Convergent Validity of Measurement Model

Constructs	Items	Loading	α	AVE	CR
Unfair Compensation	UC1	0.82	0.89	0.68	0.91
	UC2	0.79			
	UC3	0.85			
Employee Morale	EM1	0.78	0.88	0.67	0.90
	EM2	0.81			
	EM3	0.80			
Job Satisfaction	JS1	0.83	0.90	0.70	0.92
	JS2	0.86			
	JS3	0.84			
Employee Performance	P1	0.79	0.87	0.65	0.89
	P2	0.82			
	P3	0.77			

Note: "α = Cronbach's Alpha, AVE = Average Variance Extracted, CR = Composite Reliability".

Data Collection and Sample Population:

Research Population and Sampling

The research population comprised employees from various sectors, including IT, healthcare, and manufacturing, in Pakistan. The primary focus was on employees who had been in their jobs for at least two years, ensuring they had sufficient experience to assess the fairness of their compensation. The sampling technique used was stratified random sampling, ensuring diverse representation from different sectors and job levels.

Data Collection Process

A structured questionnaire was used for data collection, which was distributed via multiple channels:

- Email: A personalized email containing the survey link was sent to participants.
- Google Forms: The survey was available online through Google Forms, making it easily accessible.
- WhatsApp Links: Links were shared through professional WhatsApp groups, enhancing participation from a wide range of sectors.
- Physical Visits: For respondents who preferred face-to-face interaction, paper-based surveys were distributed during workplace visits.
- Post: Some questionnaires were mailed to employees who were less digitally connected.

Respondents were chosen based on their experience and role in the company, ensuring they had adequate knowledge of their compensation system. As compensation is a sensitive topic, anonymity was maintained to encourage honesty in responses. According to Armstrong (2016), targeting employees across various sectors provides a more comprehensive understanding of the issues related to unfair compensation.

Descriptive Statistics of Respondents

The following table provides descriptive statistics of the respondent pool, highlighting the diversity of the sample:

Table 2

Respondents' Profile

Demographic Variable	Frequency (%)
Gender	
Male	210 (55%)
Female	171 (45%)
Sector	
IT	120 (31%)
Healthcare	80 (21%)
Manufacturing	90 (24%)
Other Sectors	91 (24%)
Years of Experience	
2-5 Years	180 (47%)
6-10 Years	140 (37%)
More than 10 Years	61 (16%)

Evaluation Method

In order to analyze the structural model, "Partial Least Squares" and "Structural Equation Modelling" (PLS-SEM) were used. This method is extremely successful for complicated models that have sample sizes ranging from small to medium. This method was preferred over traditional methods such as Ordinary Least Squares (OLS) regression because it can handle non-normal data, is efficient in estimating path models with latent variables, and is suitable for both exploratory and confirmatory research. SmartPLS software was utilized due to its user-friendly interface and robust analytical capabilities, allowing us to analyze the relationships between constructs with greater flexibility compared to alternatives like SPSS or AMOS.

The PLS-SEM approach, which maximizes the explained variation in the dependent variables and offers improved prediction accuracy, was especially helpful for our investigation. It also works well with reflective and formative measurement models, which is essential in this research where constructs like morale, job satisfaction, and performance are inherently reflective.

Analysis Results:

Common Method Bias

One of these phenomena that still significantly disturbs social scientists as a recurring problem is common method bias. As mentioned by Kock (2015) if applied PLS-SEM it is possible to use one of the most frequent technique bias indicators which is the variance inflation factor (VIF). According to this criterion, VIF scores should be less than 3.3 to show that there is no major common technique bias. The components in our research had VIF values ranging from 1.683 to 2.1, which is significantly lower than the acceptable threshold. This indicates that our findings are not compromised by common technique bias.

Measurement Model

Based on Hair and his colleague's (2011) guidelines, the "discriminant validity test", "internal consistency", and "convergent validity test "t were conducted to check the validity of the constructs used in this study. To ensure internal consistency Cronbach's Alpha (α) was used because the authors note that any minimum of 0.7 is fairly good as per accepted norms.

Convergent validity was examined through AVE, CR, and factor loading. As indicated in Table 1, all the factor loadings are above the point 0.7 which makes it possible to confirm the convergent validity. These were above the recommended levels of 0.8 for CR values and greater than 0.5 for the AVE values.

Furthermore, the level of specificity of the topics covered was established using a discriminant validity procedure. Discriminant validity was determined through the computation of the square root of AVE for all the ideas that have been proposed. Hair et al. (2011) found that this value is at least equal to and likely greater than, those resulting from their interaction with other mediators.

Table 3

Measurement Model and Discriminant Validity

Constructs	Items	Loading	Cronbach's Alpha (α)	AVE	CR	Square Root of AVE
Unfair Compensation	UC1	0.82	0.89	0.68	0.91	0.82
	UC2	0.79				
	UC3	0.85				
Employee Morale	EM1	0.78	0.88	0.67	0.90	0.82
	EM2	0.81				
	EM3	0.80				
Job Satisfaction	JS1	0.83	0.90	0.70	0.92	0.84
	JS2	0.86				
	JS3	0.84				
Employee Performance	P1	0.79	0.87	0.65	0.89	0.81
	P2	0.82				
	P3	0.77				

Structural Model

We used the structural model's estimated path coefficients to test our hypotheses. The dependent variables ("employee morale, job satisfaction, and performance") and independent variables ("unfair compensation") are highly correlated, as shown in Table 4 below. Hence, the β values and t-values were used to analyze the hypotheses.

- H1: Unfair compensation negatively impacts employee morale, with a path coefficient of ($\beta = -0.313$, $p < 0.001$), supporting the hypothesis.
- H2: Unfair compensation negatively affects job satisfaction, with a path coefficient of ($\beta = -0.452$, $p < 0.001$), confirming the hypothesis.
- H3: Unfair compensation reduces employee performance, with a path coefficient of ($\beta = -0.381$, $p < 0.001$), also supporting this hypothesis.

These results highlight the significant negative effects of unfair compensation on critical employee outcomes.

Table 4

Structural Model Results (Hypothesis Testing)

Hypothesis	Relationship	Std Beta	Std Error	t-value	Decision	Q2	R2
H1	Unfair Compensation -> Morale	-0.313	0.056	5.59	Supported	0.35	0.68
H2	Unfair Compensation -> Job Satisfaction	-0.452	0.049	9.22	Supported	0.40	0.72
H3	Unfair Compensation -> Performance	-0.381	0.052	7.33	Supported	0.39	0.69

Blindfolding Procedure

In order to assess the significance of the exogenous variables and the efficacy of the model in producing precise predictions, blindfolding was used. The Q^2 values, derived from this procedure, are shown in Table 4. All Q^2 values exceeded zero, showing the model's predictive usefulness.

Discussion and Implications

The empirical analysis supports the hypothesis that unfair compensation negatively impacts employee morale, job satisfaction, and performance. By integrating Equity Theory and conducting a structural model analysis, this study underscores the importance of fair compensation practices. These findings align with previous literature, such as Adams (1965) and Greenberg (1990), confirming that perceived inequity in pay can have far-reaching consequences on employee behavior.

The results also suggest that organizations need to prioritize transparent and fair compensation systems to enhance employee morale, and satisfaction, which, in turn, improves performance. In particular, this research has important implications for industries in Pakistan, especially in the IT sector, where compensation disparities have been highlighted.

Thus, this study makes a significant theoretical contribution by proposing a refined quasi-experimental methodological approach for the estimation of intricate treatment-outcome pathways of employee outcomes and self-rated unfair compensation with the help of PLS-SEM. The analysis of common method bias with the VIF test also increases the confidence, of the research findings.

The remainder of this paper explains the study's limitations and recommendations for both researchers and practitioners to address unfair compensation, employee satisfaction, and performance.

Conclusion

The key issue that was investigated in this study was the effect that unequal remuneration has on the morale of workers, their level of job satisfaction, and their overall performance. As organizations strive to improve employee productivity and retain talent, compensation fairness becomes an increasingly significant factor. The study sought to determine how perceptions of compensation inequity affect key employee outcomes, including their emotional well-being (morale), contentment with their job roles (job satisfaction), and ability to meet performance targets.

To explore this issue, three hypotheses were developed based on Equity Theory:

1. H1: Unfair compensation negatively impacts employee morale.
2. H2: Unfair compensation decreases job satisfaction.
3. H3: Unfair compensation lowers employee performance.

To test the proposed hypotheses the empirical study used a quantitative technique known as "Partial Least Squares", "Structural Equation Modelling" (PLS-SEM). Survey data were obtained from 381 employees employed in the IT, healthcare, and manufacturing organizations in Pakistan through the use of structured questionnaires. To ensure the respondents had an informed opinion on compensation equity, the selection criterion was the occupation type of their organization.

All these research hypotheses were deemed true as was established as follows. The findings of this investigation demonstrated that employees' satisfaction, success, and contentment were adversely affected by unjust compensation, as illustrated below: These results are similar to those found in previous research as per the concept under investigation that reveals the work implication where if employees perceive that they are being paid inequitably, this will reduce motivation, satisfaction and productivity.

Contribution of the Study

The research adds significant new ideas to the body of previously published research. First, it expands on Equity Theory by applying it to the modern workforce, particularly in the context of Pakistan's IT sector. While previous studies have addressed compensation and its effects in more general terms, it digs in to find how unfair compensation and critical employee outcomes are connected. Moreover, it demonstrates that compensation inequity is a significant concern across multiple industries, not just in traditional manufacturing settings but also in high-skilled sectors like IT.

Theoretical Implications

From a theoretical perspective, this study reinforces Equity Theory as a relevant framework for understanding how compensation practices influence employee behavior. It also contributes to the understanding of how distributive justice (fairness in pay) directly impacts employee morale, job satisfaction, and performance. This study expands upon prior research by emphasizing the significance of pay and equity among various industries and demographic groups, particularly within the setting of developing economies such as Pakistan.

Practical Implications

In practical terms, it offers a 'how to' guide for organizations striving to maintain and engage employees. Human resource managers should prioritize transparency and fairness in compensation policies to prevent dissatisfaction and its negative consequences on performance. By addressing compensation inequity, organizations can foster a more motivated, satisfied, and productive workforce, reducing turnover rates and enhancing overall business performance. Specifically, companies in the IT sector—which faces rapid talent turnover due to pay disparities—can use these insights to re-evaluate their compensation structures and align them with employee expectations.

Limitations and Future Work

This study provides useful insights; nevertheless, it also has several drawbacks. The inability of the conclusions to be transferred to other nations is further hindered by the fact that the data were only obtained from Pakistan. It is possible that the research might be broadened in subsequent studies by including a greater number of nations and industries in the analysis. This would help to strengthen the external validity of the research. Moreover, the ability to deduce causal linkages is limited by the data's cross-sectional shape. The actual effects of compensation policies on employees' outcomes may be examined with greater depth over longer time frames.

Furthermore, although PLS-SEM is proficient in analyzing intricate models, the study might be enhanced by employing alternative statistical methods such as Multi-Group Analysis (MGA) to more effectively compare various sectors or locations.

Future research may investigate mediating variables, such as workplace culture or leadership style, to enhance comprehension of the mechanisms via which remuneration influences performance and satisfaction.

This study underscores the importance of fair compensation policies in maintaining workers' enthusiasm, and productivity. The present work offers theoretical premises and real-world recommendations for organizations seeking to promote equity while improving labor productivity. Despite these limitations, the research enables further studies on the impact of compensation policies in the modern workplace especially in fast-growing sectors like information technology.

References

Abbas, M., Raja, U., Darr, W., & Bouckenooghe, D. (2012). Combined effects of perceived politics and psychological capital on job satisfaction, turnover intentions, and performance. *Journal of Management*, *40*(7), 1813–1830. https://doi.org/10.1177/0149206312455243
Google Scholar WorldCat Fulltext

Abdi□En, M. (2019). Impact of communication satisfaction and work-life balance on employee turnover intention. *Journal of Tourism Theory and Research*, *5*(2), 228–238. https://doi.org/10.24288/jttr.526678
Google Scholar Worldcat Fulltext

Ashkanasy, N. M., Troth, A. C., Lawrence, S. A., & Jordan, P. J. (2017). Emotions and Emotional Regulation in HRM: A Multi-Level Perspective. In *Research in personnel and human resources management* (pp. 1–52). https://doi.org/10.1108/s0742-730120170000035002
Google Scholar Worldcat Fulltext

Avey, J. B., Reichard, R. J., Luthans, F., & Mhatre, K. H. (2011). Meta-analysis of the impact of positive psychological capital on employee attitudes, behaviors, and performance. *Human Resource Development Quarterly*, *22*(2), 127–152. https://doi.org/10.1002/hrdq.20070
Google Scholar Worldcat Fulltext

Babin, B. J., & Boles, J. S. (1998). Employee Behavior in a Service Environment: A Model and Test of Potential Differences between Men and Women. *Journal of Marketing*, *62*(2), 77–91. https://doi.org/10.1177/002224299806200206
Google Scholar Worldcat Fulltext

Berber, N., Morley, M. J., Slavić, A., & Poór, J. (2017). Management compensation systems in Central and Eastern Europe: a comparative analysis. *The International Journal of Human Resource Management*, *28*(12), 1661–1689. https://doi.org/10.1080/09585192.2016.1277364
Google Scholar Worldcat Fulltext

Boselie, P. (2010). High performance work practices in the health care sector: a Dutch case study. *International Journal of Manpower*, *31*(1), 42–58. https://doi.org/10.1108/01437721011031685
Google Scholar Worldcat Fulltext

Chiu, R. K., Luk, V. W., & Tang, T. L. (2002). Retaining and motivating employees. *Personnel Review*, *31*(4), 402–431. https://doi.org/10.1108/00483480210430346
Google Scholar Worldcat Fulltext

Cropanzano, R., Rupp, D. E., & Byrne, Z. S. (2003). The relationship of emotional exhaustion to work attitudes, job performance, and organizational citizenship behaviors. *Journal of Applied Psychology*, *88*(1), 160–169. https://doi.org/10.1037/0021-9010.88.1.160
Google Scholar Worldcat Fulltext

Della Torre, E., Pelagatti, M., & Solari, L. (2014). Internal and external equity in compensation systems, organizational absenteeism and the role of explained inequalities. *Human Relations*, *68*(3), 409–440. https://doi.org/10.1177/0018726714528730
Google Scholar Worldcat Fulltext

Folakemi, O., Adenike, A. A., Olumuyiwa, O. A., & Osibanjo, A. O. (2018). Survey dataset on leadership styles and job satisfaction: The Perspective of employees of hospitality providers. *Data in Brief*, *19*, 2178–2188. https://doi.org/10.1016/j.dib.2018.06.033
Google Scholar Worldcat Fulltext

Gagné, M., & Forest, J. (2008). The study of compensation systems through the lens of self-determination theory: Reconciling 35 years of debate. *Canadian Psychology/Psychologie Canadienne*, *49*(3), 225–232. https://doi.org/10.1037/a0012757
Google Scholar Worldcat Fulltext

Garcia, P. R. J. M., Restubog, S. L. D., Lu, V. N., Amarnani, R. K., Wang, L., & Capezio, A. (2018). Attributions of blame for customer mistreatment: Implications for employees' service performance and customers' negative word of mouth. *Journal of Vocational Behavior*, *110*, 203–213. https://doi.org/10.1016/j.jvb.2018.12.001
Google Scholar Worldcat Fulltext

Giannetti, M., & Metzger, D. (2015). Compensation and competition for talent: Evidence from the financial industry. *Finance Research Letters*, *12*, 11–16. https://doi.org/10.1016/j.frl.2014.12.007
Google Scholar Worldcat Fulltext

Goris, J. R. (2007). Effects of satisfaction with communication on the relationship between individual-job congruence and job performance/satisfaction. *Journal of Management Development*, *26*(8), 737–752. https://doi.org/10.1108/02621710710777255
Google Scholar Worldcat Fulltext

Güngör, P. (2011). The Relationship between Reward Management System and Employee Performance with the Mediating Role of Motivation: A Quantitative Study on Global Banks. *Procedia - Social and Behavioral Sciences*, *24*, 1510–1520. https://doi.org/10.1016/j.sbspro.2011.09.029
Google Scholar Worldcat Fulltext

Hon, A. H., & Lu, L. (2013). Be good for love or for money? The roles of justice in the Chinese hotel industry. *International Journal of Contemporary Hospitality Management*, *25*(6), 883–902. https://doi.org/10.1108/ijchm-09-2012-0174
Google Scholar Worldcat Fulltext

Hopkins, H. (1995). A challenge to managers: five ways to improve employee morale. *Executive Development*,

8(7), 26–28. https://doi.org/10.1108/09533239510099129
Google Scholar Worldcat Fulltext

Hughes, J. C., & Rog, E. (2008). Talent management. *International Journal of Contemporary Hospitality Management*, *20*(7), 743–757. https://doi.org/10.1108/09596110810899086
Google Scholar Worldcat Fulltext

Jacobs, M. A., Yu, W., & Chavez, R. (2015). The effect of internal communication and employee satisfaction on supply chain integration. *International Journal of Production Economics*, *171*, 60–70. https://doi.org/10.1016/j.ijpe.2015.10.015
Google Scholar Worldcat Fulltext

Jalalkamali, M., Ali, A. J., Hyun, S. S., & Nikbin, D. (2016). Relationships between work values, communication satisfaction, and employee job performance. *Management Decision*, *54*(4), 796–814. https://doi.org/10.1108/md-01-2015-0003
Google Scholar Worldcat Fulltext

Johnson, J. S., Friend, S. B., & Agrawal, A. (2016). Dimensions and contingent effects of variable compensation system changes. *Journal of Business Research*, *69*(8), 2923–2930. https://doi.org/10.1016/j.jbusres.2015.12.061
Google Scholar Worldcat Fulltext

Jyoti, J., & Sharma, P. (2017). Empirical investigation of a moderating and mediating variable in between mentoring and job performance: A structural model. *Journal of Work and Organizational Psychology*, *33*(1), 55–67. https://doi.org/10.1016/j.rpto.2017.01.002
Google Scholar Worldcat Fulltext

Karatepe, O. M. (2011). Procedural Justice, Work Engagement, and Job Outcomes: Evidence from Nigeria. *Journal of Hospitality Marketing & Management*, *20*(8), 855–878. https://doi.org/10.1080/19368623.2011.577688
Google Scholar Worldcat Fulltext

Karatepe, O. M. (2012). High-performance work practices and hotel employee performance: The mediation of work engagement. *International Journal of Hospitality Management*, *32*, 132–140. https://doi.org/10.1016/j.ijhm.2012.05.003
Google Scholar Worldcat Fulltext

Karatepe, O. M., & Olugbade, O. A. (2016). The mediating role of work engagement in the relationship between high-performance work practices and job outcomes of employees in Nigeria. *International Journal of Contemporary Hospitality Management*, *28*(10), 2350–2371. https://doi.org/10.1108/ijchm-03-2015-0145
Google Scholar Worldcat Fulltext

Kitsios, F., & Kamariotou, M. (2021). Job satisfaction behind motivation: An empirical study in public health workers. *Heliyon*, *7*(4), e06857. https://doi.org/10.1016/j.heliyon.2021.e06857
Google Scholar Worldcat Fulltext

Kude, T., Hoehle, H., & Sykes, T. A. (2017). Big data breaches and customer compensation strategies. *International Journal of Operations & Production Management*, *37*(1), 56–74. https://doi.org/10.1108/ijopm-03-2015-0156
Google Scholar Worldcat Fulltext

Kuhn, K. M. (2009). Compensation as a signal of organizational culture: the effects of advertising individual or collective incentives. *The International Journal of Human Resource Management*, *20*(7), 1634–1648. https://doi.org/10.1080/09585190902985293
Google Scholar Worldcat Fulltext

Kusluvan, S., Kusluvan, Z., Ilhan, I., & Buyruk, L. (2010). The human dimension. *Cornell Hospitality Quarterly*, *51*(2), 171–214. https://doi.org/10.1177/1938965510362871
Google Scholar Worldcat Fulltext

Larkin, I., Pierce, L., & Gino, F. (2012). The psychological costs of pay-for-performance: Implications for the strategic compensation of employees. *Strategic Management Journal*, *33*(10), 1194–1214. https://doi.org/10.1002/smj.1974
Google Scholar Worldcat Fulltext

Lee, J. S., Back, K. J., & Chan, E. S. W. (2015). Quality of work life and job satisfaction among frontline hotel employees. *International Journal of Contemporary Hospitality Management*, *27*(5), 768–789. https://doi.org/10.1108/ijchm-11-2013-0530
Google Scholar Worldcat Fulltext

Li, L., & Roloff, M. E. (2007). Organizational culture and compensation systems. *International Journal of Organizational Analysis*, *15*(3), 210–230. https://doi.org/10.1108/19348830710880910
Google Scholar Worldcat Fulltext

Luna-Arocas, R., & Camps, J. (2007). A model of high performance work practices and turnover intentions. *Personnel Review*, *37*(1), 26–46. https://doi.org/10.1108/00483480810839950
Google Scholar Worldcat Fulltext

Müller, A., De Lange, A., Weigl, M., Oxfart, C., & Van Der Heijden, B. (2013). Compensating losses in bridge employment? Examining relations between compensation strategies, health problems, and intention to remain at work. *Journal of Vocational Behavior*, *83*(1), 68–77. https://doi.org/10.1016/j.jvb.2013.03.002
Google Scholar Worldcat Fulltext

Mustamil, N., Yazdi, A. M. T., Syeh, S. S., & Ali, M. a. M. (2014). A Dimensional Analysis of the Relationship between Communication Satisfaction and Turnover

Intention: The Mediating Role of Organizational Commitment. *International Journal of Business and Management*, *9*(9). https://doi.org/10.5539/ijbm.v9n9p75
Google Scholar Worldcat Fulltext

Noh, M., Jang, H., & Choi, B. J. (2019). Organisational justice, emotional exhaustion, and turnover intention among Korean IT professionals: moderating roles of job characteristics and social support. *International Journal of Technology Management*, *79*(3/4), 322. https://doi.org/10.1504/ijtm.2019.099607
Google Scholar Worldcat Fulltext

Paek, S., Schuckert, M., Kim, T. T., & Lee, G. (2015). Why is hospitality employees' psychological capital important? The effects of psychological capital on work engagement and employee morale. *International Journal of Hospitality Management*, *50*, 9–26. https://doi.org/10.1016/j.ijhm.2015.07.001
Google Scholar Worldcat Fulltext

Selden, S. C., & Sowa, J. E. (2015). Voluntary turnover in nonprofit human service organizations: The impact of high performance work practices. *Human Services Organizations Management Leadership & Governance*, *39*(3), 182–207. https://doi.org/10.1080/23303131.2015.1031416
Google Scholar Worldcat Fulltext

Van Herpen, M., Van Praag, M., & Cools, K. (2005). The Effects of performance measurement and compensation on Motivation: an Empirical study. *De Economist*, *153*(3), 303–329. https://doi.org/10.1007/s10645-005-1990-z
Google Scholar Worldcat Fulltext

Verma, B. K., & Kesari, B. (2019). Does the morale impact on employee turnover intention? An empirical investigation in the Indian steel industry. *Global Business Review*, *21*(6), 1466–1488. https://doi.org/10.1177/0972150919856957
Google Scholar Worldcat Fulltext

Williams, L. J., & Anderson, S. E. (1991). Job satisfaction and organizational commitment as predictors of organizational citizenship and In-Role behaviors. *Journal of Management*, *17*(3), 601–617. https://doi.org/10.1177/014920639101700305
Google Scholar Worldcat Fulltext

Yavas, U., Karatepe, O. M., & Babakus, E. (2010). Relative efficacy of organizational support and personality traits in predicting service recovery and job performances: a study of frontline employees in Turkey. *Tourism Review*, *65*(3), 70–83. https://doi.org/10.1108/16605371011083530
Google Scholar Worldcat Fulltext

Zacher, H., Chan, F., Bakker, A. B., & Demerouti, E. (2014). Selection, optimization, and compensation strategies: Interactive effects on daily work engagement. *Journal of Vocational Behavior*, *87*, 101–107. https://doi.org/10.1016/j.jvb.2014.12.008
Google Scholar Worldcat Fulltext