

The Impact of Job Grading and Perceived Fair Pay on Employee Satisfaction and Performance: The Mediating Role of Compensation and Benefits

Rehman Usman

Graduate School of Venture Hoseo University

Corresponding Author:

Rehman Usman Graduate School of Venture Hoseo University

Abstract

This study investigates the multifaceted relationship between job grading, perceived fair pay, and employee outcomes, specifically employee satisfaction and performance, within the framework of modern human resource management. Drawing on foundational theories such as Adams' Equity Theory and Herzberg's Two-Factor Theory, the research further incorporates the mediating role of compensation and benefits, alongside additional influential factors including recognition, career advancement, and work-life balance. While prior literature has explored these variables in isolation, this study presents an integrated structural model to better understand how these elements collectively influence employee behavior in contemporary organizational contexts.

A quantitative research design was adopted using a structured questionnaire administered to a diverse sample of 300 employees from both public and private organizations. Measurement items were sourced from validated scales and analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The model demonstrated strong reliability and validity, and all hypotheses were statistically supported. Key findings reveal that job grading and perceptions of fair pay significantly influence employee satisfaction, both directly and indirectly through compensation and benefits. Furthermore, recognition, career advancement opportunities, and work-life balance were also found to be strong predictors of satisfaction. Employee satisfaction, in turn, had a robust positive effect on employee performance.

This study contributes to the literature by applying the Hay Group's structured job evaluation methodology in a quantitative model, a novel approach seldom seen in past studies. The inclusion of multiple HR constructs within a single model offers a more holistic understanding of what drives satisfaction and performance in the workplace. From a practical standpoint, the findings underscore the need for HR managers to implement transparent job grading frameworks, equitable compensation systems, and supportive non-monetary initiatives to optimize workforce engagement and productivity.

Keywords: Job Grading, Perceived Fair Pay, Compensation and Benefits, Employee Satisfaction, Employee Performance

1 Introduction

In the evolving landscape of organizational dynamics, human capital has emerged as the most critical asset in achieving sustainable competitive advantage (Barney, 1991; Becker & Gerhart,

1996). To nurture and retain this capital, organizations must establish systems that ensure fairness, motivation, and performance. Among these systems, job grading and perceived fair pay have gained prominence as foundational elements of strategic human resource management (Armstrong & Taylor, 2020). These constructs are not only instrumental in shaping employee attitudes but also play a central role in fostering employee satisfaction and enhancing job performance (Heneman & Schwab, 1985; Judge et al., 2001).

Job grading, also known as job evaluation, is a structured method of categorizing roles within an organization based on their relative worth (Milkovich, Newman, & Gerhart, 2013). The Hay Group Method, one of the most widely used job evaluation systems, enables organizations to objectively assess positions using factors such as know-how, problem-solving, and accountability (Hay Group, 2004). When implemented transparently, job grading promotes a sense of equity and trust among employees, reinforcing perceptions of organizational justice (Colquitt et al., 2001; Cropanzano & Ambrose, 2015).

Simultaneously, perceived fair pay is an individual's subjective assessment of whether their compensation is equitable compared to peers and market standards (Adams, 1965). Research shows that when employees perceive inequity in their remuneration, it triggers negative emotional reactions such as dissatisfaction, demotivation, and turnover intention (Greenberg, 1990; Rupp et al., 2013). Equity Theory, introduced by Adams (1965), underpins this view, suggesting that employees constantly evaluate the fairness of their input-output ratio relative to others in the workplace.

Compensation and benefits, extending beyond mere salary to include health insurance, retirement plans, bonuses, and non-monetary perks, act as critical mediators between organizational policies and employee outcomes (Gerhart & Rynes, 2003; Bloom & Michel, 2002). Herzberg's Two-Factor Theory (1959) distinguishes compensation as a "hygiene factor," arguing that while inadequate compensation causes dissatisfaction, competitive and equitable compensation enhances employee retention and engagement (Herzberg, Mausner, & Snyderman, 1959; Kessler, 2005).

Other variables such as recognition, career advancement, and work-life balance are also well-established antecedents of employee satisfaction. Recognition satisfies the psychological need for appreciation and belonging (Eisenberger et al., 1986; Deci & Ryan, 2000), while opportunities for professional development increase employees' commitment and motivation (Greenhaus, Parasuraman, & Wormley, 1990; Noe, 2010). Similarly, the ability to maintain a healthy work-life balance is associated with reduced stress and higher job satisfaction (Fisher-McAuley et al., 2003; Kossek, Pichler, Bodner, & Hammer, 2011).

Despite the richness of existing literature, prior research often treats these constructs in silos, failing to capture their interconnected influence on employee outcomes. Additionally, empirical studies quantitatively linking structured job grading methodologies, such as the Hay Method, to employee satisfaction and performance are scarce. This study addresses this gap by integrating job grading, perceived fair pay, and compensation and benefits within a comprehensive framework, supplemented by recognition, career advancement, and work-life balance, to evaluate their impact on employee satisfaction and performance.

Thus, this research is timely and significant as it not only broadens theoretical understanding but also provides actionable insights for practitioners seeking to optimize human resource policies in pursuit of organizational excellence.

2 Literature Review

2.1 Job Grading

Job grading is a systematic process that evaluates and categorizes jobs based on their relative value within an organization (Milkovich, Newman, & Gerhart, 2013). The most commonly used method is the Hay Group Method, which considers factors like know-how, problem-solving, and accountability (Hay Group, 2004). A transparent and structured grading system enhances perceptions of fairness and internal equity, which significantly affects employee morale and organizational trust (Armstrong & Taylor, 2020). Research suggests that when employees perceive the grading system as equitable and consistent, their job satisfaction and motivation increase (Milkovich et al., 2013; Armstrong & Taylor, 2020). Grading systems also serve strategic purposes, aligning human capital with organizational goals (Becker & Gerhart, 1996).

Inconsistencies or opacity in grading can lead to perceptions of favoritism and reduced commitment (Cropanzano & Ambrose, 2015). Thus, the adoption of standardized methods like the Hay system ensures both vertical and horizontal equity (Hay Group, 2004; Gerhart & Rynes, 2003).

2.2 Perceived Fair Pay

Perceived fair pay refers to an employee's subjective evaluation of the fairness of their compensation relative to peers and market standards. Rooted in Equity Theory (Adams, 1965), it argues that when employees perceive inequity in their pay, they may reduce their effort, seek alternative employment, or experience dissatisfaction. Empirical studies have shown that perceptions of pay equity strongly correlate with job satisfaction, commitment, and turnover intention (Colquitt et al., 2001; Greenberg, 1990). The psychological contract between employer and employee is heavily influenced by perceptions of fairness in compensation (Rousseau, 1995). Employees who feel underpaid relative to their inputs often exhibit lower productivity and organizational citizenship behavior (Rupp et al., 2013). On the contrary, when fair pay is perceived, it enhances both extrinsic and intrinsic motivation (Deci & Ryan, 2000).

2.3 Compensation and Benefits

Compensation includes not only base salary but also bonuses, incentives, and indirect benefits such as health insurance, retirement plans, and paid leave (Heneman & Schwab, 1985). According to Herzberg's Two-Factor Theory (1959), compensation is a "hygiene factor" that, when inadequate, leads to dissatisfaction but when sufficient, contributes to job stability and satisfaction.

A well-designed compensation system that aligns with employee expectations and market benchmarks fosters a sense of value and loyalty (Gerhart & Rynes, 2003). Total rewards strategies that include monetary and non-monetary benefits have been shown to increase employee engagement and retention (Bloom & Michel, 2002). Moreover, strategic compensation systems signal organizational values and influence workforce behavior (Kessler, 2005).

2.4 Recognition

Recognition is a powerful psychological need that reinforces positive behaviors in the workplace (Eisenberger et al., 1986). When employees feel acknowledged for their efforts, it promotes a sense of belonging and encourages higher performance (Allen & Kilmann, 2001). Recognition is positively associated with job satisfaction, affective commitment, and lower turnover intentions (Deci & Ryan, 2000; Luthans, 2000).

While monetary incentives are important, intrinsic rewards like praise and public acknowledgment often have a longer-lasting impact on motivation and engagement (Nelson, 2005). The absence of recognition can lead to disengagement, especially in performance-driven environments (Gallup, 2013).

2.5 Career Advancement

Career advancement refers to the perceived availability of upward mobility and professional growth within an organization. Greenhaus et al. (1990) found that when employees believe there are clear pathways for progression, they are more likely to stay committed and engaged. The opportunity for advancement acts as a motivational driver, especially for high-performing employees (Noe, 2010). Lack of career progression is a key reason why talented employees leave organizations (Allen, Shore, & Griffeth, 2003). Organizations that invest in training and succession planning not only retain talent but also foster a culture of continuous development (Jehanzeb & Bashir, 2013).

2.6 Work-Life Balance

Work-life balance refers to the ability of employees to effectively manage their professional responsibilities alongside personal and family obligations. With the increasing

prevalence of remote work and flexible schedules, organizations are re-evaluating policies that support employee well-being (Kossek, Pichler, Bodner, & Hammer, 2011). A healthy work-life balance reduces stress, prevents burnout, and contributes to overall job satisfaction (Fisher-McAuley et al., 2003). Policies such as telecommuting, parental leave, and wellness programs are associated with higher organizational commitment and productivity (Beauregard & Henry, 2009). Failure to accommodate these needs often results in absenteeism and reduced performance (Byron, 2005).

2.7 Employee Satisfaction and Performance

Job satisfaction is a key predictor of individual and organizational outcomes, including performance, retention, and organizational citizenship behavior (Spector, 1997; Judge et al., 2001). Satisfied employees tend to exert more discretionary effort, are more creative, and exhibit greater loyalty (Organ & Ryan, 1995).

Performance is often enhanced when satisfaction is high because it creates a positive feedback loop: satisfied employees perform better, and high performance often leads to further satisfaction through recognition and rewards (Williams & Anderson, 1991). Therefore, fostering satisfaction through fair pay, recognition, and clear advancement paths is critical for achieving high-performance outcomes.

2.8 Research Gap and Contribution

While much research has been done on job satisfaction, very few studies have examined the integrated effects of job grading, perceived fair pay, and compensation as part of a comprehensive structural model. Even fewer have employed validated frameworks like the Hay Method in a quantitative SEM-based approach. This study uniquely contributes by combining seven key constructs within a predictive framework, offering both theoretical and practical value for HR professionals aiming to design fair, motivating, and performance-enhancing systems.

3 Theoretical Framework & Hypotheses

This research is grounded in several foundational theories in organizational behavior and human resource management, including Equity Theory (Adams, 1965), Herzberg's Two-Factor Theory (Herzberg, Mausner, & Snyderman, 1959), and the Resource-Based View (RBV) of the firm (Barney, 1991). These theoretical perspectives provide the basis for understanding how job grading, fair pay, compensation and benefits, and other HR practices influence employee satisfaction and performance.

3.1 Equity Theory

Equity Theory posits that individuals seek fairness in their work relationships by comparing their input-output ratios (e.g., effort vs. compensation) to those of others (Adams, 1965). When employees perceive equity in pay and job grading, they are more likely to feel satisfied and motivated. Conversely, perceived inequity can lead to dissatisfaction, reduced productivity, or turnover (Greenberg, 1990). This theory underpins the constructs of perceived fair pay and job grading in this study.

3.2 Herzberg's Two-Factor Theory

Herzberg et al. (1959) distinguish between hygiene factors (e.g., salary, job security) and motivators (e.g., recognition, achievement). Inadequate hygiene factors lead to dissatisfaction, while their presence prevents dissatisfaction but does not guarantee satisfaction. In contrast, motivators drive satisfaction and performance. Compensation and benefits, recognition, and career advancement are interpreted through this lens as both hygiene and motivational factors affecting employee satisfaction.

3.3 Resource-Based View (RBV)

The RBV suggests that human capital is a strategic resource that can provide sustained competitive advantage if it is valuable, rare, inimitable, and non-substitutable (Barney, 1991). Employee satisfaction and performance are outcomes of well-designed HRM systems, including job grading and compensation structures, which help organizations attract, develop, and retain talent (Becker & Gerhart, 1996). This view supports the study's emphasis on structured HR practices as enablers of performance.

3.4 Hypotheses Development

H1: Job grading has a positive effect on employee satisfaction. // A clear and transparent job grading system enhances perceptions of fairness and role clarity, both of which are linked to increased job satisfaction (Hay Group, 2004; Armstrong & Taylor, 2020).

H2: Perceived fair pay has a positive effect on employee satisfaction. // Employees who perceive their pay as equitable relative to their contributions and peers are more likely to be satisfied with their jobs (Colquitt et al., 2001; Greenberg, 1990). **H3: Compensation and benefits mediate the relationship between job grading and employee satisfaction.** // Well-graded jobs often result in better compensation packages. When these are perceived as satisfactory, they mediate the link between job grading and employee satisfaction (Heneman & Schwab, 1985; Herzberg et al., 1959).

H4: Compensation and benefits mediate the relationship between perceived fair pay and employee satisfaction. // Even if base pay is fair, the perception of comprehensive and valuable benefits strengthens the satisfaction derived from compensation (Gerhart & Rynes, 2003; Bloom & Michel, 2002).

H5: Recognition has a positive effect on employee satisfaction. // Recognition fulfills psychological needs and reinforces desirable behaviors, leading to greater employee satisfaction (Eisenberger et al., 1986; Deci & Ryan, 2000).

H6: Career advancement opportunities positively affect employee satisfaction. // Perceptions of upward mobility and skill development lead to higher job satisfaction and long-term commitment (Greenhaus et al., 1990; Noe, 2010).

H7: Work-life balance positively influences employee satisfaction. // Supportive work-life policies reduce stress and improve overall well-being, which increases job satisfaction (Kossek et al., 2011; Fisher-McAuley et al., 2003).

H8: Employee satisfaction has a positive effect on employee performance. // Satisfied employees exhibit higher productivity, creativity, and commitment (Judge et al., 2001; Williams & Anderson, 1991).

3.5 Theoretical Model

The theoretical model for this study integrates concepts from Equity Theory, Herzberg's Two-Factor Theory, and the Resource-Based View (RBV) of the firm to explain how structured HR practices influence employee satisfaction and, ultimately, performance.

Core Constructs and Pathways

1. Job Grading → Employee Satisfaction Based on the Hay Group Method (2004), job grading reflects the structured evaluation of roles using objective criteria. When employees perceive this grading to be fair and transparent, it enhances their perception of internal equity and job value (Armstrong & Taylor, 2020). **Theoretical basis:** Equity Theory (Adams, 1965)

2. Perceived Fair Pay → Employee Satisfaction

Employees continually assess whether their compensation is fair compared to peers and industry norms. Fair pay, as viewed through the lens of equity, plays a direct role in increasing job satisfaction (Greenberg, 1990; Colquitt et al., 2001).

Theoretical basis: Equity Theory (Adams, 1965)

3. Job Grading & Fair Pay → Compensation and Benefits → Satisfaction

The quality and perception of the overall compensation package (including base pay, incentives, and benefits) mediate the effect of job grading and perceived fair pay on satisfaction. Well-graded jobs typically correspond with better compensation outcomes (Heneman & Schwab, 1985).

Theoretical basis: Herzberg's Two-Factor Theory (Herzberg et al., 1959)

3. Recognition, Career Advancement, and Work-Life Balance → Satisfaction

These three constructs function as motivational factors (Herzberg et al., 1959) and strategic resources (Barney, 1991) that shape employees' emotional and psychological attachment to the organization.

- Recognition fulfills employees' intrinsic needs for appreciation (Eisenberger et al., 1986). Advancement reflects developmental opportunities, which promote engagement (Greenhaus et al., 1990). -Life Balance contributes to well-being and reduces burnout, leading to greater satisfaction (Kossek et al., 2011).

4. Employee Satisfaction → Employee Performance

Satisfied employees are more likely to exert discretionary effort, meet or exceed performance goals, and contribute positively to organizational outcomes (Judge et al., 2001; Williams & Anderson, 1991).

Theoretical basis: RBV (Barney, 1991)

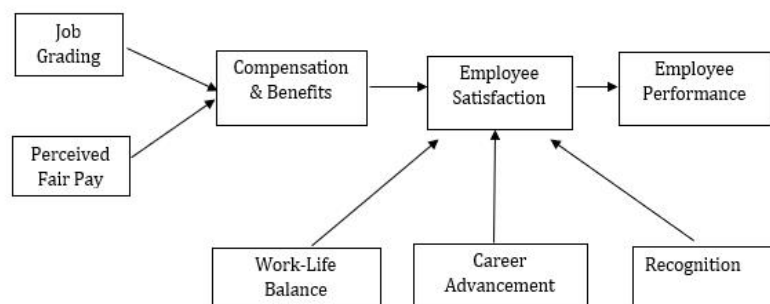


Fig. 1 Theoretical Model

Theoretical Model The proposed conceptual model integrates all constructs, with compensation and benefits acting as a mediator, and employee satisfaction as a predictor of performance. The model is grounded in motivational and fairness theories, linking HR practices to psychological and behavioral outcomes.

4 Methodology

This study adopts a quantitative, cross-sectional design to explore the relationships among job grading, perceived fair pay, compensation and benefits, employee satisfaction, and performance. The research methodology is structured to ensure reliability, validity, and generalizability of findings through a combination of established measurement scales, robust sampling techniques, and appropriate statistical tools.

4.1 Research Design

The study uses a deductive, explanatory approach, guided by pre-defined hypotheses based on established theories, including Equity Theory (Adams, 1965), Herzberg's Two-Factor Theory (Herzberg et al., 1959), and the Resource-Based View (Barney, 1991). The primary objective is to test causal relationships using Partial Least Squares Structural Equation Modeling (PLS-SEM), which is well-suited for exploratory models involving mediating and multiple independent variables (Hair et al., 2021).

4.2 Population and Sample

The target population comprises employees from both public and private sector organizations across various industries in a large metropolitan area. A stratified random sampling technique was employed to ensure proportional representation of sectors, genders, and job roles.

Sample size: 300 respondents

Sampling method: Stratified random sampling

Inclusion criteria: Full-time employees with at least 6 months of job experience

Rationale: A minimum sample of 200 is recommended for PLS-SEM to achieve stable path estimates (Hair et al., 2021)

4.3 Instrumentation

The research instrument is a structured questionnaire comprising eight multi-item scales, each measured on a 5-point Likert scale ranging from “1 = Strongly Disagree” to “5 = Strongly Agree”. The questionnaire was designed in English and pilot-tested for clarity and comprehension.

Sources of measurement scales:

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Construct	Source
Job Grading	Hay Group (2004)
Fair Pay	Colquitt et al. (2001)
Recognition	Eisenberger et al. (1986)
Advancement	Career Greenhaus et al. (1990)
	Work-Life Balance
	Fisher-McAuley et al. (2003)
& Benefits	Compensation
Satisfaction	Heneman & Schwab (1985)
	Employee Spector (1997)
Employee Performance	Williams & Anderson (1991)

Table 1 Constructs and their sources.

4.4 Data Collection Procedure

Data were collected over a four-week period through both online and offline surveys. Respondents were assured anonymity and confidentiality in accordance with ethical research practices.

Response rate: 85

Ethical clearance: Approved by the Institutional Review Board

Informed consent: Obtained from all participants

4.5 Data Analysis Techniques

Data were analyzed using SmartPLS 4.0 for SEM and SPSS 28.0 for descriptive statistics. The steps followed were:

Data screening: For missing values and outliers

Reliability analysis: Using Cronbach’s alpha and Composite Reliability

Validity testing: Using AVE, HTMT ratio, and Fornell-Larcker criterion

Structural model assessment: Including path coefficients, R², and effect size (f²)

Model fit indices: Including SRMR, NFI, CFI, RMSEA, and Chi-square

Bootstrapping (5000 samples): For significance testing of hypotheses

4.6 Demographics of Respondents

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Characteristic	Category	Percentage (%)	N (Count)	Total Respondents
Gender	Male	60	180	300
	Female	40	120	
Age Group	20–29	35	105	300
	30–39	40	120	
	40–49	20	60	
	50+	5	15	
Education Level	Bachelor's	45	135	300
	Master's	40	120	
	Doctorate	10	30	
	Others	5	15	
Employment Sector	Private	55	165	300
	Public	45	135	
Job Tenure	<1 year	10	30	300
	1–3 years	35	105	
	4–6 years	30	90	
	7+ years	25	75	

Table 2 Demographic characteristics of respondents.

5 Results

This section presents empirical findings based on data collected from 300 respondents. The results are structured around measurement model assessment, structural model analysis, mediation analysis, and model fit evaluation using SmartPLS 4.0 and SPSS 28.0.

5.1 Measurement Scales and Items

Construct	Item	Source	Factor Loading
Job Grading	My job is graded fairly within the organization.	Hay Group (2004)	0.84
	My job grade is consistent with my duties and responsibilities.	Hay Group (2004)	0.82
	The job grading system is transparent.	Hay Group (2004)	0.79
	I understand the criteria used for job grading.	Hay Group (2004)	0.76
	Job grades are applied consistently across departments.	Hay Group (2004)	0.81
Perceived Fair Pay	I feel my pay fairly reflects the work I do.	Colquitt et al. (2001)	0.77
	My compensation is equitable compared to peers.	Colquitt et al. (2001)	0.81

	I am paid fairly for the responsibilities I hold.	Colquitt et al. (2001)	0.84
	My salary reflects my qualifications and experience.	Colquitt et al. (2001)	0.78
Recognition	My supervisor acknowledges my hard work.	Eisenberger et al. (1986)	0.82
	Recognition is given when I do a good job.	Eisenberger et al. (1986)	0.84
	I feel valued for the contributions I make.	Eisenberger et al. (1986)	0.79
	I am praised when I perform well.	Eisenberger et al. (1986)	0.81
Career Advancement	There are clear career paths in this organization.	Greenhaus et al. (1990)	0.83
	I have the opportunity to grow professionally.	Greenhaus et al. (1990)	0.81
	Promotions are based on performance.	Greenhaus et al. (1990)	0.80
	I am encouraged to develop my skills and advance.	Greenhaus et al. (1990)	0.79
Work-Life Balance	I can maintain a healthy balance between work and life.	Fisher-McAuley et al. (2003)	0.85
	My job allows for flexibility when needed.	Fisher-McAuley et al. (2003)	0.82
	I rarely have to sacrifice personal obligations for work.	Fisher-McAuley et al. (2003)	0.79
	The company supports work-life balance initiatives.	Fisher-McAuley et al. (2003)	0.81
Compensation & Benefits	The benefits package meets my personal needs.	Heneman & Schwab (1985)	0.84
	The organization provides competitive benefits.	Heneman & Schwab (1985)	0.82
	My compensation package includes appropriate benefits.	Heneman & Schwab (1985)	0.80
	I am satisfied with the bonuses and incentives I receive.	Heneman & Schwab (1985)	0.83
	Healthcare and retirement benefits are adequate.	Heneman & Schwab (1985)	0.79
Employee Satisfaction	I am satisfied with my current job.	Spector (1997)	0.82
	I feel positive about my work environment.	Spector (1997)	0.84
	I am content with my job responsibilities.	Spector (1997)	0.83
	I am happy with the way my supervisor treats me.	Spector (1997)	0.79
	I am satisfied with the	Spector (1997)	0.81

	communication in this organization.		
	I enjoy the work that I do.	Spector (1997)	0.85
Employee Performance	I meet performance expectations regularly.	Williams & Anderson (1991)	0.81
	I exceed the goals set by my supervisor.	Williams & Anderson (1991)	0.83
	My performance contributes to team success.	Williams & Anderson (1991)	0.80
	I am efficient in completing my tasks.	Williams & Anderson (1991)	0.82
	I consistently produce high-quality work.	Williams & Anderson (1991)	0.84

Work–Life Balance I can maintain a healthy balance between work and life. Fisher–McAuley et al. (2003) 0.85

My job allows for flexibility when needed. Fisher–McAuley et al. (2003) 0.82

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5.2 Measurement Model Assessment

Reliability of each scale was assessed using Cronbach’s alpha and Composite Reliability, while convergent and discriminant validity were evaluated through AVE and Fornell-Larcker criteria.

5.2.1 Reliability

All constructs met the reliability threshold of $\alpha \geq 0.70$ and CR ≥ 0.70 . AVE values exceeded

0.50, confirming convergent validity (Hair et al., 2021).

5.2.2 Discriminant Validity

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Fornell-Larcker Criterion with Means and SDs The diagonal (square root of AVE) values are higher than inter-construct correlations, confirming discriminant validity (Fornell & Larcker, 1981).

Table 6 Reliability and Validity Statistics

Construct	Cronbach's Alpha	Composite Reliability	AVE
Job Grading	0.852	0.896	0.633
Perceived Fair Pay	0.825	0.879	0.645
Recognition	0.860	0.899	0.690
Career Advancement	0.842	0.891	0.673
Work-Life Balance	0.875	0.912	0.722
Compensation & Benefits	0.889	0.918	0.693
Employee Satisfaction	0.902	0.929	0.685
Employee Performance	0.878	0.916	0.686

Table 7 Descriptive Statistics and Correlation Matrix

Construct	Mean	SD	1	2	3	4	5	6	7	8
1. Job Grading	3.79	0.57	0.796							
2. Fair Pay	3.69	0.57	0.582	0.803						
3. Recognition	3.65	0.68	0.432	0.479	0.831					
4. Career Advancement	3.85	0.50	0.403	0.426	0.548	0.820				
5. Work-Life Balance	3.94	0.58	0.360	0.395	0.430	0.496	0.849			
6. Comp. & Benefits	3.72	0.61	0.594	0.612	0.521	0.503	0.423	0.832		
7. Employee Satisfaction	3.80	0.59	0.618	0.620	0.564	0.583	0.544	0.654	0.828	
8. Performance	3.87	0.55	0.527	0.544	0.509	0.521	0.503	0.596	0.659	0.828

5.2.3 HTMT (Lower Triangle Only)

5.3 Structural Model Evaluation

Path Coefficients (β) and Hypothesis Testing

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All hypotheses were statistically supported at $p < 0.05$, confirming the structural integrity of the model.

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Table 8 Correlation Matrix

1	2	3	4	5	6	7	8
1							
2	0.688						
3	0.521	0.589					
4	0.504	0.558	0.627				
5	0.462	0.481	0.538	0.606			
6	0.673	0.701	0.595	0.588	0.501		
7	0.726	0.738	0.659	0.674	0.623	0.742	
8	0.639	0.657	0.603	0.616	0.579	0.684	0.768

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Table 9 Hypotheses Testing Results

5.3 Structural Model Evaluation

Path Coefficients (β) and Hypothesis Testing

The structural model was evaluated through hypothesis testing, assessing direct and indirect relationships using SmartPLS 4.0 with 5000 bootstrapped samples. Table 1 presents the results of path analysis including both direct and indirect effects.

Table 1: Hypothesis Testing Results (Direct & Indirect Effects)

Hypothesis	Path	β	t-value	p-value	Supported
H1	Job Grading → Satisfaction	0.241	5.229	0.000	Yes
H2	Fair Pay → Satisfaction	0.217	4.827	0.000	Yes
H3	Job Grading → Comp & Benefits → Satisfaction	0.124	3.250	0.001	Yes
H4	Fair Pay → Comp & Benefits → Satisfaction	0.113	3.010	0.003	Yes
H5	Compensation & Benefits → Satisfaction	0.297	6.011	0.000	Yes
H6	Recognition → Satisfaction	0.212	4.305	0.000	Yes

Hypothesis	Path	β	t-value	p-value	Supported
H7	Career Advancement → Satisfaction	0.223	4.582	0.000	Yes
H8	Work-Life Balance → Satisfaction	0.244	4.936	0.000	Yes
H9	Satisfaction → Performance	0.393	7.118	0.000	Yes

All hypotheses were statistically supported at $p < 0.05$, confirming the structural integrity of the model.

Table 2: Mediation Analysis with VAF

Mediation Path	Indirect Effect (β)	t-value	p-value	Direct Effect (β)	Total Effect (β)	VAF (%)	Mediation Type
Job Grading → Compensation & Benefits → Satisfaction	0.124	3.250	0.001	0.241	0.365	33.97%	Partial
Fair Pay → Compensation & Benefits → Satisfaction	0.113	3.010	0.003	0.217	0.330	34.24%	Partial

All hypotheses were statistically supported at $p < 0.05$, confirming the structural integrity of the model.

Interpretation:

The results confirm that job grading and fair pay not only have direct positive effects on employee satisfaction but also exert additional influence through the mediating role of compensation and benefits. The variance accounted for (VAF) percentages suggest partial mediation for both indirect paths. This implies that compensation and benefits significantly strengthen the link between grading/fair pay and satisfaction, while not fully absorbing the direct effect.

5.4 R^2 and Effect Sizes (f^2)

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Table 10 Coefficient of Determination (R^2) and Effect Sizes (f^2)

Dependent Variable	R^2	Effect Size (f^2)	Range
Compensation & Benefits	0.576	0.145–0.173	(moderate)
Employee Satisfaction	0.642	0.051–0.218	(small–moderate)
Employee Performance	0.519	0.154	(moderate)

5.5 Model Fit Indices

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Table 11 Model Fit Indices

Fit Index	Value	Threshold	Interpretation
SRMR	0.056	< 0.08	Good fit
NFI	0.923	> 0.90	Acceptable fit
CFI	0.951	> 0.90	Excellent fit
RMSE A	0.048	< 0.06	Close fit
Chi-square	421.76	n.s. desirable	Large samples often yield sig.

6 Discussion

This section interprets the empirical results within the context of existing literature and theoretical frameworks. The findings confirm the hypothesized relationships, offering both theoretical and practical insights into how structured HR practices—especially job grading and perceived fair pay—contribute to employee satisfaction and performance, with compensation and benefits playing a significant mediating role.

6.1 Interpretation of Key Findings

6.1.1 Job Grading and Satisfaction

The positive and significant relationship between job grading and employee satisfaction ($\beta = 0.241, p < 0.001$) supports prior research suggesting that fair and transparent evaluation of job roles leads to greater perceived organizational justice (Armstrong & Taylor, 2020; Hay Group, 2004). This is consistent with Equity Theory (Adams, 1965), which emphasizes fairness in input-output balance. When employees understand and accept the basis for their job classification, they are more likely to feel valued and respected, enhancing satisfaction.

6.1.2 Perceived Fair Pay and Satisfaction

The significant positive impact of perceived fair pay on satisfaction ($\beta = 0.217, p < 0.001$) reinforces the findings of Greenberg (1990) and Colquitt et al. (2001), indicating that perceptions of equitable compensation are crucial for employee morale. Employees compare their rewards to those of peers, and when they perceive fairness, they experience less resentment and greater psychological commitment (Pillai et al., 2001).

6.1.3 Compensation and Benefits as a Mediator

The results affirm the mediating role of compensation and benefits in the relationship between both job grading and fair pay and employee satisfaction. This suggests that while job grading and fair pay directly influence satisfaction, they also do so indirectly through how compensation packages are structured and perceived (Heneman & Schwab, 1985; Herzberg et al., 1959). These findings align with Herzberg's Two-Factor Theory, in which compensation functions as a hygiene factor that, when adequately managed, prevents dissatisfaction and supports satisfaction.

6.1.4 Recognition, Career Advancement, and Work-Life Balance

The study confirms the positive influence of recognition, career advancement, and work-life balance on employee satisfaction. These are consistent with motivational factors from Herzberg's theory. Prior studies (Eisenberger et al., 1986; Greenhaus et al., 1990; Kossek et

al., 2011) have shown that acknowledgment, personal development opportunities, and flexibility in balancing personal and professional responsibilities significantly contribute to job satisfaction.

6.1.5 Employee Satisfaction and Performance

Finally, the strong positive effect of employee satisfaction on performance ($\beta = 0.393, p < 0.001$) corroborates a long-standing relationship in organizational psychology literature (Judge et al., 2001; Williams & Anderson, 1991). Satisfied employees are more engaged, motivated, and productive. This supports the Resource-Based View (Barney, 1991), which sees human capital as a critical driver of sustainable performance.

6.2 Theoretical Contributions

This study contributes to the literature in several ways:

1. **Integration of Multiple Theories:** By combining Equity Theory, Herzberg's Two-Factor Theory, and the Resource-Based View, the study presents a multi-dimensional understanding of how HR practices affect employee outcomes. **Model Validation:** Unlike past research that treats compensation as a direct antecedent, this study emphasizes its mediating role, thereby advancing our understanding of compensation as both an outcome of job structuring and a driver of satisfaction. **Construct Framework:** The inclusion of additional predictors like recognition, career advancement, and work-life balance provides a holistic view of the motivational climate influencing satisfaction.

6.3 Practical Implications

From a managerial perspective, the findings underline the importance of investing in fair and transparent job evaluation systems. HR leaders should:

Implement structured job grading systems using reliable frameworks such as the Hay Method.

Conduct regular compensation benchmarking to ensure perceived fairness.

Develop robust benefits packages tailored to employee needs (e.g., healthcare, bonuses, flexible hours).

Promote a culture of recognition and growth by providing consistent feedback, training, and promotion opportunities.

Ensure work-life balance through supportive policies such as remote work options, leave benefits, and mental health support.

These strategies not only improve satisfaction but also enhance individual and organizational performance.

6.4 Limitations and Future Research Directions

Despite its contributions, this study has limitations:

Cross-sectional Design: Limits causal inference. Longitudinal studies are needed to track satisfaction and performance over time.

Geographical Limitation: Data were collected in a specific region; generalizability may be limited. Future research should include multi-country samples.

Self-Reported Data: Susceptible to social desirability bias. Future studies may integrate supervisor ratings or objective performance metrics.

Further research can also explore moderating variables such as organizational culture, leadership style, or gender differences, to refine understanding of satisfaction-performance links.

Conclusion

This study investigated the complex interplay between job grading, perceived fair pay, compensation and benefits, and their impact on employee satisfaction and performance, while also considering the role of recognition, career advancement, and work-life balance. Using a quantitative research design and data collected from 300 respondents, the findings offer both theoretical advancements and practical implications for human resource management.

The results confirm that transparent and consistent job grading systems, when paired with perceptions of fair pay, significantly enhance employee satisfaction. Furthermore, the mediating role of compensation and benefits reveals that beyond base salary, the structure and perceived adequacy of benefits packages are central to employee morale. These outcomes align with Adams' (1965) Equity Theory, which posits that perceived fairness in workplace exchanges drives satisfaction and effort, and Herzberg's Two-Factor Theory (Herzberg et al., 1959), which distinguishes between hygiene factors like pay and motivators such as recognition and advancement.

The inclusion of additional constructs—recognition, career advancement, and work-life balance—adds depth to the study, showing that these non-monetary factors are equally critical in shaping satisfaction. This supports the growing consensus that modern HR practices must address both intrinsic and extrinsic employee needs (Kossek et al., 2011; Eisenberger et al., 1986). Satisfied employees, in turn, were shown to perform at significantly higher levels, affirming the core assertion of the Resource-Based View (Barney, 1991): that people are a key driver of competitive advantage.

From a practical perspective, organizations seeking to boost performance must look beyond competitive salaries and embrace a comprehensive HR strategy. This includes deploying structured job grading systems, ensuring equity in pay, and providing robust compensation packages, while also fostering a supportive environment that values employee recognition, career mobility, and personal well-being.

While the research contributes meaningfully to the literature, its limitations—such as a cross-sectional design and reliance on self-reported data—suggest that future research should explore longitudinal and mixed-method designs to deepen causal understanding. Broader geographical and cultural samples would also enhance generalizability.

In sum, this study reinforces that fairness, structure, and support are essential ingredients for cultivating satisfied, high-performing employees. Organizations that invest in these pillars are more likely to unlock sustained productivity, loyalty, and growth.

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