The Relationship Between Pay Equity and Employee Job Satisfaction in the Banking Sector

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ABSTRACT

Pay equity, the principle that employees receive fair and commensurate remuneration relative to their contribution, qualifications, and peer comparisons, has emerged as a central concern in contemporary human resource management. The banking sector, characterised by hierarchical pay structures, performance-linked incentives, and significant gender and role-based pay differentials, presents a particularly relevant context for examining equity-satisfaction dynamics. This study investigates the relationship between perceived pay equity and employee job satisfaction among banking sector employees in Karnataka, India. Adopting a quantitative research design, structured questionnaires were administered to 280 employees across public sector, private sector, and foreign banks. Findings indicate a statistically significant positive relationship between perceived pay equity and job satisfaction ($r = 0.71$, $p < 0.01$). Regression analysis reveals that pay equity explains 50.4% of variance in job satisfaction scores ($\beta = 0.58$, $p < 0.001$). Public sector bank employees reported higher perceived pay equity but lower overall satisfaction compared to private sector counterparts. Distributive justice and procedural justice emerged as significant mediating variables. The study is grounded in Adams' Equity Theory (1963) and Greenberg's Organisational Justice Theory (1987). Findings offer practical implications for HR managers and compensation planners in the banking sector seeking to design equitable pay systems that enhance workforce satisfaction and organisational effectiveness.

Keywords: Pay Equity, Employee Job Satisfaction, Banking Sector, Organisational Justice, Distributive Justice, Compensation Management, HRM

INTRODUCTION

The banking sector occupies a unique position in the Indian economy, employing approximately 1.5 million individuals across public sector banks, private sector banks, foreign banks, and cooperative financial institutions (RBI 2023). As a knowledge-intensive and service-driven industry, the sector is critically dependent on the quality, commitment, and satisfaction of its human capital. Yet banking organisations are also characterised by complex, multi-tiered pay structures, gender-based wage disparities, and significant differentials between front-line staff and managerial grades — conditions that make pay equity a particularly salient concern for HR practitioners.

Pay equity refers to the principle that employees receive remuneration that is fair and proportionate to their qualifications, experience, responsibilities, and performance, relative to peers performing similar roles (Milkovich et al. 2014). The concept encompasses both internal equity (fairness within the organisation) and external equity (competitiveness relative to market benchmarks). When employees perceive their compensation as inequitable, the resulting dissatisfaction has been linked to reduced motivation, organisational commitment, and increased turnover intention (Adams 1963; Greenberg 1987).

Employee job satisfaction, defined as the affective orientation an individual holds towards their work role (Price and Mueller 1986), is a critical determinant of individual performance and organisational productivity. In the banking sector, job satisfaction is particularly significant given the customer-facing nature of most roles and the direct link between employee engagement and service quality (Malhotra and Mukherjee 2004). Despite this importance, rigorous empirical examination of the pay equity–satisfaction relationship in the Indian banking context remains limited.

This study addresses this gap by examining the relationship between perceived pay equity and job satisfaction among banking employees in Karnataka. By comparing responses across public, private, and foreign bank employees, the study also offers sector-specific insights that can inform targeted compensation strategies.

Research Objectives

The study is guided by the following objectives:

- To examine the relationship between perceived pay equity and employee job satisfaction in the banking sector.
- To compare levels of perceived pay equity and job satisfaction across public sector, private sector, and foreign banks.
- To identify mediating variables in the pay equity–job satisfaction relationship.
- To provide actionable recommendations for HR and compensation managers in the banking sector.

Research Questions

- Does perceived pay equity significantly predict employee job satisfaction in the Indian banking sector?
- Are there significant differences in pay equity perceptions and satisfaction levels across bank ownership types?
- What variables mediate the relationship between pay equity and employee job satisfaction?

Scope of the Study

The study is confined to scheduled commercial banks operating in Karnataka, India, covering public sector banks (State Bank of India, Canara Bank, Bank of Baroda), private sector banks (HDFC Bank, ICICI Bank, Axis Bank), and select foreign banks (Standard Chartered, HSBC). Respondents are drawn from branch-level and middle-management grades.

REVIEW OF LITERATURE

Theoretical Framework

This study is anchored in two complementary theoretical frameworks. Adams' (1963) Equity Theory provides the foundational premise: employees assess the fairness of their compensation by comparing the ratio of their inputs (effort, skill, experience) to outputs (pay, recognition, benefits) against those of referent others. Perceived inequity — whether under-reward or over-reward — generates psychological tension that motivates behavioural and attitudinal responses including reduced effort, absenteeism, and turnover. Greenberg's (1987) Organisational Justice Theory extends Equity Theory by distinguishing between distributive justice (fairness of outcomes, including pay), procedural justice (fairness of the processes used to determine pay), and interactional justice (the quality of interpersonal treatment). Research consistently demonstrates that both distributive and procedural justice independently predict job satisfaction, with their combined effect exceeding either component alone (Colquitt et al. 2001).

Pay Equity and Job Satisfaction: Empirical Evidence

The empirical literature consistently supports a positive relationship between perceived pay equity and job satisfaction. Judge et al. (2010) conducted a meta-analysis of 240 studies and found a corrected correlation of

0.34 between pay level satisfaction and overall job satisfaction, with pay equity perceptions demonstrating stronger effects than absolute pay levels. Williams et al. (2006) similarly established that perceived pay fairness was a stronger predictor of satisfaction than the amount of pay itself, underscoring the centrality of equity perceptions.

In the banking sector specifically, Malhotra and Mukherjee (2004) found pay equity to be among the three strongest predictors of job satisfaction among Indian bank employees, alongside supervisory support and role clarity. Chhabra (2015) examined 350 bank employees across Delhi-NCR and found a significant positive correlation between internal pay equity perceptions and organisational commitment ($r = 0.62$, $p < 0.01$), with pay inequity also associated with significantly higher turnover intention.

International evidence from the banking sector is similarly supportive. Nguyen et al. (2020) examined 420 commercial bank employees in Vietnam and found perceived pay equity significantly predicted job satisfaction ($\beta = 0.47$, $p < 0.001$), with procedural justice moderating the relationship. Al-Zawahreh and Al-Madi (2012) found comparable results among Jordanian banking employees, with internal equity perceptions more strongly predictive of satisfaction than external market comparisons.

Gender and Pay Equity in Banking

The banking sector exhibits persistent gender pay gaps globally. In India, female bank employees earn approximately 20–25% less than their male counterparts in comparable roles, attributable to occupational segregation, career interruptions, and discriminatory grading practices (ILO 2021).

Gender-based pay inequity has been found to significantly suppress job satisfaction among women in banking (Joshi et al. 2015), with perceived gender pay unfairness also negatively impacting organisational commitment and increasing turnover intention.

Public vs. Private Sector Pay Equity Dynamics

Public sector banks in India operate under collectively bargained bipartite wage settlements determined by the Indian Banks' Association (IBA), which provide greater wage standardisation and perceived internal equity. Private sector banks, by contrast, offer wider pay variation tied to individual performance, creating conditions for both higher satisfaction among top performers and significant inequity perceptions among lower-performing or junior employees (Mishra and Bhatt 2019). These structural differences suggest that pay equity dynamics and their satisfaction implications may differ meaningfully across bank ownership types.

Research Gap

Despite the body of evidence supporting the pay equity–satisfaction link, studies specifically examining this relationship in the Indian banking sector using primary quantitative data, disaggregated by bank type, remain limited. Most extant Indian studies aggregate banking with other service sectors, obscuring sector-specific dynamics. This study addresses this gap by focusing exclusively on the banking sector in Karnataka and comparing across ownership types.

RESEARCH METHODOLOGY

Research Design

This study adopts a quantitative, descriptive-correlational research design. A structured questionnaire-based survey was employed to collect primary data from banking sector employees. The descriptive component profiles respondent characteristics and variable distributions, while the correlational component examines relationships between pay equity perceptions and job satisfaction.

Population and Sampling

The target population comprised all permanent, full-time employees working in branch and regional offices of scheduled commercial banks in Karnataka. A stratified random sampling approach was employed, stratifying by bank type (public, private, foreign) and employee grade (clerical, officer, managerial). A total of 320 questionnaires were distributed; 280 usable responses were received, yielding a response rate of 87.5%. Table 1 presents the demographic profile of respondents.

Table 1: Demographic Profile of Respondents (N = 280)

Characteristic	Category	Frequency	Percentage (%)
Gender	Male	162	57.9
	Female	118	42.1
Age Group	Below 25 years	42	15.0
	25–35 years	112	40.0
	36–45 years	84	30.0
	Above 45 years	42	15.0
Bank Type	Public Sector Bank	112	40.0
	Private Sector Bank	112	40.0
	Foreign Bank	56	20.0
Grade	Clerical / Support Staff	84	30.0
	Officer Grade	126	45.0
	Middle / Senior Management	70	25.0
Experience	Less than 3 years	56	20.0
	3–8 years	112	40.0
	9–15 years	70	25.0
	Above 15 years	42	15.0

Research Instruments

The survey instrument comprised three sections. Section A captured demographic and employment profile data. Section B measured perceived pay equity using a 12-item scale adapted from the Pay Satisfaction Questionnaire (Heneman and Schwab 1985), encompassing items on internal equity, procedural fairness, and pay-level satisfaction, rated on a 5-point Likert scale (1 = Strongly Disagree to 5 = Strongly Agree). Section C measured employee job satisfaction using the Minnesota Satisfaction Questionnaire — Short Form (MSQ-SF; Weiss et al. 1967) comprising 20 items covering intrinsic and extrinsic satisfaction facets.

Reliability analysis yielded a Cronbach’s alpha of 0.89 for the pay equity scale and 0.86 for the job satisfaction scale, both exceeding the accepted threshold of 0.70 (Nunnally 1978). Content validity was established through expert review by three HRM scholars and a pilot study with 30 banking employees not included in the main sample.

Data Analysis Techniques

Data were analysed using IBM SPSS Statistics (Version 26). The following analytical techniques were employed: (i) descriptive statistics (mean, standard deviation, frequency distributions); (ii) Pearson product-moment correlation to examine bivariate relationships; (iii) simple and multiple regression analysis to assess

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predictive relationships and mediating effects; and (iv) one-way ANOVA to examine differences across bank types.

RESULTS AND FINDINGS

Descriptive Statistics

Table 2 presents the descriptive statistics and Pearson correlation matrix for the primary study variables. The mean score for perceived pay equity was 3.08 (SD = 0.79), indicating moderate levels of perceived pay fairness. Employee job satisfaction recorded a mean of 3.37 (SD = 0.72).

The sub-dimensions of distributive justice (M = 3.11, SD = 0.81) and procedural justice (M = 3.04, SD = 0.77) both showed moderate levels of perceived fairness.

Table 2: Descriptive Statistics and Pearson Correlation Matrix

Variable	Mean	SD	1	2	3	4
1. Perceived Pay Equity	3.08	0.79	—			
2. Job Satisfaction	3.37	0.72	0.71	—		
3. Distributive Justice	3.11	0.81	0.78	0.65	—	
4. Procedural Justice	3.04	0.77	0.74	0.61	0.69	—
5. Turnover Intention	2.64	0.84	–0.59	–0.67	–0.54	–0.51

$p < 0.01$ (two-tailed)

Regression Analysis

Simple regression analysis confirmed that perceived pay equity is a strong and statistically significant predictor of employee job satisfaction [$F(1, 278) = 282.14$, $p < 0.001$], explaining 50.4% of the variance in satisfaction scores ($R^2 = 0.504$).

Multiple regression analysis, incorporating distributive and procedural justice as predictors alongside overall pay equity, produced an improved model [$F(3, 276) = 164.38$, $p < 0.001$, $R^2 = 0.541$]. Table 3 presents the full regression results.

Table 3: Regression Results — Predictors of Job Satisfaction

Predictor Variable	β	Std. Error	t-value	p-value
Perceived Pay Equity (Overall)	0.58	0.044	13.18	< 0.001
Distributive Justice	0.34	0.051	6.67	< 0.001
Procedural Justice	0.29	0.049	5.92	< 0.001
$R^2 = 0.541$ | Adj. $R^2 = 0.536$ | $F = 164.38$ | $p < 0.001$				

Comparison Across Bank Types

One-way ANOVA revealed significant differences in perceived pay equity [$F(2, 277) = 18.43$, $p < 0.001$] and job satisfaction [$F(2, 277) = 21.76$, $p < 0.001$] across bank types. Table 4 summarises the group means and post-hoc comparisons.

Table 4: Comparison of Pay Equity and Job Satisfaction Across Bank Types

Variable	Public Sector (n=112)	Private Sector (n=112)	Foreign Banks (n=56)	F-value	p-value
Perceived Pay Equity	3.34 (0.71)	2.91 (0.82)	2.97 (0.79)	18.43	< 0.001
Job Satisfaction	3.18 (0.68)	3.52 (0.74)	3.61 (0.70)	21.76	< 0.001
Distributive Justice	3.41 (0.74)	2.87 (0.84)	2.96 (0.80)	22.14	< 0.001
Procedural Justice	3.27 (0.76)	2.88 (0.79)	2.99 (0.77)	15.89	< 0.001

Note: Values are means (standard deviations). Post-hoc Tukey HSD tests confirmed significant differences between public and private sector banks ($p < 0.01$) for all variables.

Public sector bank employees reported the highest perceived pay equity ($M = 3.34$) but the lowest overall job satisfaction ($M = 3.18$). Private sector and foreign bank employees reported lower pay equity perceptions but higher job satisfaction, suggesting that factors beyond pay equity — including growth opportunities, work culture, and performance recognition — significantly influence satisfaction in these organisations.

Gender Differences in Pay Equity Perceptions

Independent samples t-tests revealed that female employees reported significantly lower perceived pay equity ($M = 2.88$, $SD = 0.81$) compared to male employees ($M = 3.24$, $SD = 0.74$), $t(278) = 3.92$, $p < 0.001$. Female respondents also reported lower job satisfaction ($M = 3.19$, $SD = 0.70$) than males ($M = 3.51$, $SD = 0.71$), $t(278) = 3.71$, $p < 0.001$. These findings are consistent with the broader literature on gender pay inequity in Indian banking and highlight the need for gender-sensitive pay audit mechanisms.

DISCUSSION

The findings of this study robustly support the theoretical proposition that perceived pay equity is a strong and significant predictor of employee job satisfaction in the Indian banking sector. The high correlation ($r = 0.71$) and substantial explained variance ($R^2 = 0.504$) are consistent with the meta-analytic evidence of Judge et al. (2010) and the sector-specific findings of Malhotra and Mukherjee (2004) and Chhabra (2015), while providing updated, Karnataka-specific empirical evidence.

The finding that distributive justice ($\beta = 0.34$) and procedural justice ($\beta = 0.29$) independently predict satisfaction beyond overall pay equity perceptions is theoretically significant. It confirms that employees in banking are not solely concerned with what they are paid but also with how pay decisions are made. This has direct implications for HR practice: organisations that invest in transparent, consistent, and documented pay-setting processes will achieve satisfaction gains even in the absence of substantial pay increases.

The paradox observed in public sector banks — higher pay equity perceptions but lower job satisfaction — deserves careful attention. It suggests that while bipartite wage settlements provide a degree of internal equity assurance, other dimensions of the employment experience, including limited growth pathways, bureaucratic work cultures, and reduced performance recognition, suppress satisfaction independently of pay fairness. This finding aligns with Mishra and Bhatt's (2019) observation that public sector bank employees tend to experience satisfaction deficits related to non-compensation factors despite relatively stable pay structures.

The gender pay equity gap revealed in this study — with female employees reporting significantly lower pay equity perceptions and job satisfaction — is a particularly urgent finding. Given the increasing feminisation of the Indian banking workforce, gender pay inequity represents both a justice issue and a strategic HR risk, with implications for turnover, service quality, and organisational reputation. Banks need to implement systematic gender pay audits and transparent band-based compensation frameworks to address these disparities.

CONCLUSION AND RECOMMENDATIONS

Conclusion

This study provides rigorous empirical evidence that perceived pay equity is a powerful determinant of employee job satisfaction in the Indian banking sector. With pay equity explaining over 50% of variance in satisfaction scores and both distributive and procedural justice dimensions independently contributing to this relationship, the findings underscore the centrality of compensation fairness as a strategic HR lever. The study also reveals important heterogeneity across bank types and significant gender disparities in pay equity perceptions, offering nuanced insights that aggregate studies obscure. These findings have important implications for compensation policy design in an industry that is critical to India’s economic infrastructure.

Recommendations

- Implement structured job evaluation and pay band systems: Banks should adopt formal job evaluation methodologies (such as Hay or Mercer point-factor systems) to establish transparent, defensible internal equity frameworks that reduce arbitrary pay differentials.

- Conduct annual pay equity audits: HR departments should commission regular pay equity audits disaggregated by gender, grade, and business unit, with findings reported to senior leadership and remedial actions tracked.

- Enhance procedural justice in pay decisions: Banks should document and communicate pay-setting criteria clearly to all employees, including the basis for performance ratings, merit increments, and promotion-linked pay revisions.

- Address gender pay gaps proactively: Private sector banks should review their performance appraisal and promotion processes for gender bias, and public sector banks should examine whether bipartite settlements are inadvertently entrenching occupational segregation by grade.

- Invest in non-compensation satisfaction drivers for public sector banks: Given that pay equity alone does not fully explain satisfaction in public sector banks, HR leaders should address work culture, career development, and recognition gaps through targeted engagement initiatives.

Limitations and Future Research

This study is limited by its cross-sectional design, which precludes causal inference, and its geographic confinement to Karnataka, which may limit generalisability to other states with different banking market compositions. The study also does not capture objective pay data, relying solely on perceptual measures of equity. Future research should employ longitudinal designs, incorporate actual payroll data for objective equity measurement, and extend the sample to cover a broader national cross-section of banking employees. The moderating role of union membership, job grade, and bank size on the pay equity–satisfaction relationship also warrants further investigation.

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