Compensation of IT Service Management Employees: Role of Human Capital and Organizational Factors

Research in Progress

Aleesha Hedge
Indiana University
aphegde@indiana.edu

Akshay Bhagwatwar
Indiana University
abhagwat@indiana.edu

Hillol Bala
Indiana University
hbala@indiana.edu

Ramesh Venkataraman
Indiana University
venkat@indiana.edu

Abstract

One of the key challenges that IT organizations face is to find effective ways to recruit and retain highly qualified IT employees within the constrained budget. With the rising importance of IT service quality, it has become imperative for organizations to manage and retain qualified IT Service Management (ITSM) employees. Organizations rely on their in-house ITSM team and the outsourced IT systems to be able to cumulatively deliver high quality IT services. While IT outsourcing has become a norm in many organizations, its potential impact on in-house ITSM employee compensation and job outcomes, such as job satisfaction and turnover intentions, has remained under examined. We develop a model that examines the interplay between human capital factors such as educational qualifications, employee compensation, employee job outcomes, and two organizational factors – IT outsourcing and ITSM size. We conducted a survey of ITSM employees from 423 organizations and found support for the model.

Keywords

IT Service Management, Compensation, Job Outcomes, Outsourcing, IT Professionals

Introduction

Information Technology (IT) is crucial to the operational and strategic success of organizations. Organizations are heavily investing in enterprise-wide ITs to find effective solutions to their business problems. More importantly, with the constantly changing business needs, organizations are required to have IT services that cater to these dynamic requirements. IT services refers to the application of business and technical expertise that enables organizations to create, manage, optimize, and access information and business processes (Ang et. al, 2002; Rai and Sambamurthy, 2006). Consequently, it is vital for organizations to provide and manage high quality IT services to its stakeholders (Slaughter et. al, 2007; Weill and Woerner, 2013). Rai and Sambamurthy (2006) define IT Service Management (ITSM) as a set of distinctive organizational functions that provide customers, both internal and external to the organization, with high quality IT services. ITSM in an organization comprises of a set of processes and associated practices, activities, and job functions with the sole objective of providing high quality value added IT services. With organizations realizing the role of ITSM and the value it provides to the organization’s key stakeholders, they are allocating approximately 70 percent of their IT budget either directly or indirectly to ITSM practices (Rai and Sambamurthy, 2006). Thus, it is imperative to understand ITSM practices in organizations.

An important indicator of the increasing value of ITSM in organizations is the organization’s ITSM size, which is the total number of IT professionals in the organization that have specialized...
knowledge and expertise in ITSM. The need for high quality IT services requires organizations to hire and retain IT professionals (henceforth, ITSM employees) with unique skillsets to manage the dynamic IT infrastructure, functions, and capabilities (Ang et. al, 2002; Weill and Woerner, 2013). Consequently, it has also become imperative for ITSM employees in organizations to keep abreast with continual changes and rising complexities in IT (Joseph et. al, 2007; Weill and Woerner, 2013). For new ITSM employees, it has become essential to get educational qualifications and relevant IT certifications that would help them get jobs with commensurate compensation packages. Employees that fail to do so struggle to find a fit between their skills and changing organizational IT complexities, thus affecting the nature of their job and their compensation.

IT outsourcing, a popular trend that has emerged and widely pursued in the last two decades, is relevant to ITSM employees as they work in many organizations that fully or partially outsource IT functions and systems. With many organizations outsourcing multiple IT functions or even entire business processes, IT outsourcing has become an integral part of an organization’s IT strategy (Larsen et. al, 2013). To stay competitive and cost effective, organizations are outsourcing IT functions that otherwise require the expertise of in-house ITSM employees. Consequently, ITSM employees have fewer responsibilities in many organizations. In addition, the possibility of overall reduction in in-house ITSM workforce cannot be ignored. The increased spending on IT outsourcing is indicative of two critical trends: (a) organizations are continuously investing in improving the quality of their IT services and adopting new IT to remain competitive in the market (Gilley and Rasheed, 2000; Slaughter et. al, 2007), and (b) given the considerable amount of IT budget spent on IT outsourcing, outsourcing organizations are finding it difficult to appropriately compensate in-house employees with their constrained resources.

While ITSM is a comparatively new research area in information systems (IS), the literature on outsourcing is quite extensive, focusing on its impact on social, organizational, and financial issues. However, there has been little or no research that integrates these two important areas and offers a nomological network of ITSM employees’ human capital factors (e.g., education and IT certification), their job outcomes (e.g., job satisfaction and turnover intention) and IT outsourcing. Given the tight IT budgets and the dynamic nature of organizational IT, it is important to examine the relationships among ITSM employees’ human capital factors, their compensation packages, organizational conditions (IT outsourcing and ITSM size), and ITSM employees’ job outcomes. We focus on two specific research questions to address this important research gap:

(a) How do human capital factors (i.e., education and IT certification) influence ITSM employee compensation and their job outcomes (i.e., job satisfaction and turnover intention)?

(b) What role do ITSM size and IT outsourcing play in the relationship between human capital factors and ITSM employees’ job outcomes?

We developed a model that posits that ITSM employees’ human capital factors (i.e., education and IT certification) will influence their compensation and this relationship will be moderated by IT outsourcing and ITSM size. We suggest that this model will provide a framework for understanding how organizations should manage their ITSM size and IT outsourcing practices effectively, and at the same time ensure that their in-house ITSM employees are overall satisfied with their job and compensation. While developing our research model and hypotheses, we build on key prior research on human capital, ITSM, and IT outsourcing. We conducted an empirical study to examine our hypotheses and found support for the model.

Theoretical Background

IT Service Management

Information is recognized as an important strategic resource by organizations today (Levina and Xin, 2007). Research has shown that there is a positive influence of IT on the organizational outcomes (e.g. Mithas et.al, 2011, 2012). IT capabilities are crucial for developing and supporting other organizational capabilities such as customer management, process management, and performance management. A critical challenge that organizations face related to the management of IT functions is the quality and consistency of IT services provided by IT units. To manage the increasing complexity of the IT landscape in organizations, various IT management framework were developed to support IT services,
such as ITIL (Information Technology Infrastructure Library), COBIT (Control Objectives for Information and Related Technology), and ISO 20000. These frameworks are popularly referred to as IT management frameworks. These widely adopted frameworks offer best practices guidelines related to ITSM processes, activities, roles, and capabilities required to deliver high-quality IT services in an organization.

Effective ITSM plays a critical role in increasing organizational efficiency by reducing costs and increasing revenue. The ITSM group in an organization comprises of individuals with specialized skills and expertise in ITSM practices and potentially have relevant IT certifications.

Prior literature suggests that certifications play a key role in determining individuals' compensations in areas, such as healthcare, management, and education (Sechrist et. al, 2005; Goldhaber and Brewer, 2000). In other words, individuals with specialized certifications have a higher compensation than those without such certificates. Organizations recognize the value addition and increase in quality of work resulting from specialized knowledge and training that certification programs provide. Thus, they appropriately reward such employees with appropriate compensation (Wade, 2009). With IT being a dynamic and rapidly evolving field, ITSM employees are required to learn, manage, and support complex IT systems and processes. Consequently, they need to constantly update their existing knowledge and acquire new skills (Quan et. al, 2007). IT organizations have regarded education, skills, specialized knowledge, and IT certificates as determinants to justify an individual's compensation (Quan et, al. 2007). With ITSM being such an important aspect in an organization, it is important to understand the drivers of ITSM employees' job and compensation satisfaction.

**IT Outsourcing**

For many organizations, a critical aspect of their IT strategy is IT outsourcing (Dibbern et. al, 2004). In the 1980’s when outsourcing was a new trend, organizations outsourced peripheral capabilities (Grover et. al, 1996), which provided the advantages of an almost immediate impact on the organization’s financial performance due to cost cutting, reduced costs in manufacturing, a reduced need for large capital investments in manufacturing plants and equipment (Grover et. al, 1996). This also allowed organizations to focus on their core competencies. Such outsourcing of peripheral functions that were traditionally performed in-house by low to mid-skilled labor had a negative impact on the available jobs of such labor in the outsourcing countries (Gilley and Rashid, 2000).

Recently, outsourcing has gone beyond peripheral business functions (Quinn, 1999) and has expanded to the enterprise business processes (Hoecth and Trott, 2006). Organizations are even willing to outsource entire IT functions offshore to countries, such as India, where they find skilled labor at a much cheaper cost. A recent study showed that the outsourcing industry has a net worth of US$250 billion, which is a fivefold increase over the past decade (Shrestha and Sharma, 2013). In addition to the traditional outsourcing of low-skilled jobs such as data entry workers, organizations are also outsourcing mid to high level jobs such as computer programmers, software engineers, and IT analysts (Chung and Khan, 2012). Recent research has shown that IT outsourcing has an impact on the demand and supply of skilled IT workforce, cost of producing IT workforce (in terms of vocational training and education), and on the salary of IT professionals (Chung and Khan, 2012).

**Model and Hypotheses Development**

Figure 1 presents our research model. We hypothesize that ITSM employees’ education and certification will influence their compensation, and two organizational factors – IT outsourcing (i.e., whether these employees believe that their organizations outsource IT functions) and ITSM size (i.e., whether these employees believe that their organizations place significant importance on ITSM) will moderate the relationship between education and compensation, and IT certification and compensation. Organizational tenure and age were used as the control variables (see Table 2).

**Education, Outsourcing, and Compensation**

Education has been highlighted in prior research as a significant determinant of compensation (Lee and Wilbur, 1985). As a result of the skills and expertise that individuals achieve through their education, they become valuable resources for organizations (Lee and Wilbur, 1985). Specialized degrees,
such as computer science, information systems, informatics, information science, impart important IT skills that are highly valued by IT organizations. Organizations often recruit IT professionals who have these specialized degrees and offer these individuals attractive compensation packages that are often higher than individuals who do not have these degrees. Consequently, it can be expected that the compensation packages that ITSM employees receive would be commensurate with their educational qualifications.

Hypothesis 1a (H1a): Education positively influences ITSM employees’ compensation.

We posit that for ITSM employees with a certain educational qualification, organizations that have some or a substantial part of their IT outsourced would offer lower compensation as compared to other organizations that do not have any IT outsourced. Prior research has suggested that organizations outsource both low-skilled and high-skilled IT jobs to locations where the compensation packages are significantly less than for US employees with similar educational qualifications (Dibbern et al., 2004). Since such organizations are aware that they can hire an equally qualified individual at a lower compensation package outside the United States and other developed countries, they would offer comparatively lower compensation to their US employees with similar qualifications. There is a growing apprehension among US employees about the outsourcing of their jobs offshore (Bardhan and Kroll, 2003). This unrest and insecurity among employees may result in them securing jobs at a lower compensation despite their high level of education. Also, prior research has suggested that organizations view outsourcing as a cost-cutting mechanism. Since such organizations might already have spent a significant proportion of their IT budget for their outsourcing endeavors, there might only be limited budget for paying high compensation to ITSM employees. In contrast, if the organization does not outsource its IT systems and functions, the IT budget could be significantly used for recruiting and retaining ITSM employees. Consequently, the organization would be able to offer a higher compensation to IT employees.

Hypothesis 1b (H1b): IT outsourcing negatively moderates the relationship between education and ITSM employees’ compensation.

IT Certifications, ITSM Size, and Compensation

With the increasing adoption of various complex enterprise systems, organizations require individuals that are experienced and/or have specific certifications. In addition to system related certifications, organizations also value certifications related to project management, programming, database administration, and networking. In addition, with the increasing popularity of IT management frameworks, such as COBIT and ITIL, organizations have started hiring individuals that have relevant
certificates in these frameworks. Prior research have focused on the importance of appropriate certifications as a strict requirement for entry into a profession in law, accounting, medicine, and engineering (Hunsinger & Smith, 2009). Certifications are viewed by organizations as an instrument to assess the extent of expertise an individual has in a particular area. For example, it is a usual practice in many management consulting, IT consulting, and auditing firms to ensure that their employees have specific certifications such as Certified Accounting Professional (CPA) or Six Sigma Certification. These certifications are often used by organizations as selection criteria while recruiting or even while employing individuals on certain projects. Organizations focus on certifications since they believe that certified employees would be a valuable asset in successful execution of relevant projects. Consequently, it has not only become crucial for organizations to hire and retain certified individuals but to also spend on getting relevant certifications for their existing workforce. The rising demand for certifications in the IT domain has made it imperative for ITSM employees to consider appropriate certifications as an essential component of their career path and an opportunity for higher wages (Hunsinger and Smith, 2009).

Hypothesis 2a (H2a): IT certification positively influences ITSM employees’ compensation.

ITSM size not only represents the number of ITSM employees in the organization, but also indicates the breadth of IT functions of an organization. We hypothesize that ITSM size would negatively moderate the relationship between IT certification and compensation such that for organizations with large ITSM size, the relationship between IT certification and compensation is weaker. An organization that has a large ITSM size can be expected to have many personnel that have various IT certifications. For such an organization, hiring someone with many certifications would neither be a priority nor a highly paid job position. Having an in-house ITSM workforce would allow such organizations to hire IT certified professionals only if necessary. Since such an organization might already have invested significantly in employing and retaining their current ITSM workforce, there would be limited budget for hiring more professionals. In addition, the organization would only need new employees with IT certificates in only specific knowledge areas that their current ITSM employees lack. Even if the newly recruited employee has many certifications, the organization would not offer a high compensation package. In contrast, an organization with limited number of ITSM employees might want to hire individuals that have more certifications so that they do not need to hire more employees. Such organizations might also have limited budget for hiring ITSM employees. Consequently, the organization would prefer hiring a few individuals that have most of the skillset that the organization needs and offer them higher compensation.

Hypothesis 2b (H2b): ITSM size negative moderates the relationship between IT certification and ITSM employees’ compensation.

Compensation, Compensation Satisfaction, and Job Satisfaction

The relationship between compensation and job satisfaction has been hypothesized and empirically validated in research in various domains including management, information systems, and organizational behavior (Porter et. al, 1974; Lee and Wilbur 1985). Building on the findings of this prior research, we hypothesize:

Hypothesis 3a (H3a): Compensation of ITSM professionals positively influences job satisfaction.

Similarly, the relationship between compensation and compensation satisfaction has been empirically validated in prior research (e.g., Carraker, 1991; Williams et. al, 2008). In line with the findings from this prior research, we hypothesize:

Hypothesis 3b (H3b): Compensation of ITSM professionals positively influences compensation satisfaction.

Prior research has suggested that compensation satisfaction positively influences job satisfaction (Igalels and Roussel, 1999; Williams et. al, 2008). In line with the findings from prior research, we hypothesize that employees that are satisfied with their compensation packages would also be satisfied with their job. If the employees believe that their compensation is appropriate for the work they perform, they would feel satisfied about their work. They would feel that they get compensated appropriately for the work they perform. In contrast, employees that are not satisfied with their compensation might feel that their job involves too much work for the pay they get. Consequently, such employees might feel that
their compensation is not adequate for the amount of effort they have to expend at work. As a result, the employees would feel dissatisfied about their job. In summary:

_Hypothesis 3c (H3c): Compensation satisfaction positively influences job satisfaction._

**Compensation Satisfaction, Job Satisfaction, and Turnover Intention**

Prior research has suggested that employees that are satisfied with their job are less inclined to change their job or look for opportunities elsewhere (Lee and Wilbur 1985; Igalens and Roussel, 1999). These employees are happy with their work in their current organization(s). In line with the findings of extensive prior research, we hypothesize:

_Hypothesis H4a (H4a): Job satisfaction negatively influences turnover intention._

Similarly, prior research has suggested that employees that are satisfied with their salaries tend to stay with their current organization (Igalens and Roussel, 1999; Williams et. al, 2008). These employees expect their compensation in the organization to increase in proportion to their organization tenure and experience. Overall, these employees feel that their compensation packages are appropriate for their qualifications and experience. Consequently, they do not feel a need to look for job opportunities in other organizations.

_Hypothesis H4b (H4b): Compensation satisfaction negatively influences turnover intention._

**Methodology**

We conducted a field study of ITSM employees from different industries to test our research model. A request to participate in the study was sent to about 6,000 active members of itSMF USA, a chapter of itSMF International, an independent organization for ITSM professionals. We received a total of 423 usable responses. Participants were primarily senior ITSM professionals (78 percent), such as ITSM architects, directors, process owners and managers. The participants had an average of 20.84 years of work experience in IT (S.D. = 8.92) and their average organizational tenure was 8 years (S.D. = 7.53).

We used pre-validated constructs and measures in the survey. For education, participants were asked to enter their highest educational qualification such as “Bachelor’s Degree” or “Doctoral Degree”. To capture the number of IT certificates, participants selected the certificates they had from a list of 28 certificates, such as COBIT® Foundation, Cisco Certifications, and ITIL® v3 Expert. IT outsourcing was measured as a categorical variable by asking participants if their organization outsourced any of its functions. The participants could respond in “yes” or “no”. ITSM size was measured by asking participants the number of employees (approximately) that managed ITSM responsibilities in the organization. For compensation, participants were asked to specify their annual base compensation. Both compensation satisfaction and job satisfaction were measured using a five point Likert scale with 1 being “Very Dissatisfied” to 5 being “Very Satisfied” (Lee and Wilbur 1985; Scapello et. al, 1988). Turnover Intention was measured as a categorical variable by asking participants if they anticipate a job change within the next 12 months. The participants could respond in “yes” or “no”.

**Results**

We used multiple regression to analyze our data. Since our dependent variable (turnover intention) was categorical, we used logistic regression to analyze the effect of compensation satisfaction and job satisfaction on turnover intention. Table 1 shows the correlations among the study variables and Table 2 presents the regression results.
Effect of ITSM Size and Outsourcing on Compensation

Table 1: Correlations among Study Variables

<table>
<thead>
<tr>
<th></th>
<th>Compensation</th>
<th>Compensation Satisfaction</th>
<th>Job Satisfaction</th>
<th>Turnover Intention</th>
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<tr>
<td></td>
<td>Model 1</td>
<td>Model 2</td>
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<td><strong>Control Variables</strong></td>
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<tr>
<td>Age</td>
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<td>0.221***</td>
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<td>0.008</td>
<td>0.011</td>
<td>0.08</td>
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<tr>
<td><strong>Independent Variables</strong></td>
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<tr>
<td>Education</td>
<td>0.124**</td>
<td>0.383**</td>
<td></td>
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<tr>
<td>IT Certification</td>
<td>0.232***</td>
<td>0.421***</td>
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*p<0.05, **p<0.01, ***p<0.001

We found support for H1a - education has a significant positive influence on compensation (B=0.383, p=0.007). About 78 percent of the respondents had a Bachelor’s degree or above. The result support the argument that organizations value the skills, knowledge, and expertise that an individual gains through their education. Hypothesis 1b is supported - outsourcing negatively moderates the relationship between education and compensation (B=-0.467, p=0.049). Approximately 55 percent of the respondents reported that their organization is engaged in IT outsourcing. The result implies that if the organization is engaged in outsourcing, they can hire equally qualified individuals at a much lower compensation at the outsourcing location as compared to in-house employees who have similar educational qualifications. This results in a limited in-house IT budget, which results in organizations hiring employees with high educational qualifications at a lower compensation package.

We found support for H2a - IT certification has a positive influence on compensation (B=0.421, p=0.000). The average number of IT certificates for the respondents is four. Organizations have realized the value addition due to the knowledge, skills, and expertise of individuals who hold IT certificates, especially ITSM related certificates such as COBIT and ITIL. Consequently, organizations reward individuals who have a large number of IT certificates with higher compensation. H2b is supported - ITSM size negatively moderates the relationship between IT certificates and compensation (B=-0.321, p=0.003). This implies that if an organization already has a large ITSM size, it will not compensate professionals with multiple IT certificates as compared to an organization that has a small ITSM size.

We found support for H3a - compensation of ITSM employees positively influences job satisfaction (B=0.112, p=0.017). The average yearly compensation for the respondents is $105,403. H3b is supported - compensation of IT professionals positively influences compensation satisfaction (B=0.202, p=0.001). H3c is supported - compensation satisfaction positively influences job satisfaction (B=0.303, p=0.00).

We found support for H4a - job satisfaction (mean: 3.81, SD: 0.935) negatively influences turnover intentions (β=-0.661, p=0.001). This implies that the probability of an individual changing the job will reduce with an increase in job satisfaction. H4b is supported - compensation satisfaction (mean: 3.46, SD: 1.1) negatively influences turnover intentions (β=-0.435, p=0.001). 49 percent of the respondents replied “Yes” to the question on turnover intention. The results imply that the probability that an individual will consider a job change will reduce with an increase in satisfaction with their compensation.
### Moderators

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<td>Outsourcing*Education</td>
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<tr>
<td>ITSM Size*IT Certificates</td>
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### Dependent Variables

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<tbody>
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<td>Compensation</td>
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<tr>
<td>Compensation Satisfaction</td>
<td>0.303***</td>
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<td>Job Satisfaction</td>
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\[ R^2 = 0.081, 0.109, 0.041, 0.118 \]

*Note: Logistic regression was used for Turnover Intention*

### Table 2: Regression Results

#### Implications

**Theoretical Implications**

This research-in-progress paper is expected to contribute to the existing IT personnel literature (Levina and Xin, 2007; Slaughter et. al, 2007; Joseph et. al, 2007). We present a model that integrates IT outsourcing and ITSM related constructs with some of the key job-related constructs used in prior research - job satisfaction, compensation satisfaction, and turnover intention. Although prior studies have examined the impact of IT outsourcing on employees, there has been limited work pertaining to the effect of IT outsourcing in the context of compensation and aforementioned job-related constructs. Our results empirically show the negative effect of outsourcing on the relationship between education and compensation. We were also able to empirically validate our argument about the negative effect of ITSM size in an organization on the relationship between IT certificates and compensation. This was one of the first studies that examined the antecedents and consequences of ITSM employee compensations and the moderating role of IT outsourcing and ITSM size. Given the recent focus on building organizational ITSM capabilities (Hunsinger and Smith, 2009) and the key role of hiring and retaining of ITSM professionals in the process, this study provides a framework that could be of interest to both researchers and practitioners alike.

**Practical Implications**

This study provides robust guidelines to senior IT executives and upper management in organizations to efficiently manage ITSM employees. Our results indicate that employees with high education in organizations that outsource IT do not feel that they receive the compensation that is commensurate with their education. This reduces job satisfaction and as a result increases the probability of the employees changing their job. Consequently, organizations must optimize the ratio of outsourcing to in-house IT capabilities so that they have the budget to compensate employees according to their education level and maintain high employee morale and satisfaction. Organizations must be aware of the industry standards of compensation for various education levels and ensure that their employees get compensated in accordance to what other competitor firms are paying employees with similar educational qualifications.

This study also highlights the value that organizations attribute to IT certifications among their employees. While it is clear that the number of IT certificates positively influence compensation, the role of ITSM size is critical. Our results indicate that if the organization has a large ITSM team, there is a possibility of redundancy in the skillset of employees, resulting into lower compensation packages as compared to other organization that has a smaller ITSM team. However, this can result in reduced job...
satisfaction and an increase in turnover intentions among employees. Organizations with a large ITSM team must ensure that the ITSM skills are optimally distributed across various functions and that these skills are effectively utilized. Consequently, organizations would be able to pay commensurate salaries to the employees, at the same time balancing the ITSM size.

**Limitations**

Our findings should be interpreted in light of the limitations of this study. As noted earlier, the data were collected from the members of a single association (itSMF USA). It is possible that the members of this association are similar in terms of their work experience and industry background. While this helped us control for possible professional domain differences, it limits the generalizability of our findings. Hence, future research should test the model in other types of organizations and industries. Further, since this is a research in progress, the data analysis and elaboration of results merely provides an overview of the bigger picture this study is aiming to present.

**Conclusion**

In this paper, we develop a model that focuses on IT employee compensation. We posit that IT outsourcing and size of the organization’s ITSM function play a moderating role in the relationship between employee skills and compensation. To support our hypothesis empirically, we collected survey data from 423 ITSM employees from various organizations. Our results showed that IT outsourcing plays a negatively moderating role in the relationship between an employee’s education level and compensation. Our results also showed that the organization’s ITSM size negatively influences the relationship between IT certificates and compensation. Our findings will contribute to the IT management literature by highlighting the antecedents and consequences of ITSM compensation. This study can also be used as robust guidelines by practitioners facing the challenge of finding optimal IT compensation and effective strategies to retain skilled IT employees.

**REFERENCES**


