



# Understanding pay satisfaction: The impacts of pay satisfaction on employees' job engagement and withdrawal in deluxe hotel<sup>☆</sup>



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## ABSTRACT

The purpose of this study is to measure the pay satisfaction of employees who work in deluxe hotels, and to explain the relationships among employees' pay satisfaction (pay level, pay raise, benefits, and pay structure), job engagement and withdrawal. A total of 314 employees in South Korea participated. The results showed that employees' benefits ( $\beta = .305$ ), pay level ( $\beta = .232$ ), and pay structure ( $\beta = .174$ ) had a significant effect on employees' job engagement, while employees' pay structure ( $\beta = -.333$ ), pay level ( $\beta = -.232$ ), pay raise ( $\beta = -.158$ ), and benefits ( $\beta = -.134$ ) affected employees' job withdrawal. Limitations and future research directions were also discussed.

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## 1. Introduction

Despite much research on job satisfaction, the first study of job satisfaction examined employees' emotional response to pay and rewards (Hoppock, 1935). Reasonable rewards to employees are essential in achieving organizational goals (Vandenberghe and Tremblay, 2008) and therefore employees' interest in pay or rewards has profound, academic and practical significance (Currall et al., 2005). In addition, pay satisfaction is linked directly with organizational fairness (Till and Karren, 2011). On an organizational level, as environmental change becomes complex, the traditional reward system is moving into a more strategic and flexible pay system (Lawler, 2000). Pay is generally income obtained as a rewards paid for one's labor (Lawler, 1971) and denotes all kinds of financial rewards, practical services and benefits received as part of an employment relationship. Therefore, pay is the source of income for employees, and because they can satisfy other desires through income, pay is the key reward (Milkovich and Newman, 2004). In order for pay to improve job performance, employees must be satisfied with what they are earning. Lawler (2001) noted that an organization's reward strategies played a meaningful role in competitive advantage and emphasized the importance of employees' satisfaction with their pay.

To this end, this study used a Pay Satisfaction Questionnaire (PSQ) (Heneman and Schwab, 1979). Scarpello et al. (1988) explained that the values of pay satisfaction measured by PSQ explained more areas of pay satisfaction than the Minnesota Satisfaction Questionnaire (MSQ) and Job Descriptive Index (JDI). Judge (1993) noted that PSQ was more appropriate than the two other tests in measuring pay satisfaction. Wu and Wang (2008) observed that hotel employees' pay satisfaction and perception about organizational fairness affected their commitment to and efforts for their job. In addition, Wu et al. (2013) noted that pay fairness improved work effort, work performance and especially the influence of fairness in terms of distribution. Khatri et al. (2001) noted that employees' turnover intent depended on their demographic characteristics, pay, and supervision: especially, pay satisfaction greatly affected turnover. In addition, multiple studies (Baakile, 2011; Joseph et al., 2007; Lum et al., 1998; Singh and Loncar, 2010) observed that pay satisfaction and turnover intent had a negative relationship, and that employees' dissatisfaction with pay could be an important cause of turnover (Tekleab et al., 2005).

However, in order to generalize previous research results, there are some matters to be considered. First, pay satisfaction has multi-dimensional factors (Heneman and Schwab, 1985). Previous studies have a limitation in that they mostly verified that overall pay satisfaction or pay satisfaction affected organizational performance (Vandenberghe and Tremblay, 2008). In contrast, this study examined which job attitudes sub-factors of pay satisfaction had positive and negative relationships. Second, much research has identified the causes of pay satisfaction (Berkowitz et al., 1987; Sweeney, 1990). Vandenberghe and Tremblay (2008) noted that research on diverse outcome variables of pay satisfaction was necessary

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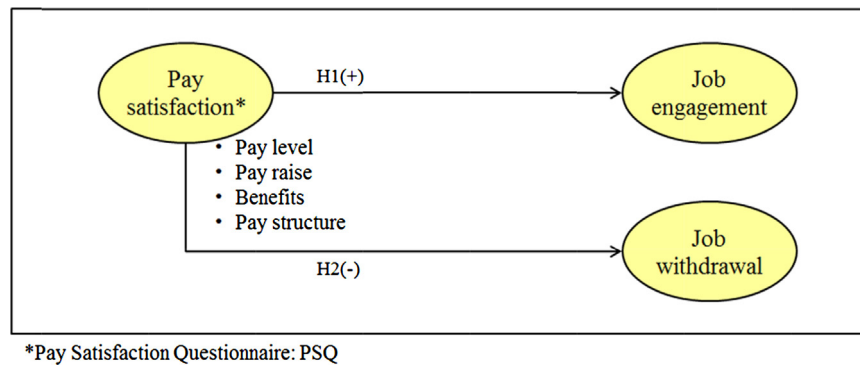


Fig. 1. Hypothesized framework.

rather than on antecedent variables of pay satisfaction. Accordingly, this study established job engagement (hypothesis 1) as a positive variable and job withdrawal (hypothesis 2) as a negative variable explaining job attitudes, and then examined outcome variables. Third, the number of studies examining pay satisfaction in hotel companies is relatively small (Wu and Wang, 2008; Ram and Prabhakar, 2010), therefore also the present study examines hotel employees.

This study is therefore different from other studies on similar topics due to its application of multi-dimensional factors, its focus on outcome variables, and its interest in hotel employees. A path model highlighting associations among hotel employees' pay satisfaction, job engagement, and job withdrawal will be to be elucidated the impact of employees' pay satisfaction on employees' job-related attitudes (Fig. 1).

## 2. Research methodology

### 2.1. Samples and procedures

This research sampled 500 employees working in deluxe hotels in Seoul, the capital of Korea, in 2014. Each participant received a \$5.00 gift certificate. The completed questionnaires were sealed in envelopes to protect employee anonymity and collected by the researcher one week later. After incomplete responses were excluded, the final sample submitted to data analyses was 314; a response rate of 62.80%. Of the 314 participants, 45.2% were 30 to 39 years, and 44.9% were 20 to 29 years. Most of the respondents interviewed were male (55.1%) and the rest were female (44.9%). Most participants had a community college degree (53.8%). The participants had been working for one to three years at their current hotel (29.3%) and their primary job positions were Back of the House (BOH) (40.8%) and Front of the House (FOH) (42.7%).

### 2.2. Instrument development

The questionnaire consisted of four parts. The first part inquired about employees' demographic characteristics. The second part pertained to the employees' pay satisfaction, including items on a seven-point scale: "How much do you agree or disagree with these statements?" (1: strongly disagree to 7: strongly agree). Pay satisfaction is the whole of the positive and negative emotions employees have about their pay (Heneman and Schwab, 1985). This study examined also four dimensions of employees' pay satisfaction (Heneman and Schwab, 1985; Judge, 1993; Judge and Welbourne, 1994): pay level, pay raise, benefits, and pay structure. Each dimension of pay satisfaction was measured with 15 items. The third and fourth parts asked employees to rate their engagement and withdrawal. Schaufeli et al. (2002) define job engagement

"as a positive, fulfilling, work-related state of mind that is characterized by vigor, dedication, and absorption." Job engagement was measured using Schaufeli et al.'s (2002) 5-item job engagement scale. Hulin (1990) defines employees' job withdrawal "as a set of behaviors dissatisfied individuals enact to avoid the work situation; they are those behaviors designed to avoid participation in dissatisfying work situations." Job withdrawal was assessed using the 5-item job withdrawal scale developed by Hanisch and Hulin (1990).

## 3. Results

### 3.1. Convergent validity and reliability analysis

Before the estimation of any structural equations, the authors ran a confirmatory factor analysis (CFA) test as recommended by Anderson and Gerbing (1988). Table 1 shows the items that remained for modeling the structural equation and also summarized the result of a convergent validity and reliability analysis of the variables. The confirmatory factor analysis result shows evidence of desirable measurement properties;  $\chi^2 = 461.236$  ( $df = 215$ ,  $p < .001$ ), GFI = .889, NFI = .920, TLI = .947, and RMSEA = .060. In addition, all standardized factor loadings exceeded .60, and each indicator  $t$ -value exceeded 8.0 ( $p < .001$ ), the average variance extracted of all factors exceeded the recommended .50 threshold (Table 1) (Fornell and Larcker, 1981). Each construct's internal consistency was acceptable, with Cronbach's alpha estimates ranging from .800 to .945. Table 2 shows means, standard deviations, and correlations between the constructs. Discriminant validity was evident since the variance extracted estimates, ranging from .575 to .806, and exceeded all squared correlations for each pair of constructs, ranging from .084 to .349. These results suggested that the six factors were distinct and unidimensional.

### 3.2. Structural equation modeling and hypotheses testing

The structural equation modeling (SEM) fit was good ( $\chi^2 = 472.276$ ;  $\chi^2/df = 2.186$ ; GFI = .889; CFI = .954; RMSEA = .062). To examine how employees' pay satisfaction affects job engagement, hypothesis 1 was partially accepted. Benefits ( $\beta = .305$ ), pay level ( $\beta = .232$ ), and pay structure ( $\beta = .174$ ) – among employees' pay satisfaction factors – significantly affected employees' job engagement; pay raise ( $\beta = .040$ ) did not. Hypothesis 2 (i.e., employees' pay satisfaction has a significant effect on job withdrawal) was also accepted. Pay structure ( $\beta = -.333$ ), pay level ( $\beta = -.232$ ), pay raise ( $\beta = -.158$ ), and benefits ( $\beta = -.134$ ) had a significant effect on job withdrawal (Table 3).

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