

A Review on the Effects of Pay Satisfaction on Employee Engagement and Turnover: A Proposed Mediating Framework

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Abstract: The issue of voluntary turnover is a global phenomenon that hampers the strategic objectives of organizations and a hindrance to achieving high level of productivity and efficiency in business operation. Past studies have indicated that employees' satisfaction with their pay can be a key factor that may assist organizations to increase the likelihood of a long stay of their skilled workers. Although research has empirically revealed a negative relationship between pay satisfaction and employees' intention to leave, studies on the role of a mediator between the former and the latter are rather limited. As a contribution, the present paper theoretically conceptualizes the role of employee engagement as a mediator between pay satisfaction and voluntary turnover. Drawing on social exchange theory, it is suggested that employees' satisfaction with their pay will develop a sense of fairness and being valued, which, consequently, will lead to positive attitudinal and behavioural outcomes, such as high level of engagement. Consequently, highly engaged employees will less likely involve in voluntary movements. The recommendations for future studies are also proposed.

Key words: Pay satisfaction, employee engagement, voluntary turnover, social exchange theory

INTRODUCTION

For decades, employee turnover has been a topic of importance among scholars and practitioners of organizational behaviour and still remains an issue of widespread interest (Allen *et al.*, 2010; Hancock *et al.*, 2013). Notwithstanding the severe consequences this creates, organizations around the globe are constantly facing a high number of voluntary turnover.

In November 2013, a survey of nearly 900 workers in the US and Canada revealed alarming results. Surprisingly, 83% of the participants intended to actively seek a new employer and only 5% showed a positive intention to stay with their current organization (Right Management, 2013). These findings are comparable with the latest statistics published by the US Bureau of Labour Statistics which showed that about 25 million employees were involved in voluntary turnover annually (Hathaway, 2013).

Similar to the Western context, turnover is also a major concern for organizations in the South East Asian countries. For example, a survey reported that the average voluntary turnover rate in the Philippines was 14.8% followed by Malaysia and Singapore with 14.8% and

14.1%, respectively (Hewitt, 2011), thus confirming that the issue of voluntary turnover is a global phenomenon that hampers the strategic objectives of organizations.

Scholars have indicated that high turnover is a hindrance to achieving high levels of productivity and efficiency in business operations (Derry and Shaw, 1999). Organizations not only lose their valuable employees but it is also expensive since it requires managers to spend resources; time and money, on the recruitment and training of the replacements of those who quit (Juhdi *et al.*, 2013). Besides, low morale of the remaining employees, loss of tacit knowledge and low customer satisfaction are also other major consequences of high voluntary turnover as evident from the existing literature (Memon *et al.*, 2014; Sanjeevkumar, 2012).

As a whole, voluntary turnover has negative impact on organizations' revenues and expenses as well as presenting a major operational and strategic challenge. This situation is a wake-up call for management and organizational behaviour practitioners and academics to focus on key factors that lead to voluntary turnover.

Employee satisfaction with their pay can be a key factor that may help organizations to retain skilled workers (Heneman and Judge, 2000; Milkovich and Newman,

2004). Pay satisfaction refers to the “overall positive or negative affect (or feeling) that individuals have toward their pay” (Miceli and Lane, 1991, p. 246). Past research has indicated that pay is one of the most important dimensions linked with employee retention (Tekleab *et al.*, 2005).

Although studies (e.g., Tekleab *et al.*, 2005; Williams *et al.*, 2006) have empirically revealed a negative relationship between the satisfaction of individuals with their pay and their intention to leave, studies on the actual steps or process through which pay satisfaction is likely to influence are rather limited. For instance, the role of a mediator between pay satisfaction and voluntary turnover has received limited emphasis.

Employee Engagement (EE) has recently been highlighted as the construct of interest to lessen voluntary turnover. A considerable amount of research has reported that highly engaged employees are less likely to be involved in voluntary turnover. Although numerous studies have explored EE as a mediator between a number of antecedents and outcome variables (see Alfes *et al.*, 2013; Andrew and Sofian, 2012; Saks, 2006; Schaufeli and Bakker, 2004), the mediating role of EE between pay satisfaction and turnover intention has only been partially explored.

Hence, the present study extends the research by conceptualizing EE as a potential mediator of the relationship between pay satisfaction and turnover intention. To summarize, we propose a mediating model conceptualizing that an individual’s satisfaction with their pay develops a sense of being valued and fairly treated which consequently, leads to positive attitudinal and behavioural outcomes, such as high engagement. In turn, highly engaged employees will less likely be involved in voluntary movements. Although Juhdi *et al.* (2013) investigated pay satisfaction-engagement-turnover relationship, the study differs from the proposed framework since the engagement construct was conceptualized and empirically tested as ‘organization engagement’, rather than EE.

The next section discusses the relationship between pay satisfaction and employee turnover, followed by a brief discussion concerning the mediating role of EE.

PAY SATISFACTION AND EMPLOYEE TURNOVER

Pay has often been considered as a successful approach to motivate the behaviour of employees. Present day, contemporary organizations thus focus on ensuring that their employees are satisfied with their pay. Pay satisfaction refers to the “amount of overall positive or negative affect (or feelings) that individuals have toward

their pay” (Miceli and Lane, 1991, p. 246). Although pay satisfaction construct was originally measured as uni-dimension, scholars (e.g., Ellickson and Logsdon, 2002; Schwab and Wallace, 1974) have then later developed sub-scales for this construct.

A major contribution was made by Heneman and Schwab (1985) who presented pay satisfaction as a multidimensional construct and explicitly introduced the concept. Initially, five dimensions; pay level, pay raises, benefits, structure and administration, were proposed and a 20-item Pay Satisfaction Questionnaire (PSQ) was developed. However, the outputs of exploratory factor analysis reported cross-loading among the items related to pay structure and pay administration (Omar and Ogenyi, 2006). Thus, a modified 4-factor model consisting of 18-items was introduced and has been widely accepted by scholars over past two decades.

Heneman and Schwab (1985) defined pay level as current direct compensation (in terms of wage or salary) and benefits as indirect types of pay such as insurance, pensions, income and other miscellaneous services. Salary increment on the other hand, refers to an individual’s change in pay level and pay structure is the hierarchical relationship created among pay rates for different jobs within an organization. They further asserted that each dimension provides a unique set of judgments concerning pay satisfaction. Notably, previous studies also suggested that different dimensions of pay satisfaction might play a different role in the voluntary turnover process (Tekleab *et al.*, 2005).

The existing literature on turnover is based on Mobley (1977) model which indicated several possible antecedents of employee turnover. In general, employee turnover refers to the “departure of an employee from the formally defined organization” (March and Simon, 1958, p. 99). Two types of turnover have been discussed in human resource and organizational behaviour literature: Voluntary turnover, which refers to “an individual’s self-initiated movement across organizational boundaries, while involuntary turnover is controlled by the organization itself” (March and Simon, 1958). Turnover intention, on the other hand, which is an individual’s willingness or behavioural intention to withdraw before actual turnover happens (Price, 2001) was found to be positively related to actual turnover. Thus, turnover intention is considered to be a prominent predictor of actual turnover (Bigliardi *et al.*, 2005).

Pay satisfaction has been identified as an important indicator of an employee’s intention to quit (Carless, 2005; Tekleab *et al.*, 2005). It is believed that an individual’s satisfaction with their pay generates a feeling of fair treatment. Consequently, they tend to stay longer

compared to those who are dissatisfied. Empirical findings (Lum *et al.*, 1998; Tekleab *et al.*, 2005) indicated that pay satisfaction negatively influenced an employee's intention to leave and less likely to quit their job voluntarily. These findings are in line with the study conducted by Bertelli (2007) who found that the quality of pay, and rewards as incentives, are strong indicators of turnover intention among government service employees. More recently, Panaccio *et al.* (2014) revealed that pay satisfaction has a negative relationship with turnover intention among human resource management professionals located in Eastern Canada. However, the study statistically found that the relationship was stronger when affective commitment was treated as a mediator between pay satisfaction and turnover intention. Given that pay satisfaction indirectly affects an individual's withdrawal behaviour (Panaccio *et al.*, 2014), we thus conceptualize EE as a potential mediator in this study, as discussed in the next section.

EMPLOYEE ENGAGEMENT

Kahn (1990) described EE as the "harnessing of organization members' selves to their work roles in engagement, people employ and express themselves physically, cognitively and emotionally during role performances" (p. 694). However, similar to other behavioural science constructs, there is also a lack of mutual agreement concerning the definition of EE. For instance, Rothbard (2001, p. 656) defined EE as having two facets: attention and absorption. Attention is the "cognitive availability and amount of time one spends thinking about and role" whereas absorption means "being engrossed in the role and refers to the intensity of one's focus on a role". Schaufeli *et al.* (2002, p. 74) on the other hand, operationalized engagement "as a positive fulfilling, work-related state of mind that is characterized by three-factors: vigour (high level of energy and mental resilience while working), dedication (being strongly involved in one's work and experiencing a sense of significance and enthusiasm) and absorption (being fully concentrated and happily engrossed in one's work)".

Schaufeli *et al.* (2002) conceptualization has been widely accepted and their 17-item Utrecht Work Engagement Scale (UWES) which was developed on the dimensions of vigour, dedication and absorption has been widely accepted and became a theoretical support for contemporary engagement models. Later, a 9-item scale UWES-9 (shortened version of UWES) was developed by Schaufeli *et al.* (2006) that substantiated acceptable

psychometric properties and significantly replaced the earlier 17-item version in organizational behaviour studies.

Another scholar, Saks (2006) presented a multidimensional model of engagement that included two different types; job engagement and organization engagement. In other words, EE is not only limited to individuals' psychological presence and cognitive interpretation of in-role activities but covers one's affective and psychological attachments to his job and organization (Biswas and Bhatnagar, 2013; Kahn, 1990). This multidimensional model of Saks not only investigated the antecedents of EE but went further to also examine the consequences of EE. In the study, EE (in terms of job and organization engagement) was theoretically conceptualized and empirically tested as a mediator between several antecedents (job characteristics, perceived organizational support, perceived supervisor support, rewards and recognition, procedural and distributive justice) and consequences (job satisfaction, organizational citizenship behaviour, organizational commitment and intention to quit). The results of the hierarchical regression analysis showed that EE significantly mediated the relationship between the antecedents and consequences as hypothesized. On theoretical grounds, this phenomenon can be better explained from the social exchange perspective, which is discussed in the next section.

SOCIAL EXCHANGE THEORY AND CONCEPTUAL FRAMEWORK

The Social Exchange Theory (SET) (Blau, 1964) describes social exchanges as the "voluntary action" of an organization, initiated with the intention that the treatment will eventually be reciprocated. Settoon *et al.* (1996, p. 219) believed that "positive, beneficial actions directed at employees by the organization and/or its representatives contribute to the establishment of high quality exchange relationships that create obligations for employees to reciprocate in positive and beneficial ways". Similarly, we believe that pay satisfaction creates a sense of obligation among individuals that the organization values their efforts, contribution and hardship. Consequently, individuals tend to reciprocate in the form of positive attitude and behaviour, such as high level of engagement. Since engagement includes vigour, dedication and absorption, engaged individuals feel energy, work with high enthusiasm and are highly engrossed with their work and organizational roles. Correspondingly, as noted by previous studies (Juhdi *et al.*, 2013; Saks, 2006), highly engaged individuals are less likely to involve in voluntary moves.

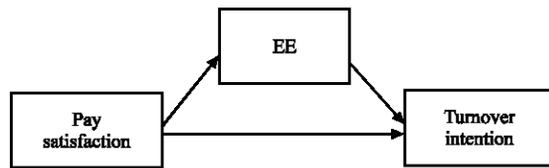


Fig. 1: The proposed conceptual framework

Based on the above discussion, Fig. 1 displays a mediating conceptual framework. As one of the key determinants of turnover intention, it is proposed that pay satisfaction affects an individual's withdrawal behaviour through the mediating role of EE.

CONCLUSION

The retention of skilled workers is the most crucial challenge faced by many organizations today. The business world is spending a huge amount annually on the recruitment and training activities to settle the shortage of human capital that occurs due to voluntary withdrawals. In addition, it is also a gigantic threat to organizational objectives and ultimately, hampers a country's strategic plans in the long run. Hence, employee turnover has become a topic of concern for organizational behaviour and human resource management scholars.

Past studies have emphasized that an individual's satisfaction with pay is one of the key determinants of voluntary quits. The present study conceptually suggests that EE is a significant intermediary mechanism connecting an individual's pay satisfaction with their intention to quit. Satisfaction with pay leads individuals to feel positive towards the organization to which they belong. One of the positive outcomes includes EE. Highly engaged employees are engrossed with their performance, and display high dedication and enthusiasm in their work. Evidently, engaged employees feel motivated and attached; deeply involved in their job and organization, and, hence, are less likely to move.

Since limited effort has been made to conceptualize pay satisfaction and turnover with EE as a mediator, the present paper fills this research gap. It extends the present research on organizational behaviour and human resource management by theoretically conceptualizing EE as a potential mediator between pay satisfaction and turnover intention. Future research is encouraged to validate the proposed framework. As the proposed framework is mediating in nature, future studies are recommended to use advanced statistical methods, such as structural equation modelling, in order to attain robust results. Future studies should test different mediators between

pay satisfaction and turnover intention such as organizational citizenship behaviour and job involvement. The presence of a moderator could strengthen the linkages between the proposed variables of the study. Hence, future studies could integrate individual differences, such as exchange ideology and personality traits as the potential moderators to further extend the proposed model.

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