

Measure Pay Satisfaction and Loyalty of Vietnamese Office Workers

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ABSTRACT

This paper utilized the Pay Satisfaction Questionnaire (PSQ) developed by Heneman and Schwab (1985) to test the pay satisfaction of Vietnamese office workers (hereafter referred to as employees); and then determined which dimension of PSQ deeply affects their loyalty. The Structural Equation Model was utilized with a population of 224 office workers who graduated from three-year colleges at the least and have been working in HCMC. The results showed that the four-dimension PSQ was suitable to measure the pay satisfaction of Vietnamese employees; and these four dimensions include pay scale, pay raise, benefits, and pay administration. Of which, the pay administration affects the loyalty of employees more strongly than the pay scale does. The paper also discussed and extended some solutions that enterprise managers could consider for improving the pay satisfaction and loyalty of their employees.

Keywords: pay satisfaction, loyalty, Pay Satisfaction Questionnaire (PSQ)

1. INTRODUCTION

The remuneration, either salary or wage, plays a crucial role in attracting and maintaining human resources; and it was proven more vital when the 2011 inflation peaked 18.6%. Many enterprise managers state that employees are dissatisfied with the remuneration because the enterprise is not financially competent in making a corresponding pay raise. Additionally, not only is the remuneration low but the pay administration is also irrational. This paper utilizes the four-dimension PSQ by Heneman and Schwab (1985) and a population of 224 employees who graduated at least from three-year colleges and have been working in HCMC to determine whether the pay scale or the pay administration deeply influences the employees' loyalty.

2. THEORETICAL BASIS

a. Definition of Remuneration:

As defined by the International Labor Organization (ILO), remuneration is the ordinary, basic or minimum wage or salary and any additional emoluments whatsoever payable directly or indirectly, whether in cash or in kind, by the employer to the worker and arising out of the worker's employment. In practice, this means all elements of payment to employees for their work, including superannuation payments, discretionary payments, allowances, bonuses, commissions, performance or merit payments, and non-cash benefits such as cars, loans, laptop computers and mobile phones.

Many countries in the world such as France, Japan, and Taiwan, etc. employ the same definition of remuneration, stating that the remuneration is an amount of money paid to someone for the job or task they have done.

Remuneration is very crucial to both employees and employers. For employees, the salary or wage is the main income to help them regain their health after hard-working days and support their family and evidently reflects their competence and performance. For an enterprise, it accounts for a large percentage of the overheads and is also the most effective tool of human resource management if utilized properly.

Remuneration is comprised of basic wage or salary, allowances, bonuses, and benefits.

Basic wage or salary is determined on the ground of job complexity, working conditions, employee's competence, and market price. It is regularly paid by the

employer to employees for work they have done in accordance with working hours or the product unit price and excludes additional emoluments such as overtime, incentive allowances, and required insurance, etc.

In Vietnam, the state-stipulated pay scales are by far lower than the market ones, whereas the total amount of premium for social security, health care, and unemployment insurance accounts for 30.5% of the wage fund in 2012. Therefore, in order to reduce costs, many local enterprises have employed two kinds of payrolls: (i) the basic payroll based on official pay coefficients and scales and used for calculating premiums for insurance policies; and (ii) the business payroll based on the competence and position of employees. In essence, the business salary equals basic salary plus allowances, bonuses, or overtime, etc.

Bonus is an extra amount of money added to the employee's regular pay by the employer as a reward for the excellent completion of the assignment. It is deemed as a material incentive which can encourage the employee to work harder and more efficiently. There are many kinds of bonus such as productivity bonus, innovation bonus, achievement bonus, etc.

Allowance is an additional amount of money paid to employees as a compensation for their working in unstable or uncomfortable conditions, which has not been subsumed or specified in the basic salary, such as overtime, night shift allowance and traveling expense. In Vietnam, many payments are labeled as allowances; yet in fact they are not by nature. Job title allowance intended for managers is by nature the responsibility salary. Allowances of car travel, communication, etc. are indeed part of overheads that the employer has employees cover.

Benefits are regular sums of money often paid indirectly to employees for the non-working time in form of social insurance, medical care, retirement pension, and other services provided by the employer such as babysitting, medical check-up, etc. In some countries, the salary is comprised of direct and indirect amounts of money. The direct one includes basic salary or wage, commissions, allowances, and bonuses, whereas the indirect one is mainly benefits. In essence, benefits reflect the employer's concern for employees. Some payments, although labeled as bonuses and made equally to each employee no matter how efficiently they work (i.e. holiday bonuses, the thirteenth-month bonuses, etc.), are merely kinds of benefit. In brief, in Vietnam the term "benefit" is construed as indirect and direct payments to employees.

Take-home pay is the amount of money that employees earn after they have paid income tax and other compulsory insurance. It is often comprised of basic salary, allowances, bonuses, and commissions. Therefore, if the basic salary is low and other amounts (allowances, bonuses, commissions) are high, the take-home pay is high as well.

Gross salary is the pre-tax earnings of the employees including all payments made by the employer to employees such as basic salary, allowances, bonuses, benefits, optional and obligatory insurance, and personal income tax (if any). The gross salary fully reflects the employee's actual earnings.

The pay scale can be the basic salary, the take-home pay, or the gross earnings.

b. Defining and Measuring Pay Satisfaction:

Like job satisfaction, motivation, etc., pay satisfaction can be defined and measured in two ways.

- Pay satisfaction is a unidimensional concept. This approach is often taken into account when the pay satisfaction is deemed as a factor that together with others such as managerial satisfaction, environmental satisfaction, etc. brings about the employee's behavioral outcomes like job satisfaction (Oshagbemi, 1999), motivation (Kovach, 1987); or when the global pay satisfaction is measured. The global pay satisfaction reflects the employees' general emotion at the payment for their job in comparison with their expectations.

- Pay satisfaction is a multidimensional concept. From this approach, pay satisfaction reflects the employees' emotion at each component of the remuneration such as basic salary or wage, bonuses, allowances, benefits, take-home pay, gross salary, pay administration, etc. This approach was employed by DeConnick, Stilwell and Brock (1996); Heneman and Schwab (1985); and Williams, Carraher, Brower and McManus (1999). Studying the employee's satisfaction with each component of the pay will enable the employer to gain knowledge of how such a component is evaluated in the pay system, and then comes up with ways to perfect it. In this paper, the multidimensional approach will be employed.

In 1979, Heneman and Schwab developed the Pay Satisfaction Questionnaire (PSQ) with five dimensions, which then, in 1985, was adjusted into four namely pay level, pay raise, benefit, and pay administration. The pay administration is the way of establishing the pay system, policies, principles, and regulations, calculation, and

transparent disclosure. The four-dimension PSQ is considered as a breakthrough in the study of pay satisfaction and employed by Heneman, Greenberger and Strasser (1988); DeConick, Stilwell and Brock (1996); and Trailer and Jeff (2005).

c. The Employees' Loyalty:

This paper follows the perspective of Price (1979). Accordingly, the loyalty expresses a strong intention or desire of being attached to the organization.

d. The Relationship Between Pay Satisfaction and Loyalty:

The relationship between pay satisfaction and loyalty is studied via the relationship between job satisfaction (which includes components of the pay as well) and the loyalty of employees (Chang, Chiu & Chen, 2010). According to a survey of Vietnamese enterprises by Lê Quân (2011), the ratio of resignation for pay reasons represents 40%. Another study by Trần Kim Dung (2011) also arrives at a conclusion that the employee's resignation derives from dissatisfaction with salary.

e. Research Model and Hypotheses:

This paper investigates how the four dimensions of pay satisfaction developed by Heneman and Schwab (1985), that is, pay level, pay raise, benefit, and pay administration affect the employee's loyalty. It is true that once the employee is satisfied with the pay, they will have a strong desire to attach to the enterprise in long time.

It is hypothesized that:

- H1: The satisfaction with pay level has positive effects on the employee's loyalty.
- H2: The satisfaction with pay raise has positive effects on the employee's loyalty.
- H3: The satisfaction with benefits has positive effects on the employee's loyalty.
- H4: The satisfaction with pay administration has positive effects on the employee's loyalty.

By actual observations, it is apparent that internal equality has more profound influence on the employee's loyalty than external one (i.e. the market pay level); and thus the fifth hypothesis is:

- H5: The satisfaction with pay administration has stronger effects on the employee's loyalty than the satisfaction with pay level.

3. SAMPLING

Due to the fact that employees with high educational level (at least college graduates) always anticipate higher salary and promotion opportunities and tend to resign to seek for a better position, they will be the subjects of the research. Accordingly, a population of 300 office workers working in HCMC was directly interviewed, and there are 224 appropriate responses in return.

Of 224 respondents, there are 136 females (60.7%), and 88 males (39.3%). In terms of age, there are 66 respondents under 26 (29.5%); 180 in the bracket of 26-35 (62.5%); and 18 persons above 36 (8%). In terms of education, those having graduated from a three-year college or a post-secondary school account for 12.5%; and the remainder is for those with a university degree or higher. In terms of seniority, 125 persons have been working less than three years (63.5%); 21.9% of them with a seniority of three to five years; 14.7% with above five years' seniority. In terms of the monthly net income, respondents who earn less than VND5 million account for 16.1%; from VND5 million to VND10 million 53%; and more than VND10 million 53%.

4. SCALE TESTING AND DATA PROCESSING

The 18-item and four-dimension PSQ by Heneman and Schwab (1985) is employed as a basis for group discussions. Through the discussions, the item “direct managerial impacts on the pay” is rejected and superseded with another one, that is, “the bonus is corresponding to the real performance”.

The scale of employees’ loyalty is derived from the measure of organizational attachment which was developed by Mowday, Steers and Porter (1979). The item “I can do anything to remain in the organization for my lifetime” is not suitable to measure the loyalty of present-day young intellectuals, and thus is left out. The scale is composed of three observed variables which will be tested in the measurement model. The five-point Likert scale with level 1 as “absolutely disagree” and level 5 as “absolutely agree” is also employed.

After testing the Cronbach Alpha, the confirmative factor analysis (CFA) is performed to test whether constructs of the scale, the measurement model and the research model is consistent using statistical measurements such as the Chi-square, the degree of freedom (df), P-value, CFI, GFI, TLI, RMSEA, the composite reliability, the total variance extracted, the unitarity, the convergent validity, and the discriminant validity. The Maximum Likelihood test is also used to evaluate these measurements since the skewness and the kurtosis of all variables range between -1 and +1.

Scale testing:

The Cronbach Alpha of the four-dimension PSQ ranges between 0.76 and 0.91. The CFA generates some parameters such as $\chi^2[96] = 185.881$; GFI= 0.905; TLI= 0.946; CFI=0.957; RMSEA=0.065 (see Table 1); and two items of the dimension “pay administration” are omitted due to their low factor loading.

Table 1: The CFA Results

| | Number of items | Composite reliability (ρ_{pc}) | Variance extracted (ρ_{vc}) | Mean (λ) | Results |
|--------------------|-----------------|---------------------------------------|------------------------------------|--------------------|--|
| PSQ | 4 | 0.8592 | 0.5549 | 0.7370 | Satisfactory |
| Pay level | 4 | 0.9133 | 0.7291 | 0.8445 | Satisfactory |
| Pay raise | 4 | 0.7982 | 0.5020 | 0.7018 | Satisfactory |
| Benefits | 4 | 0.8958 | 0.6851 | 0.8228 | Satisfactory |
| Pay administration | 4 | 0.7637 | 0.4488 | 0.6673 | ρ_{vc} rather low, yet acceptable |
| Loyalty | 3 | 0.7902 | 0.5571 | 0.7457 | Satisfactory |

5. TESTING RESULTS

Since the research model revolves around two main concepts (i.e. the pay satisfaction and the employee's loyalty), the results of both the measurement and the research model are similar. The model has acceptable values like Chi-square (140) = 279.695; p=0.000; GFI= 0.882; TLI=0.929; CFI= 0.942; RMSEA=0.067. The correlation coefficient between dimensions of pay satisfaction and the general satisfaction with salary ranges between 0.313 and 0.76. The $(1-r)/SE > 1.96$ reflects the discriminant validity of the concepts.

Table 2: Hypotheses Testing Results

| | Evaluation | SE | CR | p |
|---------------------|------------|-------|-------|-------|
| Pay level → Loyalty | 0.246 | 0.048 | 3.279 | 0.001 |
| Pay raise → Loyalty | 0.175 | 0.082 | 1.638 | 0.101 |

| | | | | |
|------------------------------|-------|------------|-------|-----------------|
| Benefits → Loyalty | 0.241 | 0.077 | 2.939 | 0.003 |
| Pay administration → Loyalty | 0.407 | 0.117 | 3.408 | 0.000 |
| χ^2 versus (df) | | | | |
| χ^2 1 | df1 | χ^2 2 | df2 | Δ df |
| 301.05 | 141 | 279.695 | 140 | 21.355 |
| | | | | $\Delta \chi^2$ |
| | | | | 1 |
| | | | | P-value |
| | | | | 0.000 |

In conclusion, the hypotheses H1, H3, H4 are not rejected. Pay level, benefits, and pay administration have statistically significant effects on the employee's loyalty. The H2 is rejected because its statistical significance is 0.101; which implies that the pay raise does not influence the employee's loyalty.

The influential level of pay administration and pay level on the employee's loyalty is 0.407 and 0.246 respectively. Suppose that these two levels are equivalent, we have the following results: Once the degree of freedom (df) reduces by one unit, the Chi-square fluctuates 21.355 and has P-value = 0.000. This means that impacts of pay administration on the employee's loyalty is stronger than and significantly different from that of pay level. The hypothesis H5 is not rejected.

The mean of satisfaction with pay level and pay administration is identical. The pay satisfaction can explain 72.5% of differences in loyalty. The four-dimension PSQ is appropriate to measure the pay satisfaction in the context of Vietnam.

6. DISCUSSION

Rejection of the hypothesis H2 (i.e. the pay raise has positive impacts on the employee's loyalty) can be explained as follows. In the past, the government has constantly adjusted the base salary as a remedy to high inflation; and many enterprises are forced to adjust their pay according to the market price or the governmental regulations. The facts that the base salary was adjusted up to VND2 million from VND1.350 million (i.e. a rise of 48%) in October 2011, the bank rate reached over 20% p.a., and the purchasing power declined have really worried plenty of enterprises. They must have tried their best to satisfy the governmental requirement for base salary raise and have no financial resources for other regular or ordinary pay raises.

At present, the exorbitant market prices have made the real take-home pay of employees fall. In a research, around 37% of respondents state that the current pay scale is too low for them to support the daily life (Trần Kim Dung, 2011). In this paper,

the author shows that pay administration but not pay level deeply affects the employee's loyalty. Moreover, the research also reveals that among items of pay administration, the employees give top priority to a reform in pay administration. Therefore, to improve the employee's loyalty, it is necessary for enterprises to formulate a more appropriate pay administration.

7. REASONS AND SOLUTIONS FOR IMPROVING THE EMPLOYEE'S SATISFACTION WITH PAY ADMINISTRATION

a. Many office workers are dissatisfied with current calculation of salary on the basis of the government's pay scale. When enterprises establish salary indices on their own, they often lack scientific bases, objectivity, and market disclosures. Worse, it is adversely affected by egalitarianism and old-fashioned regimes. Seniority-based payment also causes many of local enterprises to pay a very low salary to a highly-qualified employees and a very high one to low performers. Enterprises should establish their own pay scale which may supersede the government's lawful one. Yet, the establishment of a private pay scale must be based on the value of work and the market pay scale. Advisedly, the enterprise's payment should observe the following three factors: job title, personal competence, and performance.

b. The base pay and bonuses do not go along with performance. The fixed salary ratio is too high to motivate employees. Some enterprises, despite wanting to employ a high bonus payment policy, do not know how to carry it out appropriately due to a fact that they have yet to quantify targets or precisely evaluate the performance of departments (including the sale and production department). It is possible to consult some extant motivating payment policies as follows:

- Extend the pay multiple on the basis of the market one in order to enhance the attraction and retention of qualified workers; outsource or re-enter into a new labor contract with highly-paid workers (who enjoy high salary due to the seniority-based regime) in the hope of reducing the pressure on the salary fund.

- Formulate principles and regulations to determine the salary fund and allocate income according to work performance; encourage workers to work better by favorable bonus policies; establish a progressive pay mechanism which will not exceed the allowed fund limit for the sake of sale and production departments; and eradicate the seniority-based payment regime, especially for senior managers. The higher the

position of a manager, the heavier his/her income depends on the business performance.

- Establish the principle of linking work performance of an employee, and his/her bonuses, with those of his/her team (or division and department).

- Identify the kernel of the staff and rare competence in labor market to formulate appropriate incentive and preferential policies.

c. Payment administration lacks transparency, adequacy, and consistency; and thus causing difficulties in management. Many enterprises do not adopt a consistent payment administration, which raises queries and comparison among workers. Therefore, the enterprise should modify and improve its payment mechanism (including salary, bonuses, benefits, and allowances) to assure its consistency and equality.

d. Many managers do not have profound conception of salary payment. They seem to show no interest in making a good salary strategy and just consider the pay as a business cost; and therefore, they may cut back on bonuses and monthly salary instead of other inappropriate expenses once the enterprise faces financial troubles. In the 21st century, many enterprises in the world have started to consider workers as human capital; therefore, if Vietnamese managers keep treating their workers as employed and paid labors, and salary as a business cost, they fall roughly 40 years behind the world and are reducing their human resource competitiveness.

e. Many personnel officers are not competent enough to act as advisors to their superiors or to set up a good pay schedule and an effective payment policy. In addition, Vietnamese universities have neither had any official document that guides how to formulate and administer the market-based payment system nor included a related module in their curriculum. This confounds local enterprises when they extremely want to improve skills and professionalism of their human resource managers. Hence, it is necessary to compile a new guiding literature relevant to payment schedule and administration and then teach it as a compulsory subject for majors in human resource management.

8. RECOMMENDATIONS TO LABOR MANAGEMENT AUTHORITIES

A labor market disclosing system should be developed to provide enterprises with knowledge of the common pay level in the market, the salary multiple, and present and future top jobs.

It is advised that state enterprises establish their own pay scale, abrogate the ceiling pay level, and fully empower general directors or chief executive officers to make a performance-based payment to their employees.

It is noteworthy that enterprises cannot reform the payment system without restructuring their organization and personnel structure, reforming the evaluation system, and establishing an appropriate cultural environment.

9. CONCLUSION

This paper makes a two-fold contribution. Theoretically, the paper has tested the four-dimension PSQ by Heneman and Schwab (1985) in the current context of Vietnam. Empirically, the paper shows how each factor of the pay satisfaction influences the loyalty of Vietnamese office workers. The fact that the pay administration has stronger impact on the employee's loyalty than the pay level can help business managers work out appropriate solutions for enhancing the loyalty of their employees without being restricted by the salary fund.

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