



## Impact of Pay Satisfaction on Employee Engagement and Employee Intention to Turnover

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Article History	Abstract
Received: 06 June 2023 Revised: 05 Sept 2023 Accepted: 13 Dec 2023	<p><i>Purpose: The purpose of this research paper was to investigate the impact of pay satisfaction on employee engagement and employee intention to turnover.</i></p> <p><i>With the current tight labor market, competition for top talent is fierce. Organizations that can offer competitive pay and benefits packages are more likely to attract and retain the best employees. High turnover rates can be costly for organizations, both in terms of the direct costs of recruiting and training new employees, as well as the indirect costs of lost productivity and customer service. By offering competitive pay, organizations can reduce turnover rates and keep their best employees. Employee engagement is crucial for organizational success. Pay satisfaction is one of the key drivers of employee engagement, so organizations that can offer competitive pay and benefits are more likely to have engaged employees who are more productive and provide higher quality customer service. Design/Methodology/Approach: This study is exploratory study and was conducted on the employees of the five private banks in Mumbai. A sample of 200 employees was randomly selected to study their pay satisfaction, employee engagement and turnover intention. Originality/value The study surveyed impact of pay satisfaction on employee engagement and turnover intentions of employees.</i></p>
CC License CC-BY-NC-SA 4.0	<b>Keywords:</b> Pay satisfaction, Employee Engagement, Turnover Intention

### 1. Introduction

The rise of the gig economy and the increasing number of independent contractors and freelancers has made it more difficult for organizations to retain employees. Organizations with attractive pay and benefits are more likely to retain employees in today's highly mobile workforce. Productivity is key to organizational success. Research shows that employees who are satisfied with their pay are more likely to be engaged in their work and provide higher quality customer service.

Employee satisfaction with pay has been a topic of importance which is studied since decades. Its importance to managers and researchers is due to the fact that "pay satisfaction has the potential to affect a wide range of behaviors in organizations and contribute to employees' levels of wellbeing" (Williams, Margaret & Mcdaniel, Michael & Nguyen, Nhung, 2006). To many, pay satisfaction is positively correlated with job performance. Employees, who are more satisfied with their pay, tend to perform better than those who are less satisfied (Williams, Margaret & Mcdaniel, Michael & Nguyen, Nhung, 2006).

Pay satisfaction can be defined as the "amount of overall positive or negative affect (or feelings) that individuals have toward their pay" (Miceli & Lane, 1991, p. 246). Pay in the above definition refers to direct and indirect forms of compensation. Direct compensation includes i.e. financial e.g. cash payments, salary paid and indirect compensation includes non-financial benefits like non-cash benefits.

Pay satisfaction refers to an employee's level of satisfaction with their current salary, benefits, and overall compensation package. It is considered a fundamental aspect of employee motivation and job satisfaction. Employee engagement, on the other hand, refers to an employee's psychological investment and involvement in their work, leading to better organizational outcomes. Kahn (1990) defines employee engagement as "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).

Many studies have studied various consequences of pay satisfaction. Authors have linked pay satisfaction to organizational commitment (Rue & Byars, 2005). Satisfaction will influence commitment. Another study by (Blase & Blase, 1999) found that employees who felt they were paid fairly and received equitable compensation were more likely to be committed to their organization. The study also found that pay satisfaction was positively related to job satisfaction and organizational commitment.

An employee’s attachment to an organization is essential because it affects their retention in the organization as well contributing to other positive behaviours Allen & Meyer (1996). When a talented employee leaves, an organization loses a valuable employee and the accumulated knowledge associated with the core capabilities that the organization is dependent on (Droege & Hoobler, 2003). Employee turnover is a major concern for many organizations and has significant financial and operational consequences. One of the primary drivers of employee turnover can be dissatisfaction with compensation and benefits, including pay.

### **Social Exchange Theory**

Social Exchange Theory by Blau, 1964 states that any voluntary action taken by organization is reciprocated by employees in various ways. Positive actions taken by organizations or representatives for betterment or development of employees are perceived highly positive by the employees and creates high quality exchange relationships which in turn creates obligations among employees to reciprocate positively towards organizations. Positive action by organization in form of pay is perceived highly positive by the employee which in turn is reciprocated by employees in form of high engagement levels and high retention in the organization.

### **Equity Theory**

One of the theories that explain the relationship between pay satisfaction and employee engagement is the equity theory. This theory suggests that employees compare their pay to the pay of others and if they believe their pay is unequal, it can lead to lower levels of job satisfaction and pay satisfaction.

### **Need theory**

Another theory is the need theory, which suggests that employees have certain needs such as financial security, recognition, and achievement. If these needs are met, it can lead to higher levels of job satisfaction and engagement. Pay satisfaction can play a significant role in meeting these needs, as it can provide financial security and recognition.

Correspondingly, as noted by above theories individuals with high pay satisfaction are more likely to be engaged and less likely to consider other job opportunities.

In short, pay satisfaction is crucial to employee retention, engagement, and overall organizational success. In today’s fast-paced business environment, organizations that can offer competitive pay and benefits are more likely to attract and retain competent employees and improve their overall performance. Various studies are conducted on pay satisfaction or perception of pay fairness/equity in pay but limited research is available on relationship of pay satisfaction with employee engagement and turnover intention in Banks. Thus, one of the most important areas of research in the field of human resource management includes understanding the base of pay satisfaction and its impact on various employee outcome variables.

## **2. Materials And Methods**

To examine the relationship between pay satisfaction and employee engagement, the study used a survey research design to collect data from a sample of 200 employees working in banks in Mumbai. The sample was selected from five private banks using simple random sampling method. The survey consisted of two main components: a measure of pay satisfaction and a measure of employee engagement. The pay satisfaction scale was adapted from H. G. Heneman & Schwab, 1985 i.e. Pay Satisfaction Questionnaire (PSQ) and consisted of 18 items. The employee engagement scale was adapted from the Gallup Q12 survey and consisted of 12 items. To study turnover intentions of employees, six item scale of turnover intention scale (TIS-6) was used. The data was analysed using descriptive statistics and correlation and regression analysis.

Objectives of the Study:

To study impact of pay satisfaction on employee engagement.

To study impact of pay satisfaction on turnover intentions of employees.

Hypothesis for the study:

H0: There is significant relationship between pay satisfaction and employee engagement.

H1: There is significant relationship between pay satisfaction and employee engagement.

The hypothesis suggests that employees who are satisfied with their pay are more likely to be engaged in their work and invested in their job, leading to higher levels of motivation, job satisfaction, and overall performance.

H0: There is significant relationship between pay satisfaction and turnover intentions of employees.

H1: There is significant relationship between pay satisfaction and turnover intentions of employees.

This hypothesis suggests that there is a relationship between an individual's satisfaction with their pay and their likelihood of leaving their job. The hypothesis predicts that as pay satisfaction decreases, so will employee commitment to the organization, and there will be a corresponding increase in employee intention to turnover.

### 3. Results and Discussion

Correlation between Pay Satisfaction and Employee Engagement			
		PS Score	EE Score
EE Score	Pearson Correlation	1	0.754**
	Sig. (2-tailed)		.000
	N	500	500
PS score	Pearson Correlation	0.754**	1
	Sig. (2-tailed)	.000	
	N	500	500

\*\* . Correlation is significant at the 0.01 level (2-tailed).

The results showed a strong positive correlation between pay satisfaction and employee engagement ( $r = .75$ ,  $p < .01$ ). This indicates that as pay satisfaction increases, employee engagement also increases.

### Regression Analysis

Regression Model for Pay Satisfaction and Employee Engagement						
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	30.618	1.416		21.618	.000
	PS score	.590	.017	.847	35.491	.000

a. Dependent Variable: EE Score

Above table displays results of regression analysis examining the impact of pay satisfaction on employee engagement among respondents of the study. From the above table, it can be seen that p value is 0.000. Since the p value is less than 5%, the null hypothesis is rejected and therefore impact of pay satisfaction on employee engagement is statistically significant.

**Table 1:** Model Summary of Regression Analysis between Pay Satisfaction and Employee Engagement

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.847 <sup>a</sup>	.717	.716	5.407

a. Predictors: (Constant), PS score

The results showed that there was a strong relationship between pay satisfaction and employee engagement. The regression analysis showed that pay satisfaction accounted for 71% of the variation in employee engagement. This indicates that pay satisfaction has a significant impact on employee engagement.

Correlation between Pay Satisfaction and Turnover Intentions			
		TI Score	PS Score
TI Score	Pearson Correlation	1	-.554**
	Sig. (2-tailed)		.000
	N	500	500
PS score	Pearson Correlation	-.554**	1
	Sig. (2-tailed)	.000	
	N	500	500

\*\* . Correlation is significant at the 0.01 level (2-tailed).

The results showed a strong negative correlation between pay satisfaction and turnover intentions of employees ( $r = -.554, p < .01$ ). This indicates that as pay satisfaction increases, intentions of employees towards turnover decreases.

**Regression Analysis**

Regression Model for Pay Satisfaction and Turnover Intention						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	37.172	.843		44.074	.000
	PS score	-.159	.011	-.554	-14.865	.000

a. Dependent Variable: TI Score

Above table displays results of regression analysis examining the impact of pay satisfaction on employee engagement among respondents of the study. From the above table, it can be seen that p value is 0.000. Since the p value is less than 5%, the null hypothesis is rejected and therefore impact of pay satisfaction on turnover intention is statistically significant.

**Table 2:** Model Summary of Regression Analysis between Pay Satisfaction and Turnover Intention

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.554 <sup>a</sup>	.607	.306	2.823

a. Predictors: (Constant), PS score

The results showed that there was a strong relationship between pay satisfaction and employee engagement. The regression analysis showed that pay satisfaction accounted for 60% of the variation in turnover intention. This indicates that pay satisfaction has a significant impact on turnover intention of employees.

The findings of this study support the hypothesis that pay satisfaction has a significant impact on employee engagement and turnover intentions of employees. These results are consistent with previous research, highlighting the importance of addressing pay satisfaction as a means of improving employee engagement. The results also support the equity and need theories, as employees who are satisfied with their pay are more likely to be engaged in their work.

The implications of these findings are important for organizations. They suggest that organizations should pay attention to their employees' pay satisfaction and take steps to ensure that their employees are satisfied with their pay. This can include offering competitive pay, providing opportunities for advancement, and offering benefits and incentives.

Organizations can improve pay satisfaction by regularly reviewing and updating their compensation policies, offering competitive salaries and benefits, and providing transparent and fair processes for determining pay and promotions.

### **Theoretical Contribution**

The study provides evidence to support the claim that pay satisfaction is a significant determinant factor in employee engagement and turnover intentions. According to the findings, pay satisfaction and employee engagement significantly correlate also pay satisfaction and turnover intention of employees significantly correlate. Results of the study highlighted that employee engagement levels can be enhanced by providing monetary and non-monetary rewards. The study is an agreement to survey results conducted by the previous research, it has shown a strong relationship between pay satisfaction and employee engagement. A study by (Kanter et al., 2006) found that employees who were highly satisfied with their pay were more likely to be engaged in their work, leading to higher levels of productivity and job satisfaction.

### **Managerial Implications**

Managers thus must work towards providing right mix of direct and indirect pay. Managers must reward and recognize top performers. Managers must create employee resource groups with objective of addressing pay issues. This will improve pay related mechanism existing in the organizations.

### **Limitations and future research**

The study has some limitations, including a small sample size and a focus on five organizations. Future research could include a larger sample size and a wider range of organizations to further examine the relationship between pay satisfaction and employee engagement.

Future studies can consider employee engagement as mediator/moderator between pay satisfaction and intention to turnover. Future research can also consider using structured equation modelling for robust results. Above model of study can also be extended to other sector.

### **4. Conclusion**

In conclusion, this study has shown that pay satisfaction has a significant impact on employee engagement and pay satisfaction is a critical factor in determining employee engagement. Organizations should pay attention to their employees' pay satisfaction and take steps to ensure that their employees are satisfied with their pay. Organizations that prioritize pay satisfaction and ensure their employees are satisfied with their compensation are likely to experience higher levels of employee engagement, better employee retention and other organizational outcomes.

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