



IMPACT OF PAY SATISFACTION ON EMPLOYEE PERFORMANCE: A STUDY BASED ON THE DEPARTMENT OF ANIMAL PRODUCTION AND HEALTH, PERADENIYA

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1. INTRODUCTION

Employee performance is the most important concept in human resource management in an organization. It refers to how workers behave in a workplace and how they perform or react to their assigned job duties. Armstrong (2012) stated that performance is a complicated notion and it is often regarded as an outcome achieved from day-to-day working life. It is a form of performance assessment. On the other hand, performance management is an essential part of effective human resource management and developmental intervention in the human resource portfolio (Lawler, 1971). An organization generally sets individual and overall performance goals to deliver goods of value to the customers and implement operational activities efficiently in an organization. There are many factors that affect employee performance, such as leadership, coaching, work environment, motivation, pay, rewards, training, job autonomy, cultural adaptability, intrinsic motivation, organizational climate, and innovation (Armstrong & Murlis, 2004; Champathes, 2006; Janssen, 2004; Jobber and Lee, 1994; Swanson, 1999; Pulakos, 2004; Morgeson et al, 2005; Armstrong, 2012; Price, 1997).

Pay is one of the vital factors that directly affects employee performance and the achievement of employee productivity and motivation (Armstrong, 2010; Barton, 2002; Bishop, 1987; Kohn, 1993; Sonawane, 2008; Heathfield, 2012; Pouliakas, 2010; Millan et al. 2013; Porter et al. 1975; Prendergast, 1999; Akerele, 1991; Nwachukwu, 1994; Wood, 1974; Eisenberger et al. 1999; Staw, 1976; Armstrong, 2012; Bretz et al. 1992). Heneman and Schwab (1985) state that pay satisfaction is a subjective attitude towards staff pay. It has an impact on individuals and the major structure of organizations. According to Heneman and Schwab (1985), pay satisfaction includes four dimensions: satisfaction with pay level, pay benefits, pay raises and pay structure, and administration. These dimensions of pay satisfaction were used to formulate the four main research objectives given below:

1. To examine the impact of employee satisfaction with pay level on their performance at the Department of Animal Production and Health.
2. To identify the impact of employee satisfaction with pay benefits on their performance at the Department of Animal Production and Health.
3. To explore the impact of employee satisfaction with pay raises on their performance at the Department of Animal Production and Health.
4. To find the impact of employee satisfaction with pay structure/ administration on their performance at the Department of Animal Production and Health.

Accordingly, the following four main research questions were constructed to achieve the above research objectives:

1. Does the employee satisfaction with pay level impact their performance at the Department of Animal Production and Health?
2. Does the employee satisfaction with pay benefits impact their performance at the Department of Animal Production and Health?
3. Does the employee satisfaction with pay raise impact their performance at the Department of Animal Production and Health?
4. Does the employee satisfaction with pay structure/administration impact their performance at the Department of Animal Production and Health?



2. METHODOLOGY

The research context of this study is the Department of Animal Production and Health (DAPH). The DAPH presently operates through five technical divisions associated with animal health, animal breeding, veterinary research, human resource development, livestock planning and economics, and two support services divisions (administration and finance). In addition to the provision of technical expert service, the DAPH also implements a range of programmes based on the livestock sector in Sri Lanka. With the establishment of provincial councils in 1988, most of the DAPH field level functions were developed into nine Provincial Departments of Animal Production and Health (PDAPH) headed by provincial directors.

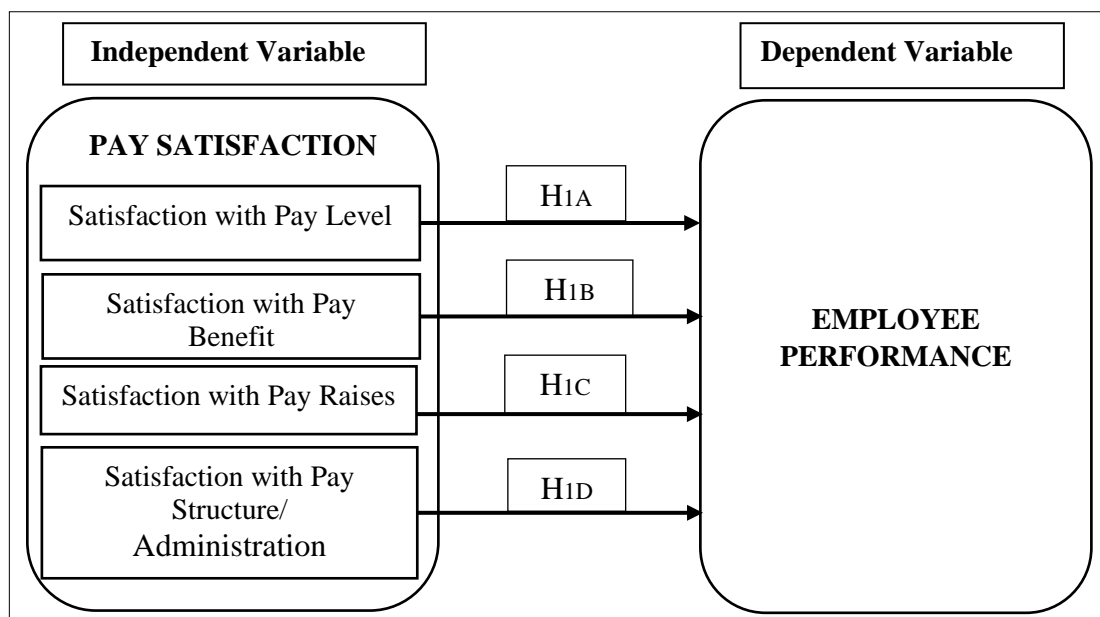


Figure 1: Conceptual framework (Developed by the researchers, 2020)

The conceptual framework demonstrates the theoretical environment of this study. Pay satisfaction was considered an independent variable which includes four dimensions; satisfaction with the pay level, pay benefits, pay raises, and pay structure/administration (Heneman and Schwab, 1985). Pay satisfaction is a subjective attitude of staff pay. It has an impact on both individuals and the structure of the organization. Supporting the link between pay satisfaction and outcomes at individual level of analysis is an equity model of pay satisfaction (Heneman and Schwab, 1985). Pay satisfaction is strongly expected to predict the employee satisfaction with the pay level received by the employees (Miceli and Lane, 1991). Satisfaction with pay benefits interpret benefit coverage and employee cost (Dreher et al. 1988). Miceli and Lane (1991) hypothesized that manager influence positively predicts satisfaction with pay raises by increasing the pay. Miceli and Lane (1991) discovered that adherence to formal performance appraisal standards significantly influences the perceived fairness of the pay system for managers and executives. Employee performance was considered a dependent variable of the study. It depended on their internal satisfaction with their job. When employees are satisfied with their jobs, they are keenly interested in performing well towards organizational goal achievement (Harter and Schmidt, 2000). Thus, performance is the multi-component concept and the process aspect of performance that can distinguish the behavioral engagements from an expected outcome at a fundamental level (Borman and Motowidlo (1993). Borman and Motowidlo (1993) stated that there is a relationship between task performance and contextual performance as dimensions of employee performance. According to the conceptual framework, the study developed and tested the following hypotheses to achieve the research objectives.

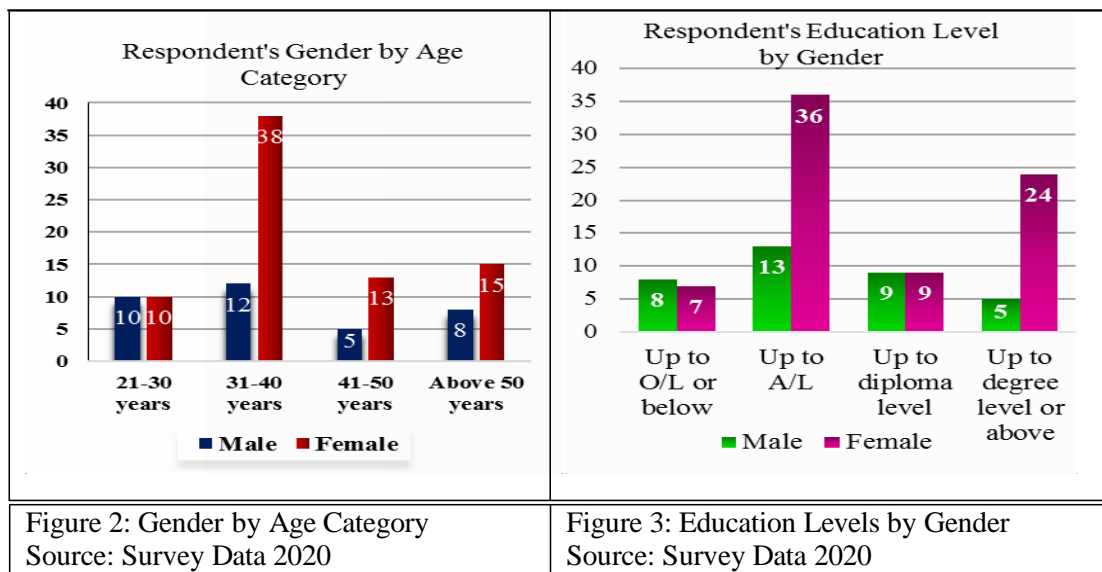


- **H1A:** There is a significant impact of employee satisfaction with pay level on their performance at the Department of Animal Production and Health.
- **H1B:** There is a significant impact of employee satisfaction with pay benefits on their performance at the Department of Animal Production and Health.
- **H1C:** There is a significant impact of employee satisfaction with pay raises on their performance at the Department of Animal Production and Health.
- **H1D:** There is a significant impact of employee satisfaction with pay structure/administration on their performance at the Department of Animal Production and Health.

Yu (1996) developed a questionnaire including sixteen questions about employee performance. It was used to conduct a preliminary study among 30 employees to identify the nature of their performance at the DAPH. According to the preliminary study, the performance of the employees of the DAPH remained at a low level (Mean performance = 2.06). The study employed the Five- Point- Likert scale method of the structured questionnaire to gather primary data through a survey method, under the quantitative research approach. (Questionnaire on Employee Performance – Yu, 1996 and Pay Satisfaction - Heneman and Schwab, 1985). The target population (population size) the study considered was 170 middle-level managerial employees at the DAPH. According to the Morgan table, 118 employees were selected through the method of simple random sampling and the response rate was 94%. The statistical techniques of correlation analysis and regression analysis were used to investigate the collected data using the Statistical Package of Social Science (SPSS). This study employed multiple regressions for formulating the regression equation for employee performance and pay satisfaction.

3. RESULTS AND DISCUSSION

The nature of the sample was explained by descriptive statistics. It is based on demographic variables: gender, categories of age, marital status, education level and work experience. The female respondents (male=32%, $f=35$; female=69%, $f=6$) were in the majority and the age group ranged between 31- 40 years (21 – 30 years=18%, $f=20$; 31- 40 years=45%, $f=50$; 41 – 50 years=16%, $f=18$; Above 50 years=21%, $f=23$). The majority of the respondents in the selected sample in this research context were married (single=32%, $f=35$; married=69%, $f=76$). Respondents with education up to A/L represented (up to O/L or below=14%, $f=15$; up to A/L=44%, $f=49$; up to diploma level=16%, $f=18$; up to degree level or above=26%, $f=29$) the majority with regard to the education levels, and the majority of the respondents had above 10 years of work experience (less than 1 year=10%, $f=01$; 1-5 years=21%, $f=23$; 6-10 years=23%, $f=26$; above 10 years=55%, $f=61$) in the middle-level managerial staff at the DAPH.



Validity and Reliability

Kaiser-Meyer-Olkin (KMO) test and Bartlett’s test values were used to measure the validity of this research. Kaiser (1974) suggested that acceptable values remain in the range greater than 0.5 ($KMO > 0.5$). According to Table 1, all the KMO (Kaiser-Meyer-Olkin) values of the variables are in the above mentioned range and they show that the research has an acceptable validity. Moreover, Bartlett’s test values are less than 0.05 in this result table. These values indicate the validity of this research. Reliability was measured using the Cronbach’s Alpha Values in the study. Accordingly, Cronbach’s alpha values are greater than 0.7. These items emphasize a relatively high internal consistency and an acceptable reliability coefficient with regard to this study.

Table 1: Validity and reliability of the variables

Variables	Kaiser-Meyer-Olkin Measure (KMO)	Bartlett’s Test	Cronbach’s Alpha (α)
Employee Performance (EP)	0.818	0.000	0.858
Satisfaction with Pay Level (PL)	0.617	0.000	0.775
Satisfaction with Pay Benefits (PB)	0.758	0.000	0.861
Satisfaction with Pay Raise (PR)	0.592	0.000	0.727
Satisfaction with Pay Structure/Administration (PA)	0.836	0.000	0.857

Source: Survey Data 2020

Correlation Analysis

There is a positive and significant relationship between the pay satisfaction and employee performance. The relationship between the employee performance and the satisfaction with pay level, pay benefits, pay raise and pay structure/administration is weak because the Pearson correlation values of the variables remain below + 0.5.

Table 2: Pearson Correlation Values

Variable	Correlations			
	Satisfaction with Pay Level (PL)	Satisfaction with Pay Benefits (PB)	Satisfaction with Pay Raise (PR)	Satisfaction with Pay Structure/Administration (PA)
Employee Performance	0.391**	0.406**	0.316**	0.449**



Sig. (2-tailed)	0.000	0.000	0.001	0.000
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Source: Survey Data 2020

Regression Analysis

According to the results of the regression analysis, fitted R Square model = 0.235, 23.5% of the variance in pay satisfaction is explained by employee performance. It revealed that the pay satisfaction has a low impact on employee performance at the DAPH.

Table 3: Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.485 ^a	0.235	0.206	0.38714
a. Predictors: (constant), satisfaction with pay level, pay benefits, pay raise, pay structure/administration				

Source: Survey Data 2020

The ANOVA table interprets that model 1 is statistically significant because the significant value of model 1 is 0.000.

Table 4: ANOVA Table

ANOVA						
Model		Sum of squares	Df	Mean square	F	Sig.
1	Regression	4.875	4	1.219	8.131	0.000 ^b
	Residual	15.887	106	0.150		
	Total	20.762	110			
a. Dependent variable: Employee performance						
b. Predictors: (Constant), satisfaction with pay level, pay benefits, pay raise, pay structure/administration						

Source: Survey Data 2020

Table 5: Coefficients Table

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.917	0.210	-	13.915	0.000
	Satisfaction with Pay Level (PL)	0.076	0.090	0.122	0.845	0.400
	Satisfaction with Pay Benefit (PB)	0.121	0.102	0.205	1.186	0.238
	Satisfaction with Pay Raise (PR)	- 0.186	0.100	- 0.320	- 1.856	0.066
	Satisfaction with Pay Structure (PA)	0.288	0.108	0.455	2.658	0.009
a. Dependent variable: Employee performance						

Source: Survey Data 2020

The study revealed that there is enough statistical evidence to accept the H1D while the other hypotheses related to model 1 in hypothesis testing were rejected (H1A, H1B, and H1C). As a result, this study proved that the satisfaction with pay structure/administration has a significant impact on employee performance at the DAPH. Previous research studies have shown how pay satisfaction impacts employee performance. Xu (2016) investigated how the



employee pay satisfaction affects job performance and developed hypotheses related to the relationship between the dimensions pay satisfaction and job performance. Thus, he found that there is a significant positive correlation between pay satisfaction and job performance. Miceli and Lane (1991) carried out research under the topic of ‘Antecedents of pay satisfaction’ and proved that salary level positively predicted satisfaction with pay level and age negatively predicted satisfaction with pay benefits. Furthermore, Miceli and Lane (1991) confirmed that pay raising positively predicted satisfaction with pay raises, and satisfaction with pay structure/administration positively predicted a managerial influence over pay. Dyer and Theriault (1976) hypothesized that the perceived accuracy of performance assessment is positively influenced by pay satisfaction. According to this discussion, some researchers have confirmed that there is a significant impact of pay satisfaction on employee performance and a positive relationship between pay satisfaction and employee performance, but some researchers have emphasized the opposite of these. However, these findings can provide a very useful guidance for the future research in Human Resource Management.

4. CONCLUSION AND RECOMMENDATIONS

The findings study showed that there is no significant impact of employee satisfaction with the pay level, pay benefits and pay raises on employee performance. Furthermore, the research discovered that satisfaction with pay structure/administration is the most useful dimension among the other dimensions of pay satisfaction contributing to improve employee performance at the DAPH. According to the findings of this study, government policies should recognize the right kind of pay for their employees who are highly motivated to put their best effort into completing their jobs. This will enhance the employees’ loyalty towards an organization, encouraging them to be more productive and gain job satisfaction. Furthermore, the research confirmed that the employees of the DAPH look for financial and non-financial benefits (medicine expenses, health insurance coverage, etc). Therefore, top-level managers should consider offering financial and non-financial benefits to improve their performance. Government policies should also pay attention to formulating and implementing new strategies related to the factors of satisfaction with the pay level, pay benefits, and pay raises such as their take-home pay, level of current salary, the size of current salary, package of benefits, the value of benefits, the most recent raise, influence of supervisors on their pay and raises in the past. The structure of the DAPH salary system has a significant influence on job/employee performance, and it is necessary to design the salary system to suit the employees through government policies in a way that it improves their job performance. If an organization pays more attention to personal initiative and fighting spirit, it will be more appropriate to adopt a differentiated salary structure. The size of an organization plays an important role in the productivity-related pay. It also explains that monetary pay has a high impact on employees in an organization and motivates them to achieve higher growth, performance, and productivity. The findings of the study are applicable only to the DAPH and they are not applicable to service providers and private sector organizations. The study used only a questionnaire to collect data, and the other data collection methods could be used in the future. The quantitative measurements used in this research are not suitable for the exploration of emotions, feelings, and behavioral concepts. The findings of the study on the impact of pay satisfaction on employee performance addressed only one aspect of human resource management.

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ABBREVIATIONS AND ACRONYMS

- ANOVA – Analysis of Variance
DAPH - Department of Animal Production and Health PL
– Satisfaction on Pay Level
PB – Satisfaction on Pay Benefit PR
– Pay Raise Satisfaction