

**THE COMPENSATION SATISFACTION AND ITS'  
INFLUENCE TOWARDS INTENTION TO LEAVE:  
ENGINEERS IN KOTA KINABALU**

**TEH ENG TECK**

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the degree of Master of Business Administration  
(MBA)**

**SEKOLAH PERNIAGAAN DAN EKONOMI  
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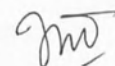
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## DECLARATION

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## ABSTRACT

This study aimed to study the compensation satisfaction among engineers working in consulting firms at Kota Kinabalu, Sabah. Questionnaire survey was used for data collection purpose. Besides compensation satisfaction, the intention to leave and the relationship between compensation satisfaction and intention to leave was also studied. The compensation satisfaction was further divided to four different dimensions which are pay level satisfaction, pay raise satisfaction, benefit satisfaction and pay structure and administration satisfaction. Each of it was tested individually as well for their significances. Finding of this study suggested that the respondents overall are slightly not satisfied in their compensation and relatively neutral in their intention to leave. The significance of relationship between compensation satisfaction and intention to leave was also established to a certain degree. The negatively associated relationship was also established but not to every dimension. The most influential dimension of was found to be pay raise satisfaction. This study suggests that attention shall be placed on compensation satisfaction for employee retention purpose while other factors that could lead to intention to leave should also be studied.

## ABSTRAK

### KEPUASAN KOMPENSASI DAN PENGARUHNYA TERHADAP KEINGINAN UNTUK MENINGGALKAN: JURUTERA DI KOTA KINABALU

*Kajian ini bertujuan untuk memahami kepuasan terhadap pakej kompensasi para jurutera yang berkhidmat di firma jurutera perunding di Kota Kinabalu, Sabah. Bagi mengutip data untuk kajian ini, borang soal selidik digunakan. Selain itu, keinginan jurutera untuk meninggalkan firma mereka turut diselidik bersama dengan hubungan kait antara kepuasan terhadap pakej kompensasi dan keinginan untuk meninggalkan firma. Kepuasan terhadap pakej kompensasi terbahagi kepada empat dimensi dalam kajian ini. Empat dimensi ini adalah kepuasan terhadap tahap gaji, kenaikan gaji, kebajikan dan juga struktur serta pentadbiran kompensasi. Setiap dimensi ini dikaji berasingan untuk mengetahui kesannya. Hasil kajian ini mencadangkan secara keseluruhannya, para jurutera tidak begitu puas dengan kompensasi mereka tetapi agak neutral dalam niat untuk meninggalkan firma mereka. Hubungan kait yang negatif antara keduanya turut terbukti dalam kajian ini tetapi hanya terhad kepada beberapa dimensi. Kajian turut mendapati kenaikan gaji merupakan dimensi yang paling penting dalam menentukan keinginan untuk meninggalkan firma. Kajian ini mencadangkan firma perlu meletak perhatian terhadap kepuasan kompensasi dan pada masa yang sama perlu mencari punca lain yang dapat mengurangkan keinginan para jurutera untuk meninggalkan firma.*

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## CHAPTER ONE

### INTRODUCTION

#### 1.0 Research Background

Consulting engineers had been regarded as professionals whom provide consultation with regards to engineering works. The professional conducts and practices of engineers were monitored by Board of Engineers, Malaysia (BEM), which is a statutory body and few others privately organized bodies such as Institute of Engineers, Malaysia (IEM) and Association of Consulting Engineers, Malaysia (ACEM). In order to practice as a professional engineer, one needs to obtain recognition from BEM through a series of training and examinations which would then provide the status of Professional Engineer (PE) that carries title of Engineer (Ir.). With this recognition, an engineer would then have the capacity to submit designs and drawings to authority for constructions' approval and other related works. Therefore, also upon gaining this, one could establish their own firm to provide consultation in their respective engineering field. In Sabah, local authority requires local consulting engineers firm to be hired for consultation purposes in order to obtain approval.

Currently, there are 617 consulting engineers in Malaysia registered with ACEM (Association of Consulting Engineers, Malaysia, 2008). In Kota Kinabalu, there were more than 100 consulting engineers firms providing consultation services. These included various engineering fields such as civil and structural, mechanical and electrical, geotechnical and etc. However, initial meetings with established consulting firms' owners suggested that they were often short of engineers. They suggested that most of the engineers work with their firm do not have much loyalty towards firm and change job for better compensation in new firm. To firms' owners, it is important they could retain their engineers within the firm for long period as they need time to train their newly hired engineers and it would be costly for them to keep training new engineers in view for the time invested. Revenue for a consulting firm generated from consultation fees they obtained through the designs and monitoring works to ensure the constructions works was carried out in accordance.



Most of these firms operate in a medium scale with few engineers attached besides the owner (principal). Others employees included draughtspersons and administration staffs. To these firms, the ability to retain employees is important due to the reason stated above which included cost of training and also to ensure smooth operation of the firms. Other than this, compensation contributes a large sum to a firm's expenses. Therefore, it required better understanding by any organization toward compensation satisfaction and their loyalty to the organization. This was agreed by Titus Oshagbemi (2000).

### **1.1 Problem Statement**

Unofficial meeting with consulting firm's owner suggested that they are often short of engineer due to the high turnover of their engineer. The reason as suggested by them for high turnover was dissatisfaction with their compensation. High turnover in these firms are indeed costly because the need for recruitment and training. Newly recruited engineer would need time to be trained in order to perform their duty well. This could also lead to lower productivity of a firm as the newly recruited engineers go through the learning curve.

However, these were claims made unofficially and no details data available in order to provide concrete evidence to these claims. Therefore, this study aimed to serves as preliminary survey to find out the compensation satisfaction among these engineers and the correlations between compensation satisfaction and intention to leave the firm as claimed.

Since compensation satisfaction was found to be multidimensional and much more complicated than satisfaction on the salary itself, this study would like to investigate which how each of these dimensions would be correlated to intention to leave.

### **1.2 Research Question**

This study aims to understand the employment history of engineers in consulting firm in order to understand the frequency of job changes and loyalty to a firm. Upon this,

the relativity to compensation dissatisfactions with regards to intensity to leave the firm. Other than that, various dimensions of compensations that perceived important to these engineers were also meant to be studied. Therefore, research questions to be examined in this study are:

1. What is the compensation satisfaction among engineers in Kota Kinabalu?
2. How compensations satisfaction correlated to their intention to leave?
3. What are the dimensions of compensations that attribute most to influence their intention to leave?

These questions also serve as guidance to the objective of this study.

### **1.3 Research Objectives**

As this study aims to answer the research questions suggested, the objectives of this study are:

1. To identify the compensation satisfaction among engineers in Kota Kinabalu.
2. To identify the effect of compensations satisfaction among engineers towards their intention to leave.
3. To identify the dimension of compensations that has most influence over their intention to leave.

### **1.4 Scope of Study**

This study will focus on compensation satisfaction, intention to leave among engineers and the significance of relationship between compensation satisfactions towards their intention to leave. The significance of difference compensation satisfaction dimension towards intention to leave would also being studied individually. The subjects would be engineers working in consulting engineers firms in Kota Kinabalu, Sabah. These consulting engineers firms included various fields, i.e. civil and structural, mechanical and electrical, and also geotechnical.

## **1.5 Significance of the Study**

This study will verify the claims on low compensations dissatisfaction among engineers working in consulting firm which was viewed as the reason for low loyalty and high turnover. The outcome of the study would either verify the validity of these claims or suggest otherwise which could lead to study in other factors affecting turnover intention among these engineers. To some extent, it would help firms' owner to better understand the significance of compensation satisfaction towards their intention to leave. Other than that, types of compensations that are favoured by these engineers would also be identified and enable them to design a compensations package that could better retain these engineers. This could also provide them with a basic in decision making for human resource management because they could better understand the cost of better compensate their engineer in order to retain them or cost incurred for recruitment and training of new engineers.

## **1.6 Limitations of the Study**

The subjects of this study are engineers in Kota Kinabalu. Therefore, it might not be sufficient to represent engineers in other locations due to differences in living standards, cultures, environments and etc. Besides, this study focused only on compensation satisfaction without considering other factors that might also contributed to intention to leave and level of loyalty towards a firm. In view of that, this study only could predict the intention to leave of an employee merely based on their compensation satisfaction.



## CHAPTER TWO

### LITERATURE REVIEW

#### 2.0 Introduction

As the objectives of this study is very much related to compensation satisfaction among engineers that might influence loyalty of engineers towards a firm and compensation satisfaction relativity to intention to leave, literatures on compensations and its types are to be reviewed. Other than this, multi-dimensions of compensation system that affect compensation satisfaction would also be studied.

#### 2.1 Compensation System

Pay had been the simplest and most fundamental compensation that had been adopted in order to compensate for the value of job done by employee. However, as time passed, other forms of none monetary benefits are also valued by employee as part of compensation system. These benefits included medical assistance, insurance, annual paid leave, sports and recreation facilities and etc. Benefits over time had been increasing became important to both employees and employers which had accounted up to 40% of total compensation today (Weathington & Tetrick 2000; Sinclair, Leo & Wright, 2005).

With increasing demand for different types of compensation, is important that an organization is able to design a compensation that is attractive to employee. This is because an effective compensation system had been a factor that attract and retain employees (Sinclair, Leo & Wright, 2005). It would also enable an organization to motivate their employee to work towards the organization's goal (Philips & Fox, 2003).

Besides the increased types of compensation, the bases for compensation had also evolved over time. Terms such as pay for performance, merit and etc are more prevalence nowadays. Heneman and Ledford (1998) even reviewed on



competency pay for professionals and managers in businesses. Another important factor that influenced the changes of bases for compensation is the evolvement towards jobless organization. This had made some organizations to move from traditionally job based pay towards person based pay (Klaas, 2002).

The evolvement in every aspect of compensation system over time showed organizations effort towards increasing compensation satisfaction among their employees besides attracting eligible personnel. This paper aims to focus on compensation satisfaction among existing employees.

## **2.2 Multidimensional of Compensation Satisfaction.**

Compensation satisfaction had long being associated to ones commitment towards their jobs. Pay as a major part of compensation is proved to affect on all level of employee towards their job satisfaction (Titus, 2000). However, rather than a straight forward measurement of pay, previous studies suggested that compensation satisfaction is multidimensional. One of the early studies contributed toward multidimensional of pay satisfaction was carried out by Heneman and Shwab (1985) which suggested four major dimensions which are pay level, benefits, pay increase and pay structures. This was widely accepted among other researchers although there are some arguments among the differences in dimension (Vandenberghe & Trembley, 2008). A study and better understanding of multiple dimensional of compensation satisfaction were carried out by Williams, McDaniel and Ford (2007).

From the four major dimensions of compensation satisfaction, pay level is the most fundamental dimension that contributed towards compensation satisfaction. Heneman, Porter, Greenberger and Strasser (1997) suggested that the relationship between pay level and satisfaction is in the function of power rather than linear correlated which induces that a unit increased in pay level would produce much higher satisfaction. This also provided us with the understanding of the significance of pay level satisfaction to overall compensation satisfaction. For this study, we are interested in its positive correlation rather than the actual relationship between the two.

The second dimension as mentioned above is benefits. Benefits are non-monetary rewards from an organization. Health benefit is one of the benefits that

commonly provided to employees. Others included insurance, paid leave, annual vacation and etc. Some organizations even extend this benefit to the family member of their employees. This type of non-monetary compensation is also valued by employees and often was rated with perceived value received by the employees. Sinclair, Leo and Wright (2005), through a study focused on benefit system and benefit level revealed that utilization of benefit system promoted employee retention.

Pay increase is another dimension of compensation satisfaction. This is even more significant to this study as it was targeted to existing employees. Over time, employees would expect for increase in pay throughout time. Pay increase satisfaction included level of increase, how the increase is determined in an organization and etc. Heneman, Greenberger and Fox (2002) suggested that pay increase satisfaction itself is multidimensional. They suggested that five distinctive dimensions which are pay increase amount, opportunity, requirements, personal control and rules. It is important to attribute that overall satisfaction in pay increase will increase compensation satisfaction. But in this study, pay increase would be viewed as one of the dimension of compensation satisfaction.

Final dimension in compensation satisfaction to be discussed would be structure and administrative. The perceived fairness in an organization's structure and administration of compensation system among employee would affect their total satisfaction in compensation system. Perception of fairness among employees in pay is important as perception of unfair compensation will lead to negative attitude towards their work (Sweeney, 1990). This is based on distributive justice concept where employee would rate how they are treated relative to their co-workers (DeConinck & Stilwel, 2004). The concept of procedural justice will also lead to perception of fairness in administering compensation system. Procedural justice refers to how employees perceived the procedure in decision regarding compensation system. Both of these concepts contributed much to the understanding of employees' satisfaction towards this final dimension of compensation satisfaction.

Although compensation satisfaction is multidimensional, it all contributed positively to retaining employees in a firm when overall compensation satisfaction is achieved (Vandenberghe & Tramble, 2008). Therefore in this study, these four dimensions would be used to explain the overall compensation satisfaction.

## **2.3 Factors Influencing Intention to Leave**

There are a number of factors that contribute to intention to leave among employees in any organisations. Researchers though out these times had established more than dozen of factors that influenced the intention of employees to leave an organization. Among the factors identified are compensation satisfaction, job satisfaction, job and organisation commitment, task characteristic and also social support. It would further discussed later in this chapter.

### **2.3.1 Compensation Satisfaction Effects on Intention to Leave**

Researchers had showed that not only the intention to leave, the real turnover also reduced with increased compensation satisfaction (Vandenberghe & Tramblay, 2008). This might partly due to increase in work motivation and commitment. It had been shown that compensation satisfaction will increase work motivation (Chiu, 1999) and commitment (Herpen, Praag & Cools, 2005). Some researchers concentrated on certain dimension of compensation suggested that certain dimension is having greater influence over intention to leave than others. One of this was discussed by Vandenberghe and Tramblay (2008) which suggested pay increase dissatisfaction showed more significant in intention to leave compared to pay level which did not really exhibit great significant in intention to leave. Other studies concentrated on other dimensions also suggested other results. These different dimensions would be tested in this study to identify the significance of each of it towards intention to leave. Whether how great are the significance of each dimension, overall compensation dissatisfaction was expected to be having influence in intention to leave.

### **2.3.2 Job Satisfaction Effects on Intention to Leave**

Job satisfaction is broad in definition and was regarded as an attitude towards the work. Job satisfaction was found to be much more complex as it contained much wider scope. Few facets such as satisfaction with co-workers, supervisor and pay were also part of job satisfaction (Manlove & Guzzell, 1997). Just as compensation satisfaction, job satisfaction was found to have negative effect on intention to leave (Chen, 2006). When employees are dissatisfied with their job, it would trigger their intention to leave as they look for other opportunities elsewhere. While job

satisfaction is being discussed, it also further strengthens the suggestion that compensation satisfaction would negatively affect the intention to leave as pay satisfaction was also one of the components of job satisfaction.

### **2.3.3 Task Characteristics Effects on Intention To Leave**

With ever evolving environment in every field, engineers too are being involved with more role and different type of tasks. Although engineer was viewed as a specialized personal, but the role played and task required from engineers are getting more complicated. Compared to years back, design engineers would only involved in designing job and project management would specialized in project management. Nowadays, there's barely any clear cut between the two besides other roles. Most of the time, the same designing engineer would also be the project managing engineer that required to perform design, corresponding, dealing with client, authorities and also sometime meeting supplier for material standard. Other than that, most of the engineers were required to handle few projects at the same time which are in different phases of progress.

Under these conditions, the task's characteristics of the job do have direct and indirect effects on job satisfaction and intention to leave. It is believed that providing an engineer with more challenge and autonomy would increase their commitment towards their job and therefore lower their intention to leave (Igbaria & Siegel, 1992).

## **2.4 Personal Characteristic Moderating Effects on Intention To Leave**

Some personal characteristics were believed to influence the intention of employee to leave a firm. This was explained as although some employees were found to be highly dissatisfied with their compensation, it still does not trigger their intention to leave the firm. Age, gender and working experience are among moderating factors that had been used in understanding intention to leave among employees.

### **2.4.1 Age**

There are few reasons for age being a moderator for intention to leave. For example, an employee who is near the age of retirement, although highly dissatisfied would

hardly choose to leave the firm. This could be easily understood as there are very low chance for him to get a job in a new firm and since the retirement age is near, he would certainly benefit more in a firm serve longer for his retirement benefit. This need not to be true for all types of job but previous study had shown that age does affect the intention to leave indirectly as it was suggested to be affecting the job satisfaction (Hickson & Oshagbemi, 1999). Some profession had already been agreed that younger employees have higher intention to leave the job. One of the most significant professions would be nurse as a study was carried out to study the reason for the scenario (Flinkman, Laine, Kilpi, Hasselhorn & Salanterä, 2006). This further strengthen that age do affect the intention to leave of a person.

#### **2.4.2 Gender**

Due to biology and psychology differences between male and female, it is suggested to be influencing the intention to leave. Many researchers had either used gender as predictor or moderator in order to study job satisfaction and intention to leave. The actual turnover rather than intention to leave were proven to be higher with female employees (Stroh, Brett & Reilly, 1996). Gender had also shown to moderate the influence of love of money and pay comparison in determining pay satisfaction (Tang, Tang & Homaifar, 2006). Other than these, gender also proved to moderate the relationship between organisation commitment and intention to leave (Russ & McNeilly, 1995).

#### **2.4.3 Experience**

Experience meant to be working experience in the related field. As experience accumulated through time in field or over various different environments, one tends accommodate better in dissatisfying environment. Experience normally also grows together with age, younger and inexperience employee would normally being more sensitive and have bigger reaction to issue in a firm and have higher intention to leave (Russ & McNeilly, 1995). Researchers also suggested that both inexperienced and experienced group should be treated differently and inexperienced one were considered to be requiring more attention (Russ & McNeilly, 1995). There is also suggestion that younger and less experience managers tend to be more mobile and more inclined to quit (Rosin & Korabik, 1995).

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.0 Introduction

Previous chapter reviewed literature on compensation satisfaction, its multiple dimension and also factors contributed towards intention to leave. This chapter will discuss the process, procedure and method to be adopted in this study. Discussion would include research framework for this study, type of research approach that will be adopted together with its procedure and instrument to be used to gather required information.

#### 3.1 Theoretical Framework

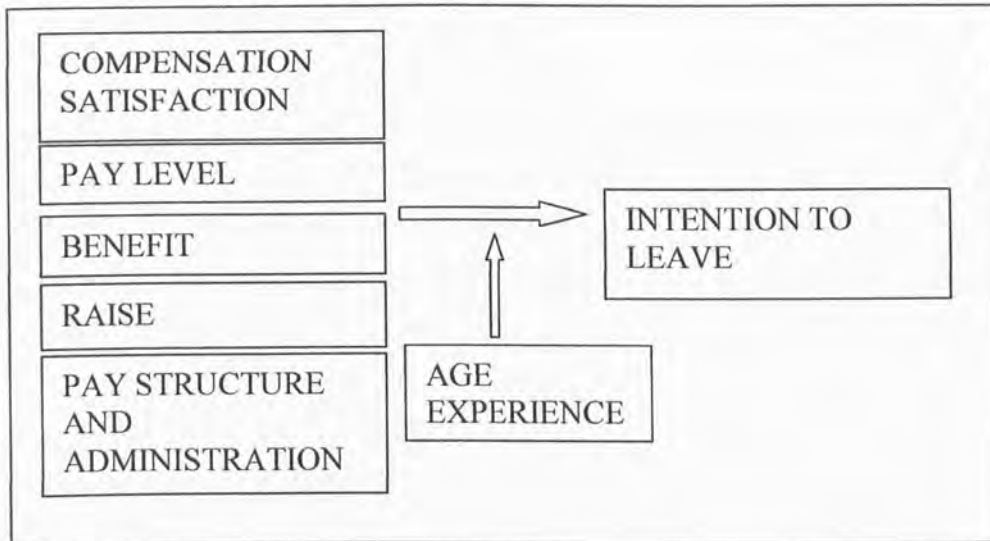
Throughout the previous chapter, few factors had been established to be the affecting the intention to leave among employees. The factors discussed were compensation satisfaction, job satisfaction, task characteristics and also personal characteristics. These factors had been established by previous researchers in contributing to intention to leave among employee. This study was aimed to study the compensation satisfaction as a factor; therefore, the main framework was developed as compensation satisfaction influence towards intention to leave. However, compensation satisfaction itself was found to be multidimensional and most researchers had suggested that different dimension would have different significance in influencing the intention to leave. Hence, in measuring compensation satisfaction, the four dimensions in included and each of it would also be investigated directly of their influence on intention to leave. These four dimensions were first suggested by Heneman & Shwab (1995) and had been consistently used by researchers throughout time in studying compensation satisfaction.

Studies also suggested few personal characteristics to be factors that would influence the intention to leave among employees. However, in our aim to study the effect of compensation satisfaction, these personal characteristics were included as



moderating variables. Age and experience were found to be more appropriate to be included in this study compared to gender. This is because the engineer profession were mainly male dominated, it would therefore non-representative to include gender in the discussion and most likely stereotyped.

**Figure 3.1: Theoretical Framework**



### 3.2 Definitions of Variables

Variable is anything that can take on differing or varying values (Sekaran, p. 91, 2000). Each of the variables used will be important in determining the outcome of this study. Therefore, it will be carefully defined.

#### 3.2.1 Dependent Variables

Intention to leave as illustrated in figure 3.1 is the dependent variable in this study. This is the primary interest in this study. Through this study, we will look into the influence of the varying variable onto intention to leave. Intention to leave refers to the intention of an employee (engineer) to leave the organization.

#### 3.2.2 Independent Variables

The independent variable of this study is compensation satisfaction. It is made up of four different dimensions which are satisfaction toward pay level, benefits, pay raise



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