RELATIONSHIP BETWEEN INCOME DISTRIBUTION AND PAY SATISFACTION: THE MODERATING ROLE OF PERCEIVE VALUE OF MONEY

Oscar Dousin

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RELATIONSHIP BETWEEN INCOME DISTRIBUTION AND PAY SATISFACTION: THE MODERATING ROLE OF PERCEIVE VALUE OF MONEY

OSCAR DOUSIN

This project is submitted in partial fulfillment of the requirements for a Bachelor of Science with Honours (Human Resource Development)

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(Dr. Azman Ismail)

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ABSTRACT

RELATIONSHIP BETWEEN INCOME DISTRIBUTION AND PAY SATISFACTION: THE MODERATING ROLE OF PERCEIVE VALUE OF MONEY

Oscar Dousin

This study was conducted to measure the moderating effect of perceive value of money in the relationship between income distribution and pay satisfaction. A survey research method was used to gather 150 usable questionnaires from employees who have worked in Dewan Bandaraya Kota Kinabalu (DBKK), Sabah. The outcome of hierarchical regression analysis confirms that relationship between perceived value of money and income distribution had increased pay satisfaction. This result confirms that perceive value of money does act as full moderating variable in the income distribution models of the organizational sample. In addition, the implications of this study to compensation theory and practice, conceptual and methodological limitations and directions for future research are discussed.
ABSTRAK

PERHUBUNGAN DI ANTARA PEMBAHAGIAN GAJI DAN KEPUASAN TEHADAP GAJI: PERANAN PERSEPSI TERHADAP NILAI WANG SEBAGAI PEMBOLEHUBAH PENYEDERHANA

Oscar Dousin

CHAPTER 1

INTRODUCTION

1.0 Introduction

This chapter includes nine sections. The first section explains the background of the study. The second section explains the background of Dewan Bandaraya Kota Kinabalu (DBKK), Sabah. The third section identifies the problem statement. The fourth section states the research objectives. The research conceptual framework will be showed in the fifth section. The sixth section discusses about the research hypothesis. The seventh section defines the important terms used in the conceptual framework. The significant of the study is explained in the eighth section. The conclusion is elaborated in the last section.
1.1 Background of Study

Traditionally, income is needed to fulfill the basic needs and to improve quality of life (LaBarbera & Gurhan, 1997; Tang 2006). In addition, the main purposes of income were aimed at meeting the needs of the family (Barber, Dunham & Formisano, 1992; Cole & Flint, 2004). According to Nickerson, Schwarz, Diener and Kahneman (2003) income or pay acts as extrinsic rewards that may attract people and lead to meaningful life satisfaction. Organizations design standard income that is bestowed to employees as membership rewards besides as a main tool to attract new employees’ (Henderson, 2006; Milkovich & Newman, 2007; Cole & Flint, 2004; White & Becker, 1980).

Past two decades, there has been a significant increase of interest in the importance of money around the world (Mitchell & Mickel, 1999; Chui, Luk & Tang, 2001). Employees’ are more concerned with their involvement and participation in determining their pay systems. Collective decision (i.e. share information processing, decision making and/or problem solving activities) made through such participation styles will be used to design and administer pay systems that consider employees’ needs and expectations (Milkovich & Newman, 2005; Heery & Noon, 2001, Azman Ismail, Chong Siaw Joon, Muhammad Madi Abdullah & Asmai Ishak, 2007). Factors that contribute to this matter are due to the differences in academic qualifications, job performance, conditions of work and job responsibilities (Bloom & Milkovich, 1998). Moreover, the importance of money was perceive as employees ‘frame of reference’ in which they examine their everyday lives and have significant impact on work related attitudes (i.e. pay satisfaction) (Tang, Luna–Arocas, Sutarso & Tang, 2004; Furham & Argyle, 1998; Tversky & Kahneman, 1981).

Therefore, in an era of globalization many employers have shifted the paradigms of income distribution from a conventional based to organizational strategy and goals (Anthony, Perrewe & Kacmar, 1996; Henderson, 2006; Milkovich & Newman, 2007; Azman et. al., 2007). Under this strategic approach, benefits
program is aligned to meet dynamic revolutions that occur in the external and internal environment of the organization. External organizational factors are also identified as external competitiveness variables where it deals with economic pressure, government policies, law and regulations, ownership, custom and practices. Internally, the factors are also described as internal alignment variables, which refer to corporate strategy, management philosophy, type of job and productivity level (Anthony et al., 1996; Henderson, 2006; Milkovich & Newman, 2007; Azman et al., 2007).

Since income and/or pay systems was one of the powerful tool to capture the minds and hearts of employees and that may strongly increases their satisfaction and lead to increased productivity, it became one of the most important elements in compensation and benefits management (Folger & Greenberg; 1985; Young, 1999; Azman Ismail, M. Faizil M. Faisal, Asfah Roziati Ismail & Ali Boerhannooeddin, 2005). Compensation management is viewed as a segment of human resource management that emphasizes planning, organizing, and controlling the various types of payment systems (e.g. monetary versus non-monetary rewards or direct versus indirect payments) for rewarding employees who perform their work or service (Rousseau, 1989 & 1995; Azman & Adanan, 2006).

Hence, designing and administrating a proper income distribution system was important and crucial issues that allow the organizations to attract and motivate competent employees to sustain competitive advantages in global economy (Gomez-Mejia & Balkin, 1992; Henderson, 2000; Azman et al, 2005).
1.2 Background of Dewan Bandaraya Kota Kinabalu (DBKK), Sabah

Dewan Bandaraya Kota Kinabalu (DBKK) or Kota Kinabalu City Hall is the city council which administers the city and district of Kota Kinabalu in the state of Sabah, Malaysia. This council was established after the city was officially granted city status on February 2, 2000. KK was formerly administrated by Majlis Perbandaran Kota Kinabalu (MPKK) or the Kota Kinabalu Municipal Council.

The vision of DBKK is to be an environmental and people friendly and renowned maritime and nature resort city, supported by: work system management; emphasis on strategic fiscal policies, professional and responsive service delivery approach, and appropriate high-tech application. DBKK function is governed by Section 49 Local Government Ordinance 1961 which covers cleanliness, beautification, provide and maintain public facilities, public health and licensing.

Since DBKK is a public sector agency, the pay distribution rules practice is according to the Malaysian Remuneration System/ Sistem Saraan Malaysia (SSM). This system is implemented in 2002, replacing the New Remuneration System (Malaysian Public Service Department, 2006; Pekeliling Perkhidmatan 4/2002). In addition, effectively from 1st July 2007, all public sector employees will receive a pay rise of between 7.5 to 35.0 %. This is due to the flexibility of the pay system which allows the government to make adjustment and revisions based on its' capability to pay. This is in line with the government's aspiration of narrowing down the pay gaps among job categories, help employees to fulfill basic necessities, improve employees' welfares and standard of living (Bernama, 2007).
1.3 Problem Statement

Previous research much highlighted on the internal properties of income distribution. At this stage, many studies describe the concepts, purposes, importance of money, forms, preferences, distribution rules and approaches of income distribution (Milkovich & Newman, 2007; Mc Shane & Von Glinnow, 2005).

Most research shows that proper distribution of income may directly affect pay satisfaction (Heneman, Porter, Greenberg & Strasser, 1997; Tang, Luna-Arocas, Sutarso & Tang, 2004; Azman et. al., 2007). Income is may be varied from monthly salary, increment, bonuses and allowances that the employee received from their employer. For example, the high level or amount of income may increase employee satisfaction with their pay (LaBarbera & Gurhan, 1997; Heneman et. al., 1997).

A thorough review of such relationship reveals that effect of income distribution on pay satisfaction is not consistent if perceive value of money is present in the relationship (Tang et. al., 2004). For example, adequately distributing the type, level and/or amount of income based on proper rules will positively increase employee perceptions towards the value of money. As employees’ perceive their income/ pay meets their needs and expectation, this may lead to increase their pay satisfaction. (Tang et. al., 2004).

Although many studies have been done, little is known about the moderating role of perceive value of money in income distribution models. With little empirical knowledge about these relationships, the need for further research in this area is imperative. Thus, it motivates the researcher to further explore on this issue.
1.4 Research Objective

This research has two specific objectives, which are:

Direct effect objective
1. To examine the relationship between income distribution and pay satisfaction.

Indirect effect objective
2. To examine the moderating effect of perceive value of money in the relationship between income distribution and pay satisfaction.
1.5 Conceptual Framework

Figure 1.0 show the conceptual framework which is developed based on distribution of income literature. This framework highlights that effect of the independent variable e.g., income distribution, is indirectly influenced by the moderating variable e.g., perceive value of money, on the dependent variable e.g., pay satisfaction.

Figure 1.0: Perceive value of money as a moderator in the relationship between income distribution and pay satisfaction
1.6 Research Hypothesis

This research has two specific of hypotheses, which are:

Direct effect hypothesis
HI a: There is a significant relationship between income distribution and pay satisfaction.

Indirect effect hypothesis
HI b: Interaction between income distribution and perceive value of money will positively impact on pay satisfaction.

1.7 Operational Definitions of Term

Researcher will only explain the operational definition of important terms. The conceptual definition will be discussed in Chapter Two (2).

1.7.1 Income Distribution

It refers to amount of monthly salary, bonuses, increments and allowance that an individual employee received from his / her employer.

1.7.2 Perceive Value of Money

It refers to an individual perceive salary that he / she received is important, valuable and meet his / her needs.
1.7.3 Pay Satisfaction

It refers to an individual feel satisfied towards the amount of pay, increments, base pay and administration of salary that he / she received from his / her employer.

1.8 Significant of the Study

This research will contribute to three parties, which are:

1.8.1 Significant to Theories

The existing theories; equity theory (Adams, 1963) and discrepancy model (Lawler, 1971) mostly focused on the elements, characteristics and importance of pay satisfaction. Besides it less emphasizes on perceive value of money as moderator. The pay satisfaction model can be strengthened with deeper explanation through the applied moderating variable; perceptions values of money. Results of this study may help Human Resource Practitioners to modify income policy in their organizations.

1.8.2 Significant to the of Research Methodology

This study is meant to help in supporting research methodology and even shed some unclear issues regarding the role of perceive value of money in moderating the relationship between income distribution and pay satisfaction. The data and information collected from income distribution literature, in-depth interviews, and survey questionnaire will helps to accomplish a minimum standard of validity and reliability and this will leads to a finding of more accurate
results and outcomes as well as providing suggestion to avoid limitation.

1.8.3 Significant to Human Resource Practitioners

In towards the HR practitioners, the research findings might provide valuable information in order to manage and develop an effective human resource. Organizations and managers might use these findings to improve in HR policy regarding the distribution of income that might impact on employees attitudes based on their satisfaction towards pay. Besides it would also valuable to improve training program for those who are responsible in administrating and designing the income.

1.9 Conclusion

This chapter has discuss about the background of study, problem statement, research objective, the development of the conceptual framework, research hypothesis, definition of terms, significant of the study, and limitations of the study. The objective of this research is to study the outcome of the relationship between income distribution and employee satisfaction. Next, it also aims to study the outcome of the interaction between perceive value of money in the relation with income distribution and employee satisfaction. The result of the study will reveal whether it accept or reject for the findings of past research. Besides that, the conceptual framework shows perceive value of money moderates the relationship between income distribution and employee satisfaction. The next chapter will discuss about the importance concept, empirical, and theoretical evidence based from literature findings.
CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

This chapter has six sections. The first section explains the concepts, definitions, elements and role of income distributions. The second section discusses about concepts, definitions and role of pay satisfaction. The third section reveals about the concepts, definitions and role of perceive value of money. The fourth section reveals the theoretical and empirical evidence that support direct relationship between income distribution and pay satisfaction. In the fifth section it will reveal the theoretical and empirical evidence that support perceive value of money in moderating the relationship between income distribution and pay satisfactions. Lastly, the sixth section will explain the conclusion of this chapter.
2.1 Income Distribution

2.1.1 Definition of Income Distribution

According to Macmillan Dictionary (2003) income is defined as money that someone gets from working or from investing money. The concept of income distribution described as the process or the way of allocates money to the employees’ (Macmillan Dictionary, 2003). Tang et. al. (2004) stated that employees’ income packages include allowances, bonuses, monthly salary and increments. The concept or word of ‘pay’ of Malaysian and Slovakian means to replace a loss; while for Hebrew and Swedish it means making equal (Mc Shane & Von Glinow, 2005). Since employees income refers to the amount of money received, then it is refers as the instrument of commerce and the measure of value (Tang et. al., 2004). Type, level and/or amount of income are allocated to employees based on their length of service, seniority, merit and/or organization’s needs (Money & Graham, 1999; Milkovich & Newman, 2005; Azman et. al., 2005).

2.1.2 Elements of Income Distribution

2.1.2.1 Adequacy of Income Distribution

A proper distribution and allocation of income and/or pay to such criteria, will attract, retain and motivate good employees to support the ultimate goals of compensation system (i.e., efficiency, fairness and compliance). Hence, it may lead to support organizational strategy and goals (Henderson, 2006; Milkovich & Newman, 2007). Adequacy of income is often viewed from two main perspectives: quantitative and qualitative. In a quantitative perspective, the type, level and/or amount of income that an individual receives from his/her employer is regularly determined based the
mathematical formula (e.g. statistics, economics and/or accounting) (Henderson, 2006; Milkovich & Newman, 2007). Conversely, in a qualitative perspective, adequacy of income is often viewed based on human psychology, i.e., individual's perception, feeling or judgment (Greenberg, 2003; Skarlicki & Folger, 1997). Adequacy of income will exist if an employees' perceives that he/ she receives income based on his/ her contribution (Adams, 1963 & 1965; Lawler, 1971).

2.1.2.2 Inadequacy of Income Distribution

In the contrary, if net differences show overpayment or underpayment in allocating income, these may create the feeling of inequity and directly lead to low satisfaction towards the income that the employees' receive from the organization (Adams, 1963 & 1965; Lawler, 1981; Azman et. al. 2005). Inadequacy of income exist if an employees' perceive that the type, level and/ or amount of income or pay that they receive do not meet their expectations, as well as procedures used to allocate such pays are not consistently and sufficiently explained in organizations (Azman et. al., 2007). A study conducted by Lowery, Beadles II, Petty, Amsler and Thompson (2002) found that employees in higher job levels usually receive higher levels of income are more satisfied while employees in lower job levels that receive low income possess low pay satisfaction. This is supported by Roznowski and Hulin (1992) which suggested that jobs that provide good and attractive income may influence employees pay satisfaction.