

MEASURING EMPLOYEE SATISFACTION IN SMALL AND MEDIUM SIZED ENTERPRISES

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Abstract

Employee satisfaction is considered to be a critical success factor for organizations. The concept of employee satisfaction has gained a special concern from both academics and practitioners. This study aims to provide a framework for employee satisfaction and determine the critical factors of employee satisfaction and to measure their effect on overall evaluation of employee satisfaction in small and medium sized enterprises (SME) based on the data collected from Turkey. Data analysis revealed that there is a positive relationship between each factor of employee satisfaction which are named satisfaction from *pay and benefits* (P&B), satisfaction from *peers* (P), satisfaction from *management* (M), satisfaction from *working environment* (WE), satisfaction from *superior* (S) and overall employee loyalty in SMEs. Furthermore, relevant recommendations and measures for improving the employee satisfaction are proposed.

Key Words : employee satisfaction, employee loyalty, human resource management

Introduction

The concept of employee satisfaction has been a focus for research and practice for the last two decades in particular (Greasley, *et. al.*, 2005) and considered to be a critical issue for organizational performance. A number of scholars and management “gurus” stressed the importance of employee satisfaction and its influences on organizational performance as much as customer satisfaction (Chen, *et. al.*, 2006).

The concept of employee satisfaction is a multi-dimensional and inter disciplinary term that has been attracted the attention of researchers and practitioners from different disciplines such as psychology, human resource management, organizational behavior, TQM and so forth. In literature there are a large number of studies that analyze the term from many different perspectives and its relationship with various organizational variables (Lund, 2003). However there is no universal definition of employee satisfaction that exposes all these dimensions at the same time (Bernal, *et. al.*, 2005).

Most of the definitions emphasize the importance of employees’ job-related perceptions that link the expectations of them and what they receive in return. Some researchers focus on the overall job satisfaction or even life satisfaction of employees (Judge, *et. al.*, 2005)

whereas some others underline a variety of satisfaction facets such as satisfaction with pay, promotion, supervisor, or co-workers.

For example Locke, *et. Al* (1969) describes job satisfaction a pleasurable or positive emotional state resulting from the appraisal of one's job and job experiences. According to this, employee satisfaction is a “function of the perceived relationship between what one wants from one’s job and what one perceives it as offering” (Locke, 1969).

Judge, *et. al*, (1993), on the other hand, mentions that employee satisfaction is positively correlated with motivation, job involvement, organizational citizenship behavior, organizational commitment, life satisfaction, mental health, and job performance, and negatively related to absenteeism, turnover, and perceived stress and identify it as the degree to which a person feels satisfied by his/her job.

Cranny, *et. al*, (1992), suggests that employee satisfaction encompasses a lot of different facets. Hence overall employee satisfaction describes a person’s overall affective reaction to the set of work and work-related factors whereas the facets of job satisfaction involve workers’ feelings toward different dimensions of the work and work environment.

In contrast, Rousseau (1978) identified three components of employee satisfaction: they are characteristics of the organization, job task factors, and personal characteristics. According to Rousseau’s identification the characterization of the organization and the job task factors can be regarded as work factors in job satisfaction, while personal characteristics can be regarded as non-work factors of job satisfaction (Hagihara, *et. al*, 1998).

Human Resource Management (HRM) literature underlines the importance of employee satisfaction as well. The relationship between “appropriate” HRM practices and positive employee attitudes including employee satisfaction, loyalty and productivity have been widely analyzed (Edgar and Geare, 2005). It is also suggested that treating employees as a valuable asset improves their commitment and loyalty which leads to higher performance and quality (Silvestro, 2002).

In this study, literature review related to employee satisfaction is briefly discussed in the next section. Research methods including sample and measurement of variables are explained in the third section. Data analysis is introduced to determine the critical factors of employee satisfaction and their influence on overall employee satisfaction. Conclusion is the final section.

1. Research Objectives and Hypotheses

Based on the discussion of the above literature review, we propose a conceptual model of employee satisfaction which is composed of five main dimensions: satisfaction from *pay and benefits* (P&B), satisfaction from *peers* (P), satisfaction from *management* (M), satisfaction from *working environment* (WE), and satisfaction from *superior* (S). We suggest that these factors have direct effects on the employee loyalty and are also likely to

determine to a great extent the success or the failure of human resources management applications. The research model adopted in this study is shown in Figure 1. According to the framework of the research five factors are assumed to influence overall employee satisfaction. These factors, namely pay and benefits, peers, management, working environment and superiors, are derived from the existing literature.

The following hypotheses are then proposed to more formally state the underlying impact of critical factors of employee satisfactions on the employee loyalty.

H1: Employee loyalty improves if employee satisfaction from pay and benefits is enhanced.

H2: Employee loyalty improves if employee satisfaction from peers is enhanced.

H3: Employee loyalty improves if employee satisfaction from management is enhanced.

H4: Employee loyalty improves if satisfaction from working environment is enhanced.

H5: Employee loyalty improves if satisfaction from superior is enhanced.

Insert Figure I

2. Methodology

Survey Instrument

The survey instrument is composed of questions relating to employee satisfaction and loyalty. The conceptual definition of construct was adopted from the literature survey (Matzler, et. al., 2007). A multi-item scale was developed to operationalize the employee satisfaction construct in a manufacturing context. In the second part of the survey instrument, a single question regarding employee's overall evaluation of organization loyalty is asked. Each item related to employee satisfaction context and employee loyalty was rated on a five-point scale, ranging from "very low" to "very high".

The Sample

There is no consensus on the definition of SME, as variations exist between countries, sectors and even different governmental agencies within the same country. In line with small business research, this study adopted the number of employees as the base for the definition of SME. An SME is identified as one that employs fewer than 100 staff. The minimum of at least 10 employees was also chosen in order to exclude micro firms that would not be suitable for the purposes of this study. This range is consistent with the definition of an SME adopted by both the Turkish State Institute of Statistics (SIS) and Turkish Small Business Administration, as well by a number of European countries such as Norway and Northern Ireland (Sun and Cheng, 2002; McAdam and McKeown, 1999).

The sample of the study was selected randomly from the database of Turkish Small Business Administration (KOSGEB). The study focused on the textile industry including textile mill products and apparel (SIC codes 22 and 23), since it has been a leader in implementing progressive quality management practices in Turkey. The textile industry has also been the engine of economic growth and has generated the largest volume of export revenues. Although one can argue that a focus on a single industry may make the results less generalizable, we had ensured a high level of internal validity in this study. Furthermore, within the textile industry itself there exists several different manufacturing environments and product types making the sample much more diverse than what can be expected for a homogenous sample.

Data collected for this study comprise of arbitrary choices of the graduate students involved in collecting the data analyses. The survey took approximately 15 minutes to complete. In the survey, 30 graduate students were used as interviewers and each was required to interview with ten middle level managers from ten different companies. Three weeks later, the questionnaires were personally retrieved. There was a very high response rate of 82% and the statistical analysis was conducted on 245 responses.

3. Analysis and Discussions

The data analysis was conducted in two steps:

Performing an exploratory factor analysis (EFA) with varimax rotation to determine the underlying dimensions of employee satisfaction.

Measuring the direct impact of critical factors of employee satisfaction on the employee loyalty.

Exploratory Factor Analysis (EFA)

The EFA on the 21 employee satisfaction items yielded 5 factors with eigenvalues greater than 1 and explaining 66.779% of the total variance, as shown in Table 1. All items were loaded on these 5 factors. Based on the item loadings, these factors were respectively labeled as satisfaction from *pay and benefits* (P&B), satisfaction from *peers* (P), satisfaction from *management* (M), satisfaction from *working environment* (WE), and satisfaction from *superior* (S). The Kaiser-Meyer-Olkin measure of sample adequacy was found as 0.89, which supports the validity of EFA results. The Cronbach's alpha measures of reliability for the five factors were 0.89 for P&B, 0.82 for P, 0.76 for M, 0.68 for WE and 0.68 for S suggesting satisfactory level of construct reliability (Nunnally, 1978).

Insert Table I

Analysis

As mentioned above, it is assumed that there is a positive linear relationship between these critical factors of employee satisfaction and employee loyalty. In order to test these hypotheses a linear model is constituted and a regression analysis is performed using “Ordinary Least Squares Estimates” technique. In the model written below, dependent variable (Y_p) is employee loyalty (ES), independent variables are determined as in orderly satisfaction from *pay and benefits* (P&B), satisfaction from *peers* (P), satisfaction from *management* (M), satisfaction from *working environment* (WE), and satisfaction from *superior* (S). In addition before performing multiple regression analysis all the assumption of linear regression was tested and no problem occurred.

$$Y_p = \beta_0 + \beta_1 P\&B + \beta_2 P + \beta_3 KM + \beta_4 WE + \beta_5 S$$

The next step is assessing the significance of the model using ANOVA (F) Test that shows the combined effects of all the independent variables in the regression model. In order to consider the model to be significant, the general acceptance is that the significance level should be equal or less than %5 ($\alpha \leq 0.05$).

Furthermore, the adjusted R^2 (coefficient of multiple determination) is 0.73 which means almost 73% of dependent variable –employee loyalty- can be explained by independent variables. The left over 27% is estimated as the elements like the influence of personal evaluations, psychological and sociological influences and subjective evaluations that are not included in the model.

Finally, using “t-test”, partial regression coefficients that explains the effects of independent variables on the dependent variable separately, have to be analyzed. The standardized regression weights for all variables that are shown in Table 2 are significant at the 0.05 level. These results indicate that all hypotheses are significant at 0.05 levels.

Among the factors, pay and benefits was found to be the most important criterion with the value of its standardized regression weight being 0.37 ($p < 0.01$) followed by management (0.28) and working environment (0.25). In contrast, Peers (0.12) and superiors (0.09) have comparatively less impact on overall satisfaction. This finding is not particularly surprising in that wages and fringed benefits play an important role for the employees in SME’s.

Insert Table II.

4. Conclusion

It has been widely accepted that employee satisfaction is an important concept for the success of the organization. Yet the research about the employee satisfaction in SME's can be considered as immature with comparison to the literature in customer satisfaction.

This study analyzed employee satisfaction and the factors affecting overall loyalty of the employees in SME's in Turkey. Five factors have been chosen namely pay and benefits, peers, management, working environment and superiors. The writers of this study hypostasize that there is a positive relationship between the employee satisfaction and overall employee loyalty.

The findings show that there is a positive linear relationship between all these five factors of employee satisfaction and employee loyalty. However, among these factors, pay and benefits was found to be the most important criterion followed by management and working environment. In contrast, peers and superiors have comparatively less impact on overall employee loyalty.

Empirical survey based studies are seldom independent of limitations. This study is no exception. First, the sample size of 245 posed estimating problems with regard to degrees of freedom in the operationalization of employee satisfaction and testing the composite model. This necessitated the use of summated scales for each of the components of employee satisfaction in terms of a single item, the average score. Dependent variable such as overall evaluation of the employee loyalty was measured using a single item scale. Although the use of single item scales are not uncommon, they often times do not do justice to the complexity and richness of a construct.

Despite the above limitations we believe that this study fills a gap in the literature. This is especially true in advanced and emerging markets. To have a sustainable employee satisfaction and loyalty specifically in textile industry becomes a key determinant of success of human resources management activities.

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Figure I. Conceptual Model

