1.0 INTRODUCTION

The growth of hospitality and associated service industries in Malaysia has aroused concern about practices on human resources management. For example, hotel accommodation industry is considered as a service and people-oriented business. That is to survive in such a competitive market, it is crucial that customers are satisfied not only with the product and the accommodation environment (hardware), but also with the service (software) provided by employees.

Many of the staffs working in these facilities are casual or part-time, and in fact it has been stated that this workforce group are the life-blood of service industries. Frequently, the compensation paid to them is minimal displaying no incentives to offer alternatives flexible remuneration options. This will negates the possibility of staff becoming committed to the organisation when no commitment from management is forthcoming.

Management now must rather view employees as valuable contributors whose opinions and perceptions are important sources of knowledge. This requires the development of relationships that go outside the bounds of traditional hierarchy, as well as the acknowledgement that employees satisfaction is dependent on the a continuing exchange of agreements and contribution between employees and firm (Rousseau and Parks, 1992). Therefore, it is not surprising that an effective measurement and improvement to the employee job satisfaction is a critical function for the management.

Some studies have found that employee satisfaction is important because customer satisfaction can be achieved when employees are contented, in which the level of employee satisfaction is positively related to customer satisfaction (Rogers et al., 1994). Job satisfaction is found also to be related to organisational commitment as suggested by Steers (1977), in which organisational commitment
is defined as a function of an individual's involvement and identification with an organisation. It is reasonable to say that organisational commitment and employee job satisfaction is equally important to customer satisfaction.

The existence of a relationship between the different compensation policies and job satisfaction is generally well accepted. However, the nature and the measurement of this relationship give rise to numerous differences of opinion. The differences have been mainly between researchers and practitioners as the latter have generally established their company compensation policies on the hypothesis that flexible pay corresponds not only to the needs of organisations but also to the expectations of employees (Igalens and Roussel, 1999).

This study examines the impact of compensation policies on job satisfaction in the hotel sector specifically for Food and Beverage (F & B) employees in the coffeehouse. It is aimed to make evident and to understand Malaysian's workers attitude in the customer service sector, and the influence of the compensation policies. Also the role of compensation strategies is investigated as an integral part of developing staff relationship and resultant quality services. The size of the organisation is taken into account in the study, with implications for both small and large facilities.

Past researches have focus on psychological and environmental attributes that contribute to job satisfaction, which have enabled to form common attributes of satisfaction and dissatisfaction. The attributing factors have highlight to management the approaches that can be utilised to motivate employees by means such as designing effective compensation policies. In addition, the attributing factors also aid management for decisions making with regard to recruitment and evaluation processes in maximising employee output for the success of the organisation. It is hopeful that this research will provide new results, which support the creation of compensation policies adapted to the population concerned.
1.1 Industry Issues

The tourism and hospitality industries are crucial to the success of the Malaysia economy. Tourism has outperformed most other sectors and contributed significantly to economic and employment growth. Expenditure by tourists to Malaysia was estimated to worth almost RM 25.781 billion in 2002 (Tourism Malaysia, 2003), as against RM 24.222 billion in 2001 which represented an increased of 6.4%. Overseas tourist visits to Malaysia grew by 4 percent in 2002 to 13.3 million tourists. However, the figure dropped to 10.5 million in 2003 due to the SARS scare and other turmoil in some parts of the region. Overall, Malaysia's performance in terms of receipt has been substantially ahead of world average, with the increase in foreign exchange earnings of 39.7% and 6.4% for the year 2001 and 2002 respectively.

In anticipation of higher growth rates experienced in the sector, there has been an intensification of competition as a result of more companies operating in the Malaysia market. The intensification of competition has also been experienced in other market within the Asian region, particularly our neighbouring countries such as Thailand and Singapore. Kobjoll (2002) has suggested that the opportunities for growth in the international hotel industry be in the high-quality end of the market. In this changed environment, customers are becoming more sophisticated, experienced, and demanding (Chacko, 1998; Sharp, 2001). They shift their loyalties among companies in anticipation of continuing improvements in product and service quality (Harrington and Lenehan, 1998).

Organisation realising the importance of commitment to quality designed service encounters to deliver consistently high levels of customer satisfaction and quality. That is, by improving the service delivery process it offers an opportunity to improve overall quality of the service (Teare and Olsen, 2001), an approach that is valuable when facing difficult market conditions. However, it is crucial to take note that the organisation core service shall not be neglected because good
quality delivery of service alone will not compensate for poor food or accommodation (Sureschander et al., 2001).

Several studies have emphasised the benefits of quality in the form of increased in customer loyalty; customer satisfaction; productivity; profitability; and cost savings, together with improvements in the management of human resources (Lookwood, 1996; Jones, 1999; Qu et al., 2000). Customer service through trained and motivated staff, consistency of service, and competency of management is often the only area in which a hotel’s product can be clearly differentiated from its major competitors (Haynes and Fryer, 2000; Harrington and Lenehan, 1998; Johns et al., 1997; Miyoung and Haemoon, 1998). Therefore, it is not surprise to say that outstanding hospitality begins with how managers treat their employees charged with serving the customers. This fact was made evident from past studies, that suggest customer satisfaction was positively related to employee satisfaction because customer satisfaction can only be achieved when employees are content (Rogers et al., 1994).

As in other industries, finding good employees and keeping them has long been a challenge for the hospitality industry. Many workers perceived a job in the hospitality is often a temporary stop on the way to another career. Therefore, it is not surprising the estimate turnover rates in the industry can be as high as nearly 160% for some employee. This lies on the fact that managers and supervisors often don’t take time to find out what their staff’s concern are. At the same time, high level management is absent from the front-line, doesn’t see what occurs on a daily basis, and doesn’t solicit workers feedback. They are very consumed by bottom line demands.

Another aspect of what is perceived in the industry is employee pay is generally less than do other industries. Compare to other industries, the service and hospitality industries employs a higher proportion of low skill employees. These employees generally earn less pay than do skilled employees. In order to foster a
service orientation in lower paid employees and to keep the best people and reduce costly overhead, it is not surprising that hotel companies are adopting incentives that range from bonuses, recognition and transportation assistance to programs that offer training and advancement. Another aspect which is something very peculiar characteristic in the service industry, which is unlike any other industry, that by having job competency isn’t just enough. The service industry especially who are customer contact employee in the hotel, require their employees to be well hospitable. This can be attributed to the fact that services characteristics are intangible, inseparable from service producer, non-standardised, and perishable (Lockwood, 1994; Harris and Harrington, 2000; Haynes and Fryer, 2000). Other issues include customer involvement in the process, perceived intimacy and empathy, and cultural based expectations (Armstrong et al., 1997). An additional difficulty is that the fundamentals of services and their relationship to service quality are often difficult to clarify (Soteriou, 1998). Since the hospitality industry features both products and services (Lockwood, 1994), it faces manufacturing problem in providing-quality products (such as food and accommodation) and service-delivery problems in providing high quality services (involving high levels of interaction between staff and customers).

This result in hotel companies across the spectrum work hard on the human resource issues to provide greater commitment to their employees. Organisation understood that a satisfied employee based is critical to its success. Since the organisations' performance rely heavily on their work output, one of the many strategy used by the organisations is to strategies their compensation policies in many different forms for their employees.
1.2 Objectives

The purpose of this study is to describe and explore the relationship between job satisfaction of the hotel service employees specifically working in the F&B department, and the influence of compensation administration policies. Hopefully by conducting some empirical research centred on information obtained from the hotel service employees, it will provide new results, which support the creation of compensation administration policies adapted to the populations concerned. Therefore, the research questions driving this study can be summarised as follows:

(1) Describe respondents in terms of demographic factors: gender, age, current occupational status, educational level and job experience.

(2) Assess respondents' perception as to their level of Job Satisfaction in their current positions.

(3) Explore the relationship between Job Satisfaction and Compensation Policies.

(4) Explore the relationship between Job Satisfaction and to each facet of Compensation Policies.

1.3 Justification of the Study

(1) This study is to make evident and to understand Malaysian hotel accommodation service employees' job satisfaction and influence of the compensation systems. It is aimed to test whether satisfaction with regard to one or other components of the compensation policies had an influence on job satisfaction. The study will suggest that the organisation compensation administration policies are efficient if satisfaction with regard to any of the compensation policies increases job satisfaction.
(2) There are several aspects of job satisfaction, which researchers have investigated. Of these, satisfaction with compensation deserves additional study mainly for two reasons.

(a) First, an organisation's compensation policies are used primarily to control labour costs and as well as for attracting, retaining, and motivating its employees. Organisations, which offer higher pay, may attract and retain a qualified workforce (Williams and Dreher, 1992), and thus reduce training or recruiting costs (Holzher, 1990). Furthermore, according to Pfeffer (1998), higher labour rates may lead to lower labour cost due to employees' higher quality and/or quantity of performance.

(b) Second, compensation affects the overall level of worker's job satisfaction or job dissatisfaction and it represented one of the five indices incorporated in the original and the revised Job Description Index (Smith et al., 1969, 1985), a formulation that is used internationally as a measure of overall job satisfaction. The other four elements in the formulation are job, promotions, supervision and co-workers' behaviour.

Therefore, from the consideration of both employers (cost) and employees (benefit), it deserves further investigations on how satisfied hotel service employees are with the compensation administration policies and also their satisfaction with their jobs.
1.4 Study Framework

This study followed the approach taken earlier by Lee Chee Ken (1995), on the study of job satisfaction among Engineers in Klang Valley, Malaysia. Motivation has been identified as an important component of job satisfaction. In this respect, Herberg's Motivation-Hygiene Theory was classified as one of the content theories of motivation. Herzberg (1959, 1966) had conducted studies of job satisfaction workers in a variety of settings. His two-factor approach, Motivation-Hygiene Theory, contends that there are elements, which lead to satisfaction or lack of satisfaction, and there are extrinsic components, or job environment, which detract from satisfaction. The motivation factors are listed as satisfiers, so-called because they prompt us to higher levels of performance. The hygiene factors, borrowing from the medical term, which prevent us from optimum performance, are called dissatisfiers. The motivators relate to the work itself and represent sources of satisfaction at work, such as achievement, recognition, work itself, responsibility, advancement and growth. Whereas the hygiene factors relate to the work environment as potential sources of dissatisfaction, such as company policy and administration, supervision, salary, interpersonal relationships, working conditions, status and security.

In one of the first study on managing employee in service industry, Bowen and Schneider (1985) argue that traditional managerial functions should be altered because of unique characteristics of services. Among the recommendations made; (1) involving employee in planning and organising of service activities, (2) recognising that the work environment of service employees has a strong influence on how customers experience the service, and (3) understanding that the firm's human resource practices can ultimately influence customers' service experiences. It can be summarised here that if managers treat their employees well, the employees will treat customer well (Bowen and Schneider, 1985; Gronroos, 1983).
Zeithaml, Berry and Parasuraman (1988) identify several activities that managers could implement to manage service employee. These activities have the potential to affect employees' response that can improve service quality. Jaworski (1988, p.26) calls these activities formal controls and defines them, as "management-initiated mechanisms that influence the probability that employees or group will behave in ways that support the stated marketing objectives." According to Jarwoski (1988), there are three types of formal control:

(1) Input controls, defines as action taken prior to the implementation of a marketing activity. Examples include recruitment, selection, and training of employees; strategic planning and resource allocations.

(2) Process controls, defines attempts to influence behaviours and activities during implementation. Examples include organisation structure, operating structure, operating procedures and rewards, and finally

(3) Output control, defines as setting performance standards and monitoring or evaluating results. Examples include complaints, service quality, and customer satisfaction.

This study focuses on formal control, given that managerial control that can be used to make employees behaviours and responses more conducive to the delivery of service quality. It is hypothesised that the process of satisfaction was the results from the distance between two perceptions concerning aspects of the job, which an individual values. This evaluation depends on the individual's own needs, values, beliefs, expectations, aspirations and desires. The process of satisfaction corresponds to the degree of congruence perceived by a person between what each aspect of work should be and what it actually is. Therefore, the aim of this study is to look at the relationship between the feelings of satisfaction aroused by the different forms of organisation compensation policies and six (6) facets of job satisfaction. The proposed model examining these questions was developed in Figure 1.1.
The independent variables studied here are;

(1) Compensation administration policies; which consisting of the organisation's administrative framework, criteria, and procedural approaches used to remunerate its employees. The variables are;

(a) The risk sharing refers to the relative importance of fixed pay, which is the amount and payment guaranteed versus risk sharing. This is an indicator of salary individualisation. It relates to how an employee feels about the way his contributions are taken into account in his compensation.

(b) Internal consistency refers to the extent of pay relationships versus flexible pay, which includes variable pay and deferred income. Variable pay is the amount is variable and/or its distribution in uncertain (gain-sharing, bonuses, incentives, goal-based pay, overtime, etc.) Deferred income is sums that are blocked for a given period of years before becoming available (company saving plans, employee stock ownership plans, etc.)

(c) Pay secrecy refers to confidentiality versus the open pay communication on how pay levels are established.

(d) Pay decentralisation refers to pay policy not centralised in the organisation and freedom top develop its own compensation.

(e) Performance emphasis refers to accomplishment of work versus the seniority in determining the rewards.
(f) Egalitarian Pay refers to fairness in reward distribution versus the hierarchical way.

(g) Employee participation refers to active input of information versus low input.

(h) Job based refers to the emphasis on the character of the job versus the importance mastery of job skills or ability to perform.

(i) Long-term orientation refers to rewards recognising the long-term result versus the short-term accomplishment during a fixed time period.

(2) The six satisfaction facets variables namely are:

(a) Job satisfaction based on job itself
   This refers to the respondents’ satisfaction with the current job in terms of how challenging the job is to the person, the opportunity for self-development, to acquire new skills and opportunity to use skills and knowledge.

(b) Job satisfaction based on the superior
   This refers to the respondents’ level of satisfaction of his relationship with his superiors. It reflects whether the superior appreciates the respondent’s contribution or not.

(c) Job satisfaction based on peers
   It has been proven that a person’s relationship with his colleagues can influence to a degree his feelings of contentment or satisfaction, including his performance. This measures the respondents' level of
satisfaction as a result of working together with his peers in a team or in an organisation.

(d) Job satisfaction based on pay
   This measures the feeling of respondents towards the amount of pay, its adequacy to provide for needs and equability to respondent effort.

(e) Job satisfaction based on organisation environment
   This measures whether the respondent is happy with the working conditions of the office. This includes the facilities provided, company hierarchical structure and efficiency of the company.

(f) Job satisfaction based on rewards off the job.
   This measures whether the respondent job is respectable with other profession with respect to their contribution and time spent.

The dependent variable studied here is job satisfaction. The intervening variables of the study are:

1) Personal particulars of respondents. This include demographic factors regarding gender, age, education level, number of years working in general, and number of years working in the present company.

2) Organisation profile of the respondent company; consisting of size of the company and the structure.
### INDEPENDENT VARIABLES

**Compensation Policies Dimension**
- Risk Sharing
- Internal Consistency in Pay
- Pay Secrecy
- Pay for Performance
- Pay Decentralisation
- Egalitarian Pay
- Pay Participation
- Job Base Pay
- Long Term Pay

**Organisation Profile**
- Years of Established
- Total Employees
- Employee in the category as waiter/waitress

### DEPENDENT VARIABLES

**Job Satisfaction Dimension**
- Job
- Superior
- Peers
- Pay
- Organisation Environment
- Rewards off the job

**Respondent Profile**
- Gender
- Age
- Education level
- Years working experience
- Years with Company
1.5 Study Hypotheses

The primary objective of this study is to examine the relationship between the company’s compensation administration policies and job satisfaction. The compensation policies consist of the organisation’s administration framework, criteria, and procedural approaches used to remunerate its employees. In other words, it looks at the orientation of an employee and the particular organisation compensation policies. The literature review highlighted that there is a positive correlation between economic reward and job satisfaction. Hence, it would be reasonable to propose that there is correlation between job satisfaction and the compensation administration policies.

Accordingly the hypotheses are:

Hypotheses H0: There is no relationship between Job Satisfaction and Compensation Policies.

Hypotheses H1: There is relationship between Job Satisfaction and each dimension of the Compensation Policies; risk sharing, internal consistency, pay secrecy, pay for performance, pay decentralisation, egalitarian pay, pay participant, job based pay, and long-term pay.