2.0 LITERATURE REVIEW

2.1 Introduction

Earlier researchers (Hanson, Martin and Tuch, 1987; Kalleberg, 1977; Mortimer, 1979; Seybolt, 1976) on job satisfaction had suggested that the important determinants of job satisfaction were the non-economic rewards. The non-economic reward attributes were then identified as professional interest, job responsibility, psychological recognition, career advancement, skill utilisation and development, enjoyment of work and autonomy in decision-making. However, subsequent researchers (liacqua and Phyllis, 1995) had suggested that economic rewards, such as income and fringe benefits, do play a critical role in determining job satisfaction. This difference of opinions perhaps can be referred to an earlier study conducted by Cherrington, Reitz and Scott (1971), which suggested that high satisfaction be attained when employees perceived that there was an equitable rewards system within the organisation. Consequently, researchers have attempted to examine on the reasons behind the employee’s perception towards rewards and its association with the job satisfaction.

2.2 Independent Variables - Compensation

As in many other industries, management viewed that supply of remuneration and benefits to staffs is part of the organisational strategies used to obtain employees commitment and quality of their desire work for the organisation. In this respect, pay or compensation programs to a business lies on a numbers of factors, such as ability to pay and the philosophy of the management, can have a profound impact on the strategic uses of compensation (Fitz-enz, 2000). Milkovich and Newman (1987) suggest that compensation should aim at achieving efficiency, equity and compliance. Efficiency encompasses improving productivity and controlling labour cost, equity provides for pay that is fair in relation to employee contribution and employee needs, and compliance involves conforming to the laws of the land.
2.2.1 Definition

Compensation, as the definition goes

(1) According to Chiu and Luk (2002), compensation is defined as organisations' reward systems involve monetary compensation and non-monetary rewards. Under monetary compensation, there are direct compensation and indirect compensation (benefits) in which pay level is used to control labour cost and attracting, retaining and motivating employees.

(2) According to Davies, Taylor and Savery (2001) defined compensation as a control mechanism, and as strategies used for commitment, flexibility and quality of staff within an organisation.

(3) Hajnal et al. (1993), defined compensation as serving the organisational purposes. The reward system and its effect on employee attitudes, satisfaction, and motivation, may be obtained by thinking of its as a tripartite system consisting of pecuniary rewards, non-pecuniary extrinsic rewards; and non-pecuniary intrinsic rewards

(4) Geringer and Fayne (pg. 114, 1990) defined it, “ includes those rewards – monetary and non-monetary, direct and indirect, - that an organisation exchanges for the contributions of its employees, both job performance and personal contributions”.

Strategic management of compensation requires that the policies and procedures for determining pay be congruent with the organisation (Milkovich, 1988; Newman, 1987 and Ellig, 1987). Milkovich (1988, pp.283) describes the relationship between compensation strategy and organisation strategy as follows:
"The degree of "fit" between compensation strategy and organisation strategy contributes to organisation performance by signalling and rewarding the behaviours that are consistent with the organisation's objectives. Further, better fit more accurately signals to applicants the types of behaviours expected and accommodate compensation demands on the organisation's cash flow (Ellig, 1992). So the degree of fit is the cornerstone of contingency theory and underlies the presumed effect that compensation strategy has an organisation performance"

To successfully manage compensation and benefits requires knowledge of the mechanics of compensation such as employment and taxation law, customs, environment, employment practices, familiarity with local cultures, and the effect of inflation on compensation – all within the context of shifting political, economic, and social conditions (Dowling, Welch and Schuler, 1999).

As can be said, the primary objectives of compensation plan are to attract, retain, and motivate employees to achieve competitive advantage (Crandall & Phelps, 1991). Money, benefits, and many different forms of compensation have been used to attract, retain, and motivate employees and achieve organisational goals around the world (Barber and Bert, 2000). It has been suggested that money is a motivator (e.g. Lawler, 1973). Others argued that money is not a motivator (i.e. a hygiene factor) (Cameron and Pierce, 1994; Herzberg, 1987; Kohn, 1993; Pfeffer, 1998). Money does not improve performance quality and does not erode intrinsic motivation (Gupta and Shaw, 1998). Till to-date, the impact of financial incentive on performance quality is being debated among researchers.

In an effort to maximise work force effectiveness, the compensation programs preferred approach might be to first identify pay and benefits practices that are desired by employees in the respective industry. Once employee needs and desires are appropriately identified, then the mechanics of selectively adopting
existing programs to a variety of operations might be addressed and the need to develop new program identified.

A good match between resources (supply) and demands from both the organisational and the individual perspectives will lead to a high level of need satisfaction and job performance (Porter et al., 1975). Numerous researchers have suggested that human need structures are virtually universal among individuals (culture-free, etc.) (Alderfer, 1969; Herzberg, 1987). Others have argued that need structures are culturally bound (culture-specific) (Ali and Ali-Shakhis, 1985; Bhagat and McQuid, 1982; Slocum, 1971; Smith et al., 1995). Therefore, we cannot assume that all employees have similar preferences for compensation components in organisations.

Therefore, the level of compensation mix offered and employees' preferences are very much of a subject to pay attention. This is very much a fact considering the resources devoted to employee compensation and its management, we do not even know if the overall pay strategies adopted made any difference. We simply do not know whether managing compensation pays off for the organisation (Ehrenberg and Milkovich, 1987). It can be suggested that part of the reason for this lack of empirical evidence. Compensation together with its effect on the organisational relationships need to expand further on the range of dependent variables that has a direct influence, such as its components, applicant attraction, turnover, satisfaction, and business unit performance.

A number of studies have investigated the relationships between compensation components and attraction, retention, and motivation employees (Barber and Bretz, 2000; Gerhart and Milkovich, 1990; Kahn and Sherer, 1990). Investigation performed by Chiu and Luk, (2002) in a mix of retail, service and manufacturing industries found that base salary, annual leave, paid sick leave, year end bonus and maternity leave are the five most popular form of compensation offered. According to Chui and Luk (2002), base pay is the first most important
components to retain and motivate employees. Similarly, workers are highly motivated by the "cash mentality" as people living in an international metropolitan cities can be very materialistic, capitalistic, individualistic, and egoistic.

While Davies et al., (2001) found that in a hotel accommodation industry, subsidised accommodation, subsidised meals, subsidised transportation, dry cleaning/uniform and medical benefits are the most sought after by the employees.

William and Dreher, (1992) on study conducted on bank teller identified the various compensation components, which had an impact on the attraction and retaining of employees. They investigated the relationship between the employees' preferences and compensation mix, and found that strategic compensation mix is only adopted for employees groups within a firm that are considered to be strategically relevant or critical to the success of the organisation. Service employees being the customers contact representative for the company should be strategically identified to warrant enough company attention for the success of the organisation. With this respect, long-term compensation policies may be necessary to attract, retain and reward the staffs.

While compensation serves various organisational purposes, it also provides a system of different kinds of rewards for the employee (Hajnal et al., 1993). A better understanding of the reward system, and the effect on employee attitude, satisfaction, and motivation, may be obtained by thinking of it as a tripartite system consisting of: (1) pecuniary rewards (2) non-pecuniary extrinsic rewards, and (3) non-pecuniary intrinsic rewards.

Direct components of pecuniary rewards as described by Milovich and Newman (1987, pp.4) were base pay, merit pay, incentives, and cost of living adjustments. Henderson (1989) in a simplified version of direct compensation employs the categories of base wage and salaries, wage and salary add-ons, and incentive
payments. Indirect compensation is broadly considered benefits and services. Specifically, Chiu and Luk (2002) mentioned a more comprehensive compensation components, which may be subsumed in the six major categories: base and variable payment, pensions, insurance, leave, allowances, and social benefits.

Hills (1987) defines non-pecuniary extrinsic rewards as those rewards bestowed by others in the work environment, such as supervisor or co-worker feedback, supportive leader-follower relationships, and social interaction. The list of rewards (Hinkin et al., 1987) includes formal commendation and recognition, informal recognition, favourable job assignments, informal recognition, favourable job assignments, informal performance feedback, participation in decision making, mentoring and coaching, off-job socialisation, personally supportive behaviour, in-group membership, career advice, counselling and help. Negative rewards such as reprimand, physical isolation and psychological isolation also given.

As for non-pecuniary intrinsic rewards (Hills, 1987), it consists of status, autonomy and a sense of accomplishment. Feeling of being wanted, of self-esteem, of being appreciated, of a job-well done, of being part of a successful group and having contributed to the success of others are all components of intrinsic rewards. Earlier approaches taken by researchers by grouping pecuniary rewards and non-pecuniary rewards into a global category of extrinsic rewards leads to a lack of attention to such important issues such as involvement with administrators and supervisory feedback. Therefore, this led to the inability to determine how important pay is to the employees (Hajnal et al., 1993)

Kessler (1995) studied on compensation package and observed that it was developed specifically as an organisation strategy tool to achieve its desirable goal. Research conducted by Davies, Taylor and Savery (2001) in the hotel accommodation industries found that range of compensation benefits varies
throughout the organisation and level of compensation benefits are very much determine by seniority and type of employment category. Result from their study show that apart from an equity issue, the salary and benefits policies in are not being used strategically within the hospitality organisation to reduce turnover and help to achieve target within the establishment.

2.2.2 Dimension of Compensation Administration Policies

The characteristic of the organisation concept of total compensation policy is aimed at optimising the pay package design and pay mix according to an organisation's market position (Gomez-Mejia, et al., 1988; Milkovich, G.T, 1988). The pay mix as defined in Igalens and Roussel, (1999), is principally based on individualised salaries and the flexibility of compensation. The flexibility is obtained by increasing variable pay (bonus plans, gain-sharing...) and short and medium term deferred incomes (profit-sharing, employee stock ownership plans, company saving plans...) in the total compensation package.

The compensation/pay administration policies dimensions were taken from Balkin et al., (1990) and operationalized in the following terms such as risk sharing, internal consistency, pay secrecy, performance emphasis, egalitarian pay, employee participation, job based and long-term orientation.

(1) 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 en employee feels about the way his contributions are taken into account in his compensation.

(2) 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.)

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

(4) Performance emphasis refers to accomplishment of work versus the seniority in determining the rewards.

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

(6) Egalitarian Pay refers to fairness in reward distribution versus the hierarchical way.

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

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

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

2.3 Dependent Variable - Job Satisfaction

Perhaps the work by Kornhauser and Sharp (1932), who published a paper titled "Employee Attitudes: Suggestion from a Study in Factory" could be the first ever recorded publication pertaining to job satisfaction in the work environment (Spinelli and Gray, 1998). The early stage of researches then have focused mainly on relationship between job satisfaction and job performance as it was then hypothesised that when employees were more satisfied with their job, productivity will increase, which eventually would lead to an increase in profitability for the organisation (Schwab and Cummings, 1970). In acknowledging the importance of this issue, Ulmer and Hopkins (1987)
suggested three main reasons why research on job satisfaction had generated so much interest. There are (1) attempt to find a relationship between job satisfaction and productivity, (2) a motivation to increase the theoretical base knowledge, and (3) the humanitarian value found in the presentation of information that has the potential to contribute to job satisfaction.

Arguably job satisfaction is perhaps the most frequently studies construct in the organisational science (Schneider and Brief, 1992). In understanding the concept of job satisfaction, Churchill et al., (1985) had argued that job satisfaction is closely related to employees' behavioural performance in a sales context. Such argument as seen in a service organisation is when a similar relationship is likely to occur with respect to service employees. It is said that during the service encounter, employee behavioural performance often is the service, as it is perceived by customers (Bitner, 1990). This relationship lies in the interaction between contact employees and customers, in which satisfied employees are more likely to engage in behaviours that assist customers (Locke and Latham, 1990; Weatherly and Tansik, 1993). Research by Schneider (1980) had further reinforced evidence that job satisfaction is a primary reason that employees deliver quality service.

Many service firms are subject to failures in service delivery because they must depend on customer-contact employees to deliver service to their customers. Because the delivery of service occurs during the interaction between contact employees and customers (the service encounter), the attitudes and behaviours of contact employees can influence customers' perceptions of the service (Bowen and Schneider, 1985). Due to the importance of the service encounter, service firms must find ways to effectively manage their customer-contact employees to help ensure that their attitudes and behaviours are conducive to the delivery of quality service.
2.3.1 Definition

The first published definition of job satisfaction perhaps can be traced to Robert Hoppock (1935) in which he defined job satisfaction as "any combination of psychological, physiological and environmental circumstances that may cause a person to truthfully say 'I am satisfied in my job'". Many researches have since been carried out in this area of study and new definitions have since been put forward such as,

In this study context, employee satisfaction as often referred to as job satisfaction, is defined as a "pleasurable or positive emotional state resulting from the appraisal of one's job or job experience" (Locke, 1976, p1300). He further explained that job satisfaction, which include results from the appraisal of one's job as attaining or allowing the attainment of one's important job values, provided these values are congruent with or help to fulfil one basic need. These needs according to him are of two separate but independent types: bodily or physical needs and psychological needs, especially the need for growth. Growth according to Locke is made possible mainly by the nature of the work itself.

Besides this, in others simplified version of job satisfaction definition;

(1) Job satisfaction is the degree to which people like their jobs (Spector, 1997). The assessment of employee job satisfaction in organisation is concerned with the physical and psychological well being of people.

(2) Job satisfaction can be regarded as one aspect of life satisfaction; experiences on the job influence perceptions off the job, and vice versa (Davies & Newstrom, 1989).
2.3.2 Dimension of Job Satisfaction

Generally, the feeling of satisfaction with a job is the result of the interaction of the degree of satisfaction or dissatisfaction with the various facets of the job (Cherrington, 1994). The various facets depend on the many different attitudes of various components of the job. Attitude of the employee can be either positive or negative towards their working condition, their immediate superiors, their pay, promotional prospects and many other external factors. The attitude that appear to be most important are those concerning the work itself, whether challenging, stimulating, and attractive; the supervisors, whether they are considerate, fair and competent; and the pay, whether it is adequate and equitable. These elements can be separated and the relative degree of satisfaction with each of them can be measured and specific comparison made possible (Zaleznik et al., 1958). The various facets can be categorized into six (6) facets of the job satisfaction namely:

(1) 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 respondents' effort. The financial reward's dimension is based on satisfaction with pay, fringes and job security. Pay deserves a close study for two main reasons (Schwab and Wallace, 1974) as (1) pay affects the overall level of a worker's job satisfaction or job satisfaction, and (2) pay constitutes a substantial, often the major cost of doing business (or managing an organisation), as pay is a common denominator in most organisational decision-making.

Various behavioural scientists have put forth-conflicting positions over meaning of pay. Researchers such a Herzberg (1966, pp71-90) classified pay as a "hygiene factor" in the work environment and maintained that pay can only lead
to feelings of dissatisfaction, but not to satisfaction. On the other hand, discrepancy theorist such as Locke (1969) posit that satisfaction is a function of the employee's comparison of what exist on his or her job with what he or she seeks on the job. Pay satisfaction happens when existing pay corresponds to, or is greater than, desired pay while pay dissatisfaction occurs when existing pay is less than desired pay. Equity theories proposed by Jacques (1961) and Pal Chern (1961) had similarly view pay satisfaction as a continuum possessing both positive and negative values.

According to Taylor and Vest (1992), pay is not only an issue of financial adequacy, but also that of psychological adequacy. They findings further suggest that compensation/pay policies and amounts: first, influence level of absenteeism (Mobley et al., 1979), second, influence turnover decision (Finn and Lee, 1972) and third, influence workers' decisions on their productivity (Mahoney, 1979). Job satisfaction is a function of the amount of pay received, the degree in which pay meets employee expectations and how it is administered as suggested by Dyer and Theriault (1976). The persons, who perceived themselves as earning less than they expect, would express their dissatisfaction and thus reduce their output. This inferior performance will lead to customer dissatisfaction, firm switching and negative word-of-mouth communication on the part of the customers about the employee and the firm (Bitner, 1990).

Kovach (1993) surveyed over 900 employees in manufacturing jobs across a number of industrial organisations in the USA to determine levels of pays and benefits and satisfaction level with each. He found, among other things, that in area of pay, workers in private organisations received higher absolute levels and were more satisfied with their monetary compensation vis-à-vis workers in public organisations. In the area of benefits, however, the relationship reverse with public sectors employees receiving more and indicating a higher level of satisfaction.
On the study of relationship between compensation packages and job satisfaction (Igaldens and Roussel, 1999), they found that flexible pays and benefits neither represent an inefficient HRM strategies variable with regard to job satisfaction. This is due to the absence of a perceived relationship by an individual between his effort, his performance and the benefits on the one hand. On the other hand, it seems that the workers are more satisfied with their job if it offers benefits that correspond to their expectations, but their motivation to perform will not be increased.

On the study to correlates pay and job satisfaction among UK academics, Oshaghemi (2000) finding concluded that gender and rank are correlated to employees' satisfaction with pay but not with age. One major reason was more due to psychological explanations of frustration as many of them are academically qualified.

Graham and Messner (1998) surveyed over 500 school principals in the USA to determine levels of pay and benefits and satisfaction level with each other. It was found that the principals were generally satisfied with their current jobs, colleagues/co-workers and level of responsibility. However, they were less satisfied with their pay, opportunities for advancement, and fringe benefit.

Spinelli and Gray (1998) administered research survey to hotels employees in three departments, Food and Beverage, room cleaning, and Sales and Marketing, found that pay consideration had the highest correlation with job satisfaction in the professional department of Sales and Marketing. This is consistent with research that enabled Gruenberg (1979) to associate 10 variables with general job satisfaction. Their research further conclude that for the Food and Beverage department, decision making is the most important issue affecting employee satisfaction.
(2) Job Satisfaction and 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. According to the internal marketing perspective, if the service organisation wants its contact employees to do great job with its customers, it must have supportive management and prepared to do great job with its employees (George, 1990). The internal exchange between contact employees and the organisation must be operated effectively and efficiently before the organisation can be successful in achieving the goal of external exchange.

Supportive management refers to managers' concerns and support for subordinates' work and represents the degree to which they create a facilitative climate of support, trust, and helpfulness. Brown and Leigh (1996) also view supportive management as a major dimension of employees' psychological safety in the workplace. Management styles are different in the ways in which managers convey organisational demands and supervise subordinates' behaviours. In service organisation settings, Singh (2000) contended, based on social support literature (Thoits, 1995) that a supportive environment such as boss support would build commitment, reduce turnover intentions, and enhance performance. Specifically, Singh (2000) found that with boss support (House, 1981; Thoits, 1995), frontline employees perceived their roles to be less stressful and their burnout tendencies to be less likely, and thus their performance and perceived commitment levels were enhanced. If contact employees perceive that their manager is concerned about them and provides control and authority over their work, they will feel more positively towards their jobs (Babin and Boles, 1996; Kopelman et al., 1990; Michaels et al., 1987). This will indirectly exert more effort in the workplace (Brown and Peterson, 1994). Supportive management may also signal that managers trust their employees and have confidence in employees' abilities to carry out their jobs.
Yoon et al., (2001) research suggest finding that supportive superiors play an important role in creating positive effort and job satisfaction. It study is consistent with other studies done (Babin and Boles, 1996; Michaels et al., 1987). They suggested that in order for employee to produce better effort and greater job satisfaction, service management should render appropriate work control, freedom of choice and sense of security to them.

(3) Job Satisfaction and Peers

This measures the respondents' level of satisfaction as a result of working together with his peers in a team or in an organisation. Working with peers can determine whether an employee will be either happy or unhappy in his job. Katz (1964) states that the stimulation, approval and the support derived from interacting with colleagues are potent form of motivation and represent a form of instrumental reward. Such satisfaction from work groups may also increase if members have similar attitudes and values. The famous Hawthorne studies by Elton Mayo shows that groups which work closely together developed certain practices and that the values and customs of the group become more to the individuals than monetary rewards (Blum and Naylor, pp. 306-327)

Study carried out on Malaysia's public agencies, Rosnah (1994) found that the clerical employees were more satisfied with factors related to human relations and work rather than those related to financial or monetary rewards. Similarly, it was found that doctors in Government Hospitals were dissatisfied with their compensation but satisfied with their professional role (Yap, 1989)
(4) Job Satisfaction and 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.

On a study done in Hong Kong fast food industry (Lam and Zhang, 2003) found that compensation and fairness can help improved organisational commitment but not job satisfaction. This they suggested could be due to the fact that member of the young generation nowadays has higher job expectations than their fathers and mothers. There is negative relationship may lie in the nature of the customer-contact position, in which employees are typically underpaid, under-trained, overworked, and highly stressed (Weatherly and Tansik, 1993). Considering the characteristics if a customer-contact position and that most of these jobs do not require specialised skills, these employees are not likely to consider their current job as a permanent career choice. The young, college-educated employees that fill many customer-contact positions are likely to have goals of upward mobility that simply do not match the characteristics of most boundary-spanning retail positions.

(5) Satisfaction and 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. Schneider and Bowen (1995) defines the environment climate in an organisation as the perceptions that employees share about what is important in the organisation, obtained through their experiences on the job and their perceptions of the kinds of behaviours management expects and supports. According to James and James (1990), and Brown and Leigh (1996), perceptions of the organisation environment take on personal meaning
for employee through valuation, in which a cognitive representation of the features of the environment is interpreted in terms of the individual's values. These environment climates are very important, because employees' perceptions and valuations of the environment rather than the environment itself mediate their attitudinal and behavioural responses (James and Jones, 1974; James et al., 1978).

Yoon et al., (2001) argue that if management can motivate the supervisor to support the employee and create and maintain a service climate, then a culture of caring, hard-working, happy employees can be translated into customers who recognise and feel that service-driven attitude. Study by Yoon et al., (2001) found that service environment climate has a stronger impact on work effort than supportive management, which implies that when contact employees perceive the importance of service in their organisation, they are likely to be motivated to work hard.

(6) Job Satisfaction and Rewards off the Job

This refers to the value place on off-job rewards like leisure time, greater involvement in community work and importance of the job contribution. As society becomes more affluent, Sutermeister (1976) observes that lifestyles begin to change, and there is higher appreciation for less hectic work schedules and more leisure time. Employees begin to set goal. If goals are set at a low level, the individual will be satisfied but unproductive, and if they are set at a high level, the individual will be productive but dissatisfied (Locke and Latham, 1990, pp. 243). The job characteristic theory of Hackman and Oldham (1980) also argues that employees experience greater job satisfaction when the job has personal significance for them.
Study carried out locally on a trading organisation by Wong (1984), found that job satisfaction among its workers was satisfied with all the job facets including wages and benefits. However, another study on civilian working for the Ministry of Defense, Tan (1986) found that these employees are dissatisfied with the job facets such as pay, fringe benefits, promotional and training opportunities. Similarly, it was found that doctors in Government Hospitals were dissatisfied with their compensation but satisfied with their professional role (Yap, 1989)

2.4 Study Approach

2.4.1 Definition

This paper adopts the definition of compensation as suggested by Hajnal et al. (1993), and defined compensation as serving the organisational purposes. The reward system and its effect on employee attitudes, satisfaction, and motivation, may be obtained by thinking of its as a tripartite system consisting of pecuniary rewards, non-pecuniary extrinsic rewards; and non-pecuniary intrinsic rewards.

Whereas, job satisfaction is defined as a pleasurable or positive emotional state resulting from the appraisal of ones job or job experience (Locke, p. 1300). Job satisfaction, which include results from the appraisal of one’s job as attaining or allowing the attainment of one’s important job values, provided these values are congruent with or help to fulfil one basic needs. These needs according to him are of two separate but independent types: bodily or physical needs and psychological needs, especially the need for growth. Growth according to Locke is made possible mainly by the nature of the work itself.
2.4.2 Framework

For many service jobs, customer satisfaction is viewed as the ultimate performance outcome as it is a strong predictor of customer retention, repeat sales, and word-of-mouth recommendations to other potential buyers (Frenkel et al., 1998; Heskett et al., 1997). Customer satisfaction is, in turn, largely dependent on the job satisfaction and motivation of service provider (Heskett et al., 1997; Schmit and Allscheid, 1995). This is because services are intangible social exchanges where employee attitudes become a prime source of cues available to customers seeking to evaluate a service (Mills, 1986; Schneider and Bowen, 1995).

Meta-analysis indicates a weak-to-moderate but positive relationship between employee job satisfaction and job performance (Iaffaldano and Muchinsky, 1985; Judge et al., 2001). However, research on customer-contact jobs in the service sector indicates a much stronger relationship when customer satisfaction is used to assess performance. Simply stated, customers report higher satisfaction and service quality when the employees who serve them are more satisfied at work (Heskett et al., 1997; Schmit and Allscheid, 1995; Schneider and Bowen, 1995). Satisfied employees can focus their energies on serving the customer and are more likely to be helpful and co-operative (Schneider et al., 1998).

Research by Petty et al. (1984) had concluded that job satisfaction and performance are indeed positively correlated. Moreover, job satisfaction has been shown to relate positively with specific performance like organisational citizenship behaviour (Organ, 1988; Smith et. Al., 1983), which is employee behaviour that is not formally required in a job description but that is nevertheless critical for organisational success (e.g. helping co-workers, volunteering for extra assignment).
However, other studies (Hanson, Martin and Tuch, 1987; Kalleberg, 1977; Mortimer, 1979; Seybolt, 1976) have suggested that non-economic rewards such as professional interest, job responsibility, psychological recognition, career advancement, skill utilisation and development, enjoyment of work and autonomy in decision making are important determinants of job satisfaction. On the other hand, study by Liacqua and Phyllis, (1995) had concluded that economic rewards such as income and fringe benefits play a critical role in determining job satisfaction.

Perhaps, these contrasting findings reported above could be summarised through the study conducted earlier by Cherrington, Reitz and Scott (1971), which suggested that high satisfaction be attained when employees perceived that there was an equitable rewards system within the organisation. This is further purported by the findings of Leontaridi and Sloane (2003) who found that there is no clear evidence that higher paid employees have higher job satisfaction than lower paid workers. Hence, it is indeed intriguing to know how compensation/pay administration policy would influence the employees' job satisfaction.