



The Relationship Between Employee Satisfaction and Loyalty: A Cross-Sectional Study in Oil and Natural Gas Industry

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ABSTRACT

The global drop in oil and natural gas industry have had a significant impact on the Malaysian market and have potentially redirected Malaysia under a negative global spotlight. The layoff rate in oil and natural gas organizations have risen dramatically, this situation may affect the satisfaction level among employees and their loyalty in the respective oil and natural gas industry. The present study is aimed to determine the relationship between employee satisfaction and employee loyalty in Oil and Natural Gas Industry. Using simple random sampling technique 100 employees working in Oil and Natural Gas Industry were selected as respondents. Questionnaire was used for data collection. Results obtained showed that there is positive correlation between different components of employee satisfaction and employee loyalty. A notable variable that emerged in the analysis was compensation and benefits, while career development was least important that predisposed loyalty.

Keywords: Employee satisfaction; employee loyalty; career development; compensation and benefits; job security

INTRODUCTION

The oil and natural gas industry is regarded as an industry that is encountering highly competitive challenges worldwide, and is currently undergoing mass and

rapid environmental alignment. In a recent study, Lee (2012) had stated that growth of the oil and natural gas industry relies upon the quality of the professional engineers and talented employees. According to Malaysian Employers Federation (2010), a high turnover rate reported by oil and natural gas industries worldwide thus implies employees' commitment. In Malaysia, the oil and natural gas industry is recognized as the one with most potential prospects towards the nation's economic growth, when compared to the other engineering industries (Abdullah, 2009).

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According to the external dimension, loyalty is regarded as the way by which it manifests itself, and includes behaviors that display trust and related emotional component that fosters the development of the organization (Rider, 1998 as cited in Mehta, 2010). In the last few decades, the oil and natural gas industry has encountered very high turnover rate despite a negative image due to employee loyalty issues. The Dow Jones Sustainability Index (2012) had indicated that the oil and natural gas industry is environmentally unfriendly and dangerous, and this could be one of the contributing factors for poor satisfaction and loyalty among employees of this industry. Drastic layoffs in the oil and natural gas industry during the eighties and nineties were widely criticized by the media, and have caused an impact on the industry to be viewed as one which provides low job security.

In the current era, employee loyalty plays a crucial role in improving an organization's quality and productivity. Also, it has been implied that the employees of today's working environment lack loyalty towards their organization, and due to this, many organizations have been working towards resolving these issues and setting up strategies to increase employee loyalty. The remuneration package which includes the compensation policies, benefits package and reward system plays a key role in the duration of employment and is equally important to the employer as well as employee. Changes in organizational structure and work environment will cause psychological changes within an employer or employee to the way they perceive their job commitment (Cheng,

2004). These studies have thus pointed out the diverse types of factors that influence employee loyalty in an organization.

BACKGROUND OF THE STUDY

Employee loyalty

Employee loyalty is considerable when employees believe that they have no regrets for working in the organization, and they consider it as the best choice for them (Loyalty Research Center, 2002). In most organizations employees are regarded as important assets. Because they represent vital investments, the benefits received from an organization in the form of salaries, bonuses and special benefits would eventually impel the employees to work hard and be loyal to the organization. Vince (2005) had stated that employers should understand employees' needs, as it could cultivate employee loyalty towards the organization. Given the salience, rewards also play an essential role in enhancing employees' loyalty. Employees can be rewarded according to individual performance, team performance and by grading their length of service in an organization. Directly or indirectly, employees reward system is important as it encourages them to take personal responsibility to achieve the mission and goals set by the organization. Rewards can be given in the form of bonuses, commissions and promotions. Non-monetary rewards would include additional time-off, employees' appreciation certificate or gifts, so as to boost their sense of loyalty and to evoke a sense of satisfaction for working hard within the organization.

Career development

Career development is an important determinant of employee loyalty (Mehta, 2010). Career development is important because it opens a platform for an individual to express and participate in innovative motives and challenges to advance further in their work life (Merchant, n. d.). However, some employees are prone to encounter career related problems. In such cases, the organization and its management must be alert, and should simulate human resource planning strategies to overcome the problem among employees. They also must understand that career related training and programs are slightly costly, but at the same time the organizational effectiveness should be taken into consideration (Agba, 2010).

Compensation and benefits

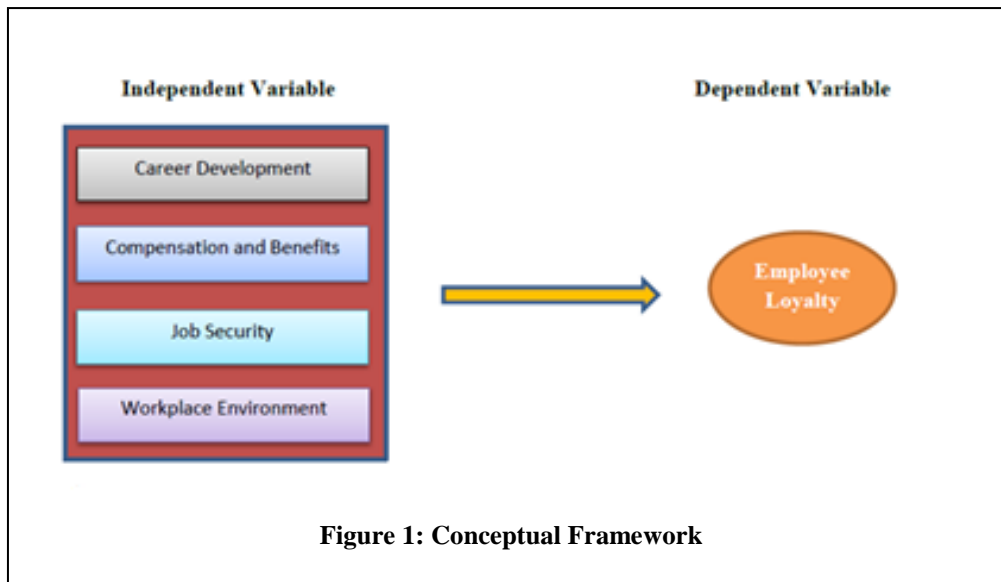
Compensation generally denotes monetarist statements. Besides being critical for a healthy employer-employee relationship, compensation plays a significant role in enhancing the employment status (Gerhart, 1994). Compensation portrays the remuneration packages, reward system and benefits policy practiced by an organization to keep the employee attracted and committed to organizational related activities. Compensation and benefits is important to ensure that the employees are strongly tied up with the organization, and are continuously willing to work in a permanent position with elevated level of loyalty (Steers & Porter, 1991). Compensation plays a key role, mainly in the controlling of organizations when it comes to the pay system, financial audit and balance (Steers & Porter, 1991).

Job security

A positive impact on the productivity or performance of an organization could be a result of the positive relationship between job security and loyalty, and so cultivating a confident working environment reinforces loyalty among employees (Seema, 2010). A sense of job security generally supports employees to be retained in the organization, and improves knowledge and skills to perform better in the organization (Cheng, 2004).

Workplace environment

The overall environment that consists of quality facilities, right infrastructures, adequate amenities, lights, fan, a conducive alignment as well as design, are best regarded as a working environment that will cause psychological changes on an employee, and it can be either positive or negative. In general, a well-ventilated environment with favorable amenities and workspace generates an appropriate work-station. This, in turn, would directly affect the productivity of the organization due to the sense of satisfaction experienced by the employees. A proper work environment is regarded as a healthy workplace and it helps in examining specific perceptions of employees towards the work space (Al-Anzi, 2009). Different office designs and arrangements also directly affect the mood and attitude of employees to perform in their job (Hughes, n.d. as cited in Al-Anzi, 2009). Comfortable and ergonomic office design is one of the ways to motivate employees' to increase their performance substantially, and also affects the job performance and



loyalty towards an organization. Past research has shown that employees are likely to be unhappy with work environment, thus resulting in low level of loyalty in organization. Besides this, the other contributing factors could be limited development of office infrastructure, rigid working conditions and non-conducive work environment which causes employees' to be unhappy during the employment and end up being disloyal (Reed, 2011).

The oil and natural gas industry mainly focuses on expanding and shifting towards the upstream sector while reducing the headcount in the downstream sector. On the average, the turnover rate in the oil and natural gas industry has collectively increased between year 2005 and 2009 and have affected the growth of the industry. Many organizations branched under the oil and natural gas industry faces difficulty in retaining their employees' as they also couldn't identify the factors which contribute to employee satisfaction and resultant loyalty. In addition to this, it is vital for the industry to cultivate

constant innovations mainly in the knowledge and acquisitions from superior workforces. Based on related past studies, few factors that affect the employee satisfaction and the resultant loyalty were identified.

This paper is aimed to determine the relationship between career development, compensation and benefits, job security and working environment which is termed as employee satisfaction and the dependent variable employee loyalty in Oil and Natural Gas Industry. Positive relationship occurs when an increase in one variable causes an increase on another variable, while a negative relationship occurs when a decrease in one variable causes a decrease on another variable (Thomas, 2003). The conceptual framework is shown in Figure 1.

Objectives

- i. To study the relationship between career development and employee loyalty in oil and natural gas industry.

- ii. To find the relationship between compensation and benefits, and employee loyalty in oil and natural gas industry.
- iii. To determine the relationship between job security and employee loyalty in oil and natural gas industry.
- iv. To identify the relationship between working environment and employee loyalty in oil and natural gas industry.
- v. To study the demographic profile of employees of oil and natural gas industry.

METHODOLOGY

Non-interactive media was incorporated as an instrument in this research. Although, a non-interactive media does not facilitate two-way communication, it has been used extensively when there are many respondents answering static questions (Zikmund, 2010). Therefore, a self-administrated questionnaire was implemented for primary data extraction in this research. Compared to other types of instruments, a questionnaire survey was a better choice due to its ease in distribution and prompt collection of data from large number of respondents.

The questionnaire consisted of two sections. Section A measured the demographic profile of the respondents. Section B, which was in the form of Likert scale, focused on questions related to career development, compensation and rewards, job security, workplace environment, and employee loyalty.

A simple random sampling technique was utilized for collection of data from the employees of Oil and Natural Gas, Cyberjaya. Sample size was 100 respondents. Prior to actual data collection, a pilot study was conducted on 30 respondents and the results were found to be encouraging. Data was analyzed using SPSS.

RESULTS AND DISCUSSION

Results

In the present study, 50% of the respondents were male and 50% were female. A small proportion (22%) was below 25 years of age, whereas a clear majority (56%) was in the age group of 25 to 29 years, whilst the remaining fraction was above 30 years. All respondents were Malaysian citizens, wherein 56% were Indians, 36% were Malays, and 8% were Chinese. Unmarried employees formed a bulk (70%) of the respondents, and 30% were married. Respondents in managerial positions were 14%, department officers were 36%, and the remaining 50% held various posts such as customer service representatives, as well as first tier support staff. Major proportions (72%) of respondents had been working for less than 5 years, 22% between 5 to 9 years, and only 6% had worked for more than 10 years.

Cronbach's Alpha for the pilot test was found to be 0.89, whilst the actual test portrayed an alpha value of 0.80. Given

Table 1: Correlation between variables

| | Employee Loyalty | Career Development | Compensation & Benefits | Job Security | Workplace Environment |
|-------------------------|------------------|--------------------|-------------------------|--------------|-----------------------|
| Employee Loyalty | | 0.48 | 0.55 | 0.29 | 0.51 |
| Career Development | | | 0.34 | 0.02 | 0.37 |
| Compensation & Benefits | | | | 0.31 | 0.52 |
| Job Security | | | | | 0.13 |

that the Cronbach’s Alpha value was more than 0.70 in both cases, all the four independent variables and the dependent variable were considered internally consistent and reliable.

Correlations among the independent variables tested in this research have been presented in Table1. When analyzed at a significance level of 0.01, all the four independent variables appear to be positively correlated with employee loyalty (dependent variable), with their respective R-values, as indicated: Career development ($r=0.486$), Compensation and benefits ($r=0.558$), Job security ($r=0.293$) and Workplace environment ($r=0.512$). Thus, from the results it can be inferred that compensation and benefits has the highest correlation coefficient value with employee loyalty, whereas workplace environment has the second highest correlation with employee loyalty, followed by career development and job security.

Discussion

An organization’s goal should be planned properly, and should also go along with an employees’ goal to build a successful career development strategy (Bashir,

2009). In keeping with this viewpoint, employees should be well-trained so that their mission would be to achieve the goals of the organization. Thus, the organization itself could become a more sustainable platform for employees. It has been noted that, younger generation employees tend to relocate to another organization upon acquiring a better opportunity, to develop their career pathway.

An organization should have an excellent reward system and compensation policies, with adequate remuneration practices to sustain the job performance of their employees (Khalid, 2011). Accordingly, it has been found that a widespread practice in most organizations is to provide compensation and benefits, including rewards, to worthy employees. Thus, an employee’s work performance, satisfaction and loyalty towards the organization could be directly affected by the compensation and benefits system practiced in an organization, regardless of monetary or non-monetary factors (Mendonsa, 1998 as cited in Wilson, 2004).

Employees contribute their performance and commitment to a workforce, so as to

gain reasonable benefits and rewards from the organization. Parumasur (2005) had established that most employees will promote job security and hierarchy of their personal growth, to depict their loyalty to achieve the organization's goal and mission. In addition, Yellen and Akerlof (1986) had stated that job security will have positive effect on employees' performance and loyalty, if the organization focuses well in preparing a strong platform for their employees' within their organization.

Employees retained in an organization for more than a year, strive to achieve a permanent position mainly due to factors such as the available remuneration package, benefits and pay, work environment, and an elevated level of job satisfaction that evokes greater level of loyalty in them (Reichheld, 2006). In addition, the environment of an organization also plays a vital role for an employee to choose a workplace as an ideal platform to show sincerity, as well as to develop their career life. In the present study, it was speculated that there is no relationship between career development and employee loyalty. However, findings revealed a significant relationship, thus disproving the hypothesis.

Results from the present study also portrayed a significant positive correlation between compensation and benefits, and employee loyalty. Consequently, increasing compensation and benefits would give rise to increased loyalty among the employees in the industry. Based on these findings, the hypothesis that there is no significant relationship between

compensation and benefits, and employee loyalty in the oil and natural gas industry, could be rejected. This also implies that there is a positive relationship between compensation and benefits, and employee loyalty in the industry.

In succession, it was furthermore hypothesized that there is no significant relationship between job security and employee loyalty, in the oil and natural gas industry. However, results from the analysis indicated a weak but significant correlation between job security and employee loyalty in the industry. Hence, the null hypotheses could be rejected. In other words, an increase in job security would probably result in increased loyalty among the employees in the industry.

It was also proposed that there is no significant relationship between workplace environment and employee loyalty, in the oil and natural gas industry. A significant positive correlation between the two variables indicated that there is relationship between workplace environment and employee loyalty in the industry. Thus, the null hypothesis was rejected and it may be concluded that an increased emphasis on workplace environment will result in increased loyalty among the employees in the industry.

Career development is the most important determinant of employee loyalty as it can provide vast number of opportunities to employees to gain adequate knowledge and experience, as well as exposes them to the importance of myriad skills (Mehta, 2010). Kriesman (2002) had stated that "development" could become the primary reason for employee's resignation, if the

organization does not put adequate effort to identify the “key attractors” which is the career movement and the availability of skill development opportunities to recognize employees needs and desire to grow, as they are important aspects of career development to retain employees.

Results obtained from multiple regression analysis showed that the most important variable that influenced job satisfaction and loyalty was compensation and benefits, while career development was least important. Past studies have proved the significance of compensation and benefits towards employee loyalty. Linder (1998) had stated that there is a chain effect between employee satisfaction and performance because when an employee puts an effort, it will lead to performance that will lead to organizational satisfaction and loyalty. Conversely, he also stated that compensation and benefits can affect both positively and negatively, but the employer must understand that the more positive the benefits package are, the more likely an employee would be satisfied and loyal to the organization.

Past studies have also emphasized the significance of job security towards employee loyalty and satisfaction at workplace. Smith (2010) had indicated that employees are always concerned with their economic status, and its determinant would be aspects such as compensation and benefits, job security and their ability to handle economic crisis. He stated that if the employee’s position in an organization makes him/her lacking in the ability to handle economic crisis, then they will feel that the job is insecure, and it could

directly affect their level of loyalty in an organization. Thus, providing job security elements to employees would make them more loyal, and consequently they would work for longer duration in the company. According to Cheng (2004), employees stay loyal to an organization that gives additional consideration, and cares about their work-life balance such as health, location, family and other personal needs, because employees feel valued by a workplace that emphasizes on their personal needs. Good workmates, good working conditions and satisfying workplace climate are key factors that would provide the sense of belonging, and directly affects the level of loyalty among employees in an organization.

Thus, it could be concluded that compensation and benefit is an important determinant that influences loyalty in an organization. The findings of this study, however, cannot be generalized due to a small sample size. Therefore, it is recommended that future research can be conducted with a bigger sample size.

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