



COMPENSATION AND EMPLOYEE LOYALTY IN THE HOSPITALITY INDUSTRY: EVIDENCE FROM NIGERIA

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ABSTRACT

The study investigated the direct effect of compensation on employees' loyalty in the hotel industry in Bida, Niger State, Nigeria. The descriptive survey research generated data from 100 service employees and their supervisors with the use of a well structured questionnaire containing 12 scale items, with four demographic items. The result of the inferential statistical analysis with the aid of SPSS showed that employee loyalty towards hotels is driven by compensation. Accordingly, employee compensation had significant effect on employee commitment and employee engagement. Entrepreneurs and their managers operating/managing hotels in the hospitality industry are expected to determine and implement fair wages/salaries and incentives that are appropriate in the eyes of the employees.

KEYWORDS

Compensation. Employee Commitment. Employee Engagement.



Introduction

Loyal employees are the bedrock of every organisation especially in the hospitality industry where the moment of truth defines the direction and magnitude of the behavioural responses of the customers/guests towards the organisations. Service employees in the hospitality industry are expected to be qualified and motivated to work in such a manner that will enhance the quality of service delivery. This is because of the characteristics of services where consumption and performance takes place simultaneously.

From the foregoing, it is understood that the characteristics of services makes the role of a motivated and loyal service employee in the hotel industry a *sin qua non* in the quest to achieve organisational performance. This implies that the factors that create employee loyalty should be noted by entrepreneurs in the hospitality industry as well as the managers of such establishments. One of the most researched factors that motivate staff in a workplace is the issue of employee compensation.

Empirical evidence shows that, the effect of compensation have been studied in various market contexts at the exclusion of Nigeria to show that compensation affects employee behavioural intentions. Examples include: effect of rewards and compensation strategies on the performance of commercial banks in Kenya (Katua, Mukulu, &Gachunga, 2014); effect of rewards on employees performance at the Kenya power and lighting company Plc (Njanja, Maina, Kibet, Kageni, &Njagi, 2013); the effect of compensation on employee satisfaction and employee performance among employees of PT. Telekomunikasi Indonesia(Darma, &Supriyanto ,2017). the relationship between tangible or intangible incentives and job satisfaction among workers in Pakistan (Ali, Afridi, Shafi, Munawar, &Alvi, (2016). This current study attempts to fill the gap in literature by investigating the effect of compensation on employees' loyalty towards hotels in Bida. Niger State, Nigeria.

Theoretical Foundations

Equity Theory and Fairness: Both entrepreneurs and academics tend to agree that fair and equitable wages for employees has the capacity to enhance employee motivation and subsequent performance. This explains why the Equity Theory and Fairness, propounded by John Stacey Adams in 1963 as Equity Theory is considered suitable to anchor this current study (IbinwangiChiekezie, &Chukwujama, (2016). However, the theory was later on advanced by Elaine Hatfield and her colleagues, and described now as Equity Theory and Fairness. It is safe to say that the theory was a response to the continuous agitation for fair and equitable wages for all workers. The theory is in two parts: employees are perceived to evaluate how fair their situation is and compare same with those of other employees (Carrell, & Dittrich, 1978). Accordingly therefore, the theory's implication in managing employee compensation is in the area where employees evaluates and compares their pay with that of others, thereby influencing their attitude towards work.

Conceptual Review

Compensation

Compensation could be defined as a reward for work received by an employee in the workplace. This reward could be either financial or non-financial reward which is considered as a 'payment' for employees' contribution to an organisation which is considered to be fair/good by the employee. Compensation is equally regarded as the remuneration received by an employee as a reward for their contribution (work done) to the organization. Compensation could take the form of payments such as straight salary, bonuses, overtime pay, profit sharing, recognition rewards and sales commission. These could be classified into two: direct and indirect. Direct compensation includes

wages and/or salaries while indirect compensation is made up of fringe benefits a worker enjoys as a result of working in an organization. Compensation provided by organisations to its employees have been confirmed in several contexts to significantly influence job performance.

Employee Loyalty

Employee Loyalty describes positive feelings towards an organisation by an employee and dedication to work in the organisation despite offers from other firms. Such positive feelings and dedication manifests in the employee remaining in the organisation for a lengthy period of time. The reason is that they probably feel because they feel valued, appreciated and believe in the company's overall mission.

Loyal employees in an organisation will likely invest more time and effort in the company's success and work towards meeting or exceeding organizational goals. Organisations strives to have more of loyal employees in the workplace because of its ability to improve the firm's performance in qualitative and quantitative terms.

The measures for employee loyalty chosen for this current study are employee commitment and employee engagement.

Employee Commitment: This describes a feeling of loyalty by an employee towards an organisation where one works. Organization commitment can be defined as affiliation of employees to the organization and involvement in it. Robin (as cited in Pertiwi & Supartha, 2021, P.334) defined commitment as “the employee's attitude to remain in the company and be involved in the efforts to achieve the company's mission, values and goals”. As noted by Pertiwi and Supartha, (2021) organizational commitment describes a situation whereby employees side with a company and sustain their membership in the company without considering quitting. Extant literature posits that committed employees demonstrate strong desire to serve their organisations with low intentions to leave (Robbins & Coulter, 2003). Generally, three dimensions of commitment which are continuance commitment, affective commitment and normative commitment exist (Turner & Chelladurai, 2005)

Employee Engagement: Employee Engagement describes the level of enthusiasm and dedication a worker feels towards their job. Employee engagement was described by Zeng and Han (2005) as a situation whereby an employee has a long-lasting, positive emotional and motivational state of awakening about their work, ready to devote them to work at any time, and are accompanied by pleasant, proud, and encouraging experiences during work. This definition suggests that employee engagement is enhanced by employee satisfaction. This is because for an employee's emotional state to be positive and motivated to work he should be expected to be satisfied with the workplace and how they are treating him as an employee. This possibly explain why Harter, Schmidt, and Hayes (2002) defined employee engagement as a particular employee's involvement and satisfaction with as well as enthusiasm for work. Employee satisfaction should therefore be seen as an antecedent to employee engagement. Schaufeli, Salanova, Gonzalez-Roma, and Bakker, (2002) defined employee engagement as a fulfilling, positive work-related state of mind of an employee that is exemplified dedication to duty, vigour, and absorption, and a more persistent and pervasive affective-cognitive state that is not focused on any specific object, event, individual, or behaviour. Xie (2006) posited that employee engagement is employee' dedication to a particular profession, including hard work, dedication to the company, loyal to the boss or leader, and self-confidence.

CONCEPTUAL MODEL AND HYPOTHESES DEVELOPMENT

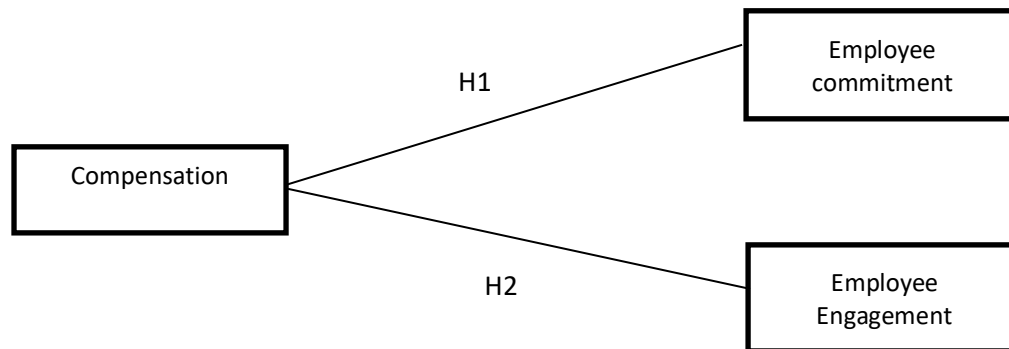


Figure 1: Compensation-Employee Loyalty Model

The research model demonstrates that compensation has direct influence on employee loyalty in the context of hotels in Nigeria.

Relationship between compensation and employee commitment

In Pakistan, Ali, et al (2016) investigated the relationship between tangible or intangible incentives and job satisfaction among workers. To achieve the objective, a sample of 100 workers was selected from Pakistan Ordinance Factory, WahCantt, Pakistan on while adopting purposive sampling technique. Data was collected through the use of reward system questionnaire and Minnesota Satisfaction questionnaire. The statistical analytical outputs showed that both tangible and intangible incentives were positively related to job satisfaction among workers in Pakistan with the implication the rise in the use of incentives is associated with high job satisfaction.

In Indonesia, Darma, and Supriyanto (2017) investigated the effect of compensation on employee satisfaction and employee performance among employees of PT. Telekomunikasi Indonesia. Employee satisfaction was used as a mediator of the effect of compensation on employee performance. The data is collected by questionnaires and analyzed by SmartPLS version 2.0M3 software. The results showed that compensation affects employee satisfaction and employee performance at PT. Telekomunikasi Indonesia. Employee satisfaction was also found to mediate the effect of compensation on employee performance. The study therefore concluded that compensation at PT. Telekomunikasi Indonesia, should be seen as good and therefore capable of improving employee satisfaction and employee performance

Ibinwangiet al (2016) assessed the effect of employees' behaviour on job performance in organizations. The descriptive research design obtained primary of data from employees of selected universities in the South-East of Nigeria. The statistical results showed positive and significant relationship between employees work behaviour and job performance. The study concludes that fair treatment should be employed to motivate employees and also giving them the best possible rewards based on their expectations. Human resource managers in the institutions and corporate organizations are urged to consider and recognize each employee's contribution to the achievement of the institutions and the organizational objectives.

Appropriate compensation to employees is very crucial to motivating the employees to contribute significantly to organisational performance through being committed. We therefore expect that:

H1: Compensation has direct and significant effect on employees' commitment to hotels in Nigeria.

Relationship between Compensation and employee engagement

In Kenya, Njanja, et al (2013) investigated the effect of rewards on employees performance at the Kenya power and lighting company Plc. The specific objective was to determine the effect of cash bonus on employees' performance. A total of 68 questionnaires were collected and used for statistical analysis. The hypothetical relationships were tested with chi-square. The statistical results showed that cash bonuses have no effect on employees performance. This was ascribed to the variation in opinions regarding whether cash bonuses affect performance or not. The study therefore concluded that the organization should focus on changing the intrinsic nature and content of jobs with a view to increasing employees' performance.

Katua, et al (2014) investigated the effect of rewards and compensation strategies on the performance of commercial banks in Kenya. self-administered questionnaires and interviews self-administered questionnaires and interviews With a population of 46 banks and a total number of 2738 employees. A self-administered questionnaire and interview was employed to collect primary data from a stratified random sample of 349 employees. The result of the statistical analysis using SPSS and MS Excel packages revealed that rewards and compensation strategies used had a significant effect on performance of commercial banks. It was therefore established that banks emphasized on rewarding and compensating their employees which implies that bank performance is influenced by human resource management actions. The study concluded that banks should embrace the use of both financial and non-financial rewards in addition to other incentives and pay schemes.

Pratama, and Aima, (2018) investigated the impact of compensation and employee engagement to organizational commitment and the implementation for employee performance at PT XYZ Jakarta's offices. The study used questionnaire to collect data from There was 84 respondents. Statistical analysis showed that: (1) compensation and employee engagement had significant effect on organizational commitment; (2) compensation and employee engagement had significant effect on employee performance; (3) organizational commitment did not have a significant impact on employee performance; (4) organizational commitment did not mediator the relationship compensation and employee engagement and employee performance. The study recommended that: (1) financial compensation is needed for work quality to be achieved; (2) Dedication to employee attendance should be emphasised in order to improve employee performance, etc.

From the foregoing, we therefore hypothesize that;

H2: Compensation significantly affects employee engagement in hotels in Nigeria.

Research Methodology

Research design: Based on the nature of the study, the descriptive research design was adopted. The choice is due to the fact that the study required the collection of data based on the attitude, preference,

behaviour and perception of hotel employees with a focus how compensation influenced employees' behavioural intentions to the hotels.

Sample and data collection: The population of study were employees of 5 hotels operating in Bida, Niger State. A sample of 100 service employees was considered for the study with 20 for each hotel. The sample of employees studied were those at the supervisory level and below. They were considered important for the study because of their interface with hotel guests. A convenience sampling technique was adopted to generate primary data using a well-structured questionnaire. A total of 100 questionnaires were administered and retrieved with 82 being useful and thereafter subjected to data analysis.

Demographic Profile of Respondents: The analysis of the respondents' profile showed the following: male had 52 respondents (64%) and female respondents had 30 respondents (36%) each, for age brackets distribution, 20-29 years had 54 respondents (66%), 30-39 years had 28 respondents (34%), Those in majority were within the ages of 20 – 29 years. The respondents' profile on level of education, were as follows; senior secondary school certificate (SSCE/GCE) were 23 (28%), Higher National Diploma and Bachelor degree (HND/B.SC) 59 (72%),. Respondents with a first degree (HND inclusive) were of the majority, The rates showing the period of continuous work of sampled employees' were; less than 2 years, 9(11%), 2-4years, 45(55%);5 years and above 2-4years, 28(34%);. Majority of the respondents sampled had worked with their respective hotel organisations between 2 and 4 years.

Measurement Instrument and Questionnaire design

The measurement instrument was a well-structured questionnaire. It was used as the major instrument for primary data collection from the employees. All the measurement items were measured on a five-point Likert-type scale anchored by: Strongly Disagree [SD](1). Disagree [D](2), Agree [A](3), Agree fairly strongly(4) and Strongly Agree [SA](5) to express the degree of agreement with the items or otherwise.

All the items were adapted from extant literature. Compensation items were four and modeled after Pertiwi, and Supartha (2021). The two latent variables of employee loyalty; employee commitment and employee engagement were measured using items adapted from Pertiwi, and Supartha (2021) and Soane, Truss, Alfes, Shantz, Rees, and Gatenbytt, (2012). respectively.

Research Results

Reliability Analysis

A Cronbach Alpha of .861 which ascertained the reliability of the research instrument was obtained for the 12-item instrument. The value is above the threshold value of .7 as suggested by Nunnally and Bernstein (1994). Thus the measuring instrument is internally consistent and considered useful in measuring opinions of hotel employees regarding the effect of employee compensation on employee loyalty.

Sampling Adequacy

Table 1 KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.754
Bartlett's Test of Sphericity	Approx. Chi-Square	865.723
	Df	3
	Sig.	.000

Exploratory Factor Analysis (EFA) was performed on 12 exploratory items of determinants of employee compensation and employee loyalty as specified in the conceptual model in Figure 1 for the conduct of the KMO and Bartlett’s Test. The result is shown in Table 1 and demonstrates that Bartlett’s test of sphericity is significant at $p<.000$, while KMO measure of sampling adequacy is .754 which is far greater than 0.5 that has been suggested as a minimum level by Kasser (as cited in Wong & Musa 2010, p. 3417).

Data Analyses and hypotheses testing

To ascertain the effect of compensation on employees’loyalty, in the hypothesized relationships were subjected to statistical analysis using simple regression analysis.

Testing of hypotheses 1, 2 and 3

Decision Rule

If $PV < 0.05$ = Hypothesis is supported
 If $PV > 0.05$ = Hypothesis is not supported

Hypothesis one

Table 4 describes the summary of the simple regression analysis showing the effect of compensation on employee commitment in the hotel industry in Bida, Niger State, Nigeria.

Table 4. The regression analysis for the influence of compensation on employee commitment

Dependent variable	Independent Variable	Beta(β)	t-value	p-value
Employee Commitment	Compensation	.793	13.672	0.00**

Notes: $P \leq 0.05$; $R = .919$; $R^2 = .919$; Adjusted $R^2 = .919$; $F = 2026.009$; $P = 0.000$

From the Table, the following results are shown; un-standardized beta (β) of compensation ($\beta = 0.793$), $R = .959$; R square = .919; adjusted R square = 0.919, $F = 2026.009$ & $p = .000 < 0.05$. This specifies that employee compensation explains 91.9% variation in employee commitment in selected hotels in Bida, Nigeria.

The outcome of analysis show that compensation had significant effect on employee commitment to hotels in Bida ($\beta = 0.793$, $p = 0.000 < 0.05$). Therefore, hypothesis one is supported.

Hypothesis two

Table 4 describes the summary of the simple regression analysis showing the effect of compensation on employee engagement in the hotel industry.

Table 4. The regression analysis for the influence of compensation on employee engagement

Dependent variable	Independent Variable	Beta(β)	t-value	p-value
Employee Engagement	Compensation	.731	11.907	0.00**

Notes: $P \leq 0.05$; $R = .920$; $R^2 = .847$; Adjusted $R^2 = .846$; $F = 987.560$; $P = 0.000$

From the Table, the following results are shown; un-standardized beta (β) of compensation ($\beta = 0.731$), $R = .920$; R square = .847; adjusted R square = 0.846, $F = 987.560$ & $p = .000 < 0.05$. This specifies that employee compensation explains 84.7% variation in employee engagement in selected hotels in Bida, Nigeria.

The outcome of analysis show that compensation had significant effect on employee engagement to hotels in Bida ($\beta = 0.731$, $p = 0.000 < 0.05$). Therefore, hypothesis one is supported.

Discussion of Results

Hypothesis 1 showed a significant effect of compensation on employee commitment to the hotels ($\beta = 0.793$, $p = 0.000 < 0.05$). Therefore, H1 is supported. This finding is consistent with the findings of Ali, et al (2016) who found that both tangible and intangible incentives were positively related to job satisfaction among workers in Pakistan. A satisfied work will tend to be committed to his duties

Hypothesis 2 posited a significant effect of compensation on employee engagement to the hotels. With $\beta = 0.731$, $p = 0.000 < 0.05$, the effect is significant. This result is consistent with the prediction of H2 and is therefore supported. Thus, a higher level of compensation will enhance the of level of enthusiasm and dedication a worker feels towards their job especially in the hotel industry where this is required to enable the service employees render quality services to the guests. This finding is consistent with the findings of Njanja (2013).

Conclusion

The research effort examined the effect of employee compensation on employee loyalty in the hospitality industry in Bida, Niger State, Nigeria. The empirical results supported all the research hypotheses significantly. A very important finding of the study is the fact that statistical analysis of the effect of employee compensation in hotel explain up to 91.9% variation in employee commitment and 84.7% in employee engagement. The reason may not be far-fetched, as it could be ascribed to the fact that an average service employee in the hotel industry is only motivated by compensation by employers to be loyal to the hotel organisation. This is in support of the equity theory and fairness.

It is therefore safe to conclude by stating that the outcome of the research indicates that compensation is an important determinant of hotels employees' loyalty in terms of commitment and engagement. It is very important for entrepreneurs and managers of hotels to identify, evaluate, develop and manage organisational compensation scheme in such a manner that will enhance employee loyalty in the hotel

establishment. Insightful and fruitful implications to both entrepreneurs (the practitioners) and academics could be provided from this empirical study.

Implications of the Study

The relationship dynamics between compensation and employees' behavioural tendencies at workplaces as explained by the theory of equity and fairness have been confirmed through this study. Organisational compensation for work done by employees triggers employee satisfaction which engenders employee commitment and engagement.

The current study is an attempt to investigate the influence of compensation as a predictor of employees' behavioural intention in terms of employee loyalty. To a large extent, the findings of the study are expected to provide fruitful and useful implications to both practitioners and academicians.

On the academic side, this current study contributes significantly to the human resources management literature by systematically exploring the impact of compensation on employees' behavioural intentions in Nigeria in the context of hotels. Therefore, the findings of this study provide tentative support to the proposition that organisational compensation and employee loyalty should be recognized as significant antecedents for gaining and sustaining positive employees' behavioural intentions in hotels in Nigeria in terms of employee commitment and employee engagement.

On the practitioners' side, the significant influence of compensation in the hospitality industry in Nigeria is highlighted. Certainly, hotel owners and managers can benefit from the implications of these findings. For instance, given the robust relationship (R squared) between compensation and employees' commitment (0.919), compensation and employee engagement (0.847) hotel owners ought to pay attention to both organisation compensation and employee loyalty in the light of equity theory and fairness in order to build positive employees' behavioural intentions. For example, by improving the salaries of service employees in accordance with industry standard employee loyalty could be created. This could be improved upon by adding an incentive package and other rewards that are capable of motivating good employees in the hotel.

Limitations and Future Research

The research has its limitations despite how useful this current study is as discussed above. First and most significantly, the data was collected from a cross section of Nigerians who serve as service employees in the hotels studied in Bida, Niger State. Thus the generalizability of this research can be improved upon if future research replicates this research model in other business sectors in other geographical areas of Nigeria. Second, the current study was limited to Nigerian employees in the hotels. For results comparison, subsequent research effort should consider foreigners serving as employees in Nigerian hotels as chosen unit of analysis. Finally, the present study examined only commitment as a determinant of employee loyalty. Future studies should examine several dimensions capable of influencing employee loyalty in the hospitality industry.

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