

# A Study of Pay Satisfaction Consequences in the Egyptian Public Banks

By

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## Abstract

The purpose of this study is to identify the bank employees' perceptions of pay satisfaction and its implications on work related attitudes such as affective commitment and intention to stay in or leave the bank. This study examines both the direct effect of pay satisfaction on stay intention as well as the indirect effect which is mediated by affective commitment, and is conducted at the context of the Egyptian public commercial banks, with a sample of 253 employees. The data is analyzed using structural equation modeling with AMOS program to test the four hypotheses derived from the research model. Based on the analysis results, all path coefficients in the model are positively significant and all the hypotheses are supported. The results show as well that the effect of pay satisfaction on stay intention is fully mediated by affective commitment. All these findings contribute to a better understanding of how each dimension of pay satisfaction differentially affect the employees' level of commitment and their stay intention in the banking context. This study provides guidelines to help the management of public sector banks understand the importance of viewing pay satisfaction as a total package of pay level, pay raise, pay benefits, and pay structure and administration, in a successful retention plan, and also how to retain valuable employees and increase both their commitment and satisfaction towards their work.

*Keywords: Pay satisfaction, Affective commitment, Stay intention, Banking sector, Egypt.*

## 1. Introduction

Following the January 2011 revolution, Egypt has embarked a long transitional period of political and economic uncertainties which led to major implications on the public sector. Statistically, according to the Ministry of Finance (2014), in 2013–14, a large share of the government spending goes to the public sector to pay salaries, pensions, and retirement benefits to more than six million employees. In this context, the law number 63 issued on July 3, 2014, placed a maximum wage cap of 42,000 Egyptian Pounds (EGP) per month, the same salary the president is entitled to, for all employees in the Egyptian public sector. Under this law, no public enterprise would be able to pay its top executives more than thirty-five times the minimum wage (1,200 EGP) received by public sector employees (Safi, 2015). It is worth mentioning that the maximum wage law was one of the main demands of the January 25 revolution, it aimed to promote equality and social justice, reduce the huge disparities in income, and bolster the middle class.

However, the application of this law did not take into account the differences in exertion and skill among employees. It is true that top executives of state owned banks make huge salaries in comparison to their lower level employees, but running a bank is difficult for top executives, as failure can be personally devastating. In such cases, high salaries are an appropriate compensation for taking these risks.

Suddenly, after the application of this law, executives at Egypt's state-owned banks started earning a mere fraction of their earning potential. This decision also put four top banking posts on equal footing with equal salaries: president, vice president, sector heads, and general directors. In no sector were the negative implications of this law more obvious than in the banking sector. As a result, a revolt took place in Egypt's banking sector, leading to two major consequences. First, a brain drain occurred when a massive number of senior specialist banking officials in the central bank and three major public banks (National Bank of Egypt, Banque Misr, and Banque du Caire) have resigned, seeking better opportunities and higher

salaries at foreign, Gulf, or private banks which were the key gainers of this decision as their policy is mainly based on hiring banking cadres in their main sectors such as credit, risk management, retail, small and medium enterprises (Safi, 2015). Second, the revolt led also to a wave of anger among employees at the state-owned banks against the implementation of the maximum wage. Those against the law stressed that such an approach deprived public servants of their rights and did not meet demands for social justice. They appealed to constitutional court to exempt them from the maximum salary law, since public banks are private legal entities, while the law number 63 addresses public legal workers and therefore the law's provisions should not be applied to bank employees (Mounir, 2015).

A new wave of resignations was highly expected to take place in case the law was declared constitutional by the court. In addition, the public banks would have faced several challenges since removing an incentive to work harder or better could have reduced productivity and innovation among skilled employees. Fortunately, by the end of 2015, public banks became exempted from applying the maximum wage on their employees after the Administrative Court at the State Council judged the cap law to be unconstitutional (Mounir, 2015).

In the light of this, a research was needed concerning the bank employees' perceptions of pay satisfaction and its implications on work related attitudes such as affective commitment and intention to stay in or leave the bank. In addition, employees are the human capital in the banking industry and play a vital role in the accomplishment of the predetermined goals of their institution. In this regard, success in the banking sector depends on recruiting, developing, and particularly retaining employees. Therefore, banks must not only determine the employees' compensation, but also the satisfaction resulted which may have important impacts on the employees' attitudes and behaviors. Despite the considerable attention pay satisfaction has received in the literature, most of the research have focused only on the antecedents and the conceptualization of this construct (Heneman and Judge, 2000). Notably, the lack of research on

pay satisfaction consequences is conspicuous (for an exception, see Vandenberghe and Tremblay, 2008; Lum et al., 1998). To advance research and practice in this domain, researchers have to explore the consequences of pay satisfaction. Accordingly, the purpose of this study is to develop and test a model that examines the impact of pay satisfaction on the employees' stay intention, using affective commitment as a potential mediator, in the context of the Egyptian public commercial banks.

The findings of this study will expand our present knowledge on pay satisfaction-stay intention relationship in several ways. First, this study will widen the understanding of both the relative importance of pay satisfaction in the prediction of stay intention and how pay satisfaction affects stay intention indirectly through affective commitment. Second, it will help banks managers better understand the importance of viewing pay satisfaction as a total package of pay level, pay raise, pay benefits, and pay structure and administration, in a successful retention plan, and also how to retain valuable employees and increase their commitment and satisfaction towards their work. Finally, Heneman (1985, p. 137) states that "research can begin considering the possibility that the four dimensions of pay satisfaction may have differential implications for, and effects on, any given dependent variable". To accomplish this task, an exploratory analysis will be conducted to determine the impact of each of the four pay satisfaction dimensions: level, raise, benefits, and structure and administration, on both affective commitment and stay intention. This analysis will provide useful information to banks managers on which dimension(s) of pay satisfaction might influence the banks retention policies.

The research presented here is motivated and guided by five main questions. First, how do pay satisfaction perceptions relate to the employees' intention to stay? Second, how do pay satisfaction perceptions relate to the affective commitment of the employees? Third, how does affective commitment relate to the employees' intention to stay? Fourth, does affective commitment mediate the relationship between pay satisfaction perceptions and the employees' intention to stay? Finally, is

there a differential effect for each dimension of pay satisfaction on work outcomes?

## **2. Theoretical Background**

### **2.1 Pay Satisfaction**

To fully understand the concept of pay satisfaction, it is necessary to review research on this construct. From the inception of organizational science, pay has been considered as an important reward to motivate the behavior of employees (Taylor, 1911). Pay satisfaction is defined as “the amount of overall positive or negative affect (or feelings) that individuals have toward their pay” (Miceli and Lane, 1991, p. 246) or “the overall attitude that individuals have about their employers that results from the pay they receive” (Deckop, 1992, p. 116).

In the early 1960s, researchers first exhibited interest in assessing and studying the employees' pay satisfaction. Treating pay satisfaction as a component of job satisfaction is not new. In addition, the understanding of pay satisfaction has evolved from a single dimension to multiple dimensions. Early researchers of pay satisfaction explained the construct and its measurement as unidimensional (Miceli et al., 1991). Moreover, in assessing pay satisfaction, they used the pay satisfaction sub-scales of both of the comprehensive measures of job satisfaction published in the 1960s namely: the Job Descriptive Index (JDI) (Smith et al., 1969) and the Minnesota Satisfaction Questionnaire (MSQ) (Weiss et al., 1967), which treat pay satisfaction as a global construct (i.e., “general” pay satisfaction) (Heneman and Judge, 2000).

However, in order to capture the “true” nature of pay satisfaction, a multi-dimensional measure was needed to be developed and used. This end was achieved by Heneman and Schwab (1979, 1985), who were the first to conceptualize pay satisfaction as a multi-dimensional construct and developed the Pay Satisfaction Questionnaire (PSQ). Initially, Heneman and Schwab (1985) hypothesized five relatively independent dimensions of pay satisfaction namely: level, raise, benefits, structure, and administration. Pay level refers to the employee's current direct compensation (e.g., wage or salary). Pay raise

refers to the employee's increase in pay level. Pay benefits reflect indirect pay to the employee in the form of payment for the time not worked (e.g., insurance, medical aid, holidays, or pension). Pay structure refers to the hierarchical relationships created among pay rates for different jobs within the organization. Finally, pay administration refers to the procedures by which the pay system is administered.

Based on initial results from both exploratory principal components analyses and confirmatory factor analyses, the validity of the level, raise, and benefits dimensions was supported, but the structure and administration dimensions were combined into one dimension. Therefore, Heneman and Schwab (1985) modified the PSQ to consist of four related, but distinct dimensions namely: pay level; pay benefits; pay raise; and pay structure and administration. Further, employees may have separate affective reactions to each of these dimensions, and each dimension may have different consequences. Since the influential work of Heneman and Schwab (1985), wide evidence has been reported supporting the multidimensionality of pay satisfaction. Unfortunately, the debate over the nature and number of dimensions of pay satisfaction has yet to be resolved. There is no universal agreement whether there are three (e.g., Carraher, 1991), four (e.g., Heneman et al., 1988; Heneman and Schwab, 1985), five (e.g., Garcia and Posthuma, 2009), or even seven (e.g., Williams et al., 1999) dimensions. However, the majority of research studies in this literature (e.g., Motshegwa, 2011; Singh and Loncar, 2010; Vandenberghe and Tremblay, 2008; Currall et al., 2005; Faulk, 2002) utilize the four dimensions of pay satisfaction defined by Heneman and Schwab (1985).

## **2.2 Affective Commitment**

The concept of organizational commitment has also grown in popularity in the literature on organizational psychology, due to its significant impact on organizational performance (Cohen, 2003). It is recognized as a psychological state that binds an individual to the organization (Allen and Meyer, 1990, p.14). Meyer and Allen (1997) define a committed employee as a

person who stays in his current organization despite competing attractions, attends work regularly, protects the corporate assets, and believes in the organizational goals. This employee positively contributes to the organization because of his commitment to the organization. Allen and Meyer (1990) have made the largest contribution to organizational commitment literature and have thoroughly validated their multi-dimensional model of organizational commitment.

The three distinguishable components within the model are labelled as (1) affective; (2) continuance; and (3) normative commitments and were found to be correlated but distinct (Meyer et al., 2002). "Employees with a strong affective commitment remain because they want to, those with a strong continuance commitment because they need to, and those with a strong normative commitment because they feel they ought to do so" (Allen and Meyer, 1990, p. 3). Affective commitment refers to the "emotional attachment, identification with and involvement in an organization" (Allen and Meyer, 1990). Continuance commitment refers to an "employee's assessment of whether the costs of leaving the organization are greater than the costs of staying" (Allen and Meyer, 1990). Normative commitment refers to an "employee's feelings of obligation to the organization" (Allen and Meyer, 1990). Following the lead of Vandenberghe and Tremblay (2008), among these three dimensions, only the affective commitment dimension is used in this study, in order to have a more precise view of affective commitment.

### **2.3 Intention to Stay**

Many researchers suggest that turnover is a multi-stage process that includes attitudinal, decisional, and behavioral components (Faulk, 2002). However, the current study did not explore the behavioral component; instead, it examined the employees' attitudinal component including their perception of pay satisfaction and affective commitment, as well as the employees' intention to stay, a decisional component.

Intention to stay is defined as the tendency of an employee to remain in the current organization on a long term basis (Price,

2001). In the research literature on intention, researchers have a tendency to use the terms “turnover intention” and “intention to stay” simultaneously as the scales used to measure these terms include items about leaving and staying (Kovner et al., 2009). Kovner et al. (2009) further asserted that for uniformity and ease in discussing their findings, they used the term “intention to stay”.

Different factors may prevent employees from translating intention into behavior, so in studying turnover, researchers tend to focus on turnover intention instead of actual turnover (SamGnanakkan, 2010). Further, an employee’s behavior to voluntarily leave a company is complex and difficult to measure. Rarely does one leave because of a single event, but rather for reasons that develop over time and are typically related to an environment that is no longer desirable to them. Consequently, some researchers have used intention to stay as a proxy for turnover, as intention suggests how individuals might behave in unconstrained environments (SamGnanakkan, 2010). Therefore, intention is possible to be translated into behavior in an appropriate time and opportunity. Theoretical and empirical studies on turnover acknowledged that intention to stay or turnover proved to be the primary predictor for near-term and distant turnover action (e.g., Kovner et al., 2009; Griffeth et al., 2000). For the purposes of the proposed study, the term “intention to stay” will be used for clarity and consistency.

### **3. Literature Review and Development of Hypotheses**

#### **3.1.1 Pay Satisfaction and Intention to Stay**

Factors influencing an employee’s intention to stay in his current organization include: “individual factors, economic opportunity factors, and work-related factors” (Lum et al., 1998, p. 306). This study will not explore the impact of individual factors nor the economic opportunity factors on the stay intention, but will focus only on work-related factors, specifically the pay satisfaction dimensions. In other words, a link between pay satisfaction and stay intention will be explored rather than a direct relationship between pay satisfaction and turnover because previous research has shown that the pay



satisfaction–turnover relationship is fully mediated by intention to stay (e.g., Motshegwa, 2011; Singh and Loncar, 2010; Currall et al., 2005). As suggested by prior empirical work, the dimensions of pay satisfaction should have a positive influence on stay intention (e.g., DeConinck and Stilwell, 2004). Therefore, it is hypothesized that:

Hypothesis 1: The employees' overall pay satisfaction will positively influence their intention to stay in their current banks.

### **3.1.2 Pay Satisfaction and Affective Commitment**

The degree of an employee's commitment towards an organization depends on the extent of financial and personal rewards. An organization which supports its employees mostly gets the desired feedback from them, and the employees feel an obligation to reciprocate (Meyer and Allen, 1997). It has been suggested that general pay satisfaction will have a positive influence on organizational commitment (Heneman and Judge, 2000), and this argument has been supported in a recent meta-analysis (Meyer et al., 2002) and empirical work (Islam et al., 2012). Meyer et al. (2002)'s meta-analysis study found a positive correlation between pay satisfaction and the three components of organizational commitment. Islam et al. (2012) analyzed the employees' compensation impact on commitment and found that the compensation was positively correlated with commitment. This study will attempt to study the relation of pay satisfaction with affective commitment.

Hypothesis 2: The employees' overall pay satisfaction will positively influence their affective commitment to the bank.

### **3.1.3 Affective Commitment and Intention to Stay**

A long variety of research can be found in predicting the employees' intention to stay. Organizational commitment is frequently cited as a key factor in the decision to stay in an organization (Mitchell et al., 2001). Several studies have indicated a significant relationship between organizational commitment and stay intention. According to Tang et al. (2000), organizational commitment is a direct measure of stay intention. Currivan (1999) stated that a number of empirical evidence

proposed that with greater organizational commitment, the employee's intention to stay is higher and thus the turnover is lower. Similarly, Cho et al. (2009) proposed in their studies that if the employees have a high organizational commitment, it will motivate them to be more attached towards the organization and thus the employees' intention to stay increases.

More recent researches have started to look at a particular dimension of organizational commitment, affective commitment, and its relevance to the employees' sense of belonging and their willingness to remain with the current organization. Meyer and Allen (1997, p. 107) suggest that "affective commitment to the organization has the strongest and most consistent relation with desirable outcomes (e.g., retention, attendance, performance, citizenship)". Affective commitment was also found to have the highest significant correlation with intention to stay in the organization (Carmeli and Gefen, 2005). Several studies, (e.g., Perryer et al., 2010; Pare and Tremblay, 2007; Griffeth et al., 2000) have found that affective commitment was positively related to intention to stay. In line with this argument, the meta-analysis studies conducted by Griffeth, et al. (2000) and Meyer et al. (2002) reported that of all the three dimensions of organizational commitment, affective commitment was the strongest predictor of stay intention when compared to both continuance and normative commitments. In a more recent work, affective commitment was also found to be the best predictor of the employees' intention to stay (Ghosh et al., 2013). In the light of the above, the study hypothesized that affective commitment has a significant positive effect on stay intention.

Hypothesis 3: The employees' affective commitment will positively influence their intention to stay in their current banks.

#### **3.1.4 Mediation of Affective Commitment between Pay Satisfaction and Intention to Stay**

A key limitation of past research is that the role of organizational commitment as a potential mediator in the pay satisfaction–intention to stay relationship has been neglected. An exception to this trend is the work of Lum et al. (1998) who showed that pay satisfaction as a whole has both direct and

indirect effects on intention to stay in a nursing context. The indirect effect of pay satisfaction occurred through job satisfaction and organizational commitment. Thus, pay satisfaction can be seen as a major factor affecting an employee's intention to stay. However, that study did not rely on pay satisfaction as a multi-dimensional construct. Another study, conducted by Vandenberghe and Tremblay (2008), which tested the mediation relationship, focused more on the effects of pay satisfaction on commitment and stay intention. Using two samples of subjects, they emphasized both the multidimensionality of pay satisfaction (i.e., level, raise, structure and administration, and benefits) and organizational commitment (i.e., affective commitment, normative commitment, perceived sacrifice, and perceived lack of alternatives). They found that pay satisfaction could directly and indirectly affect stay intention. Although all of the components of commitment showed positive correlation with stay intention, only affective commitment and perceived sacrifice were found to fully mediate the relationship of pay satisfaction and stay intention.

As discussed above, pay satisfaction was found to have positive impact on affective commitment and then affective commitment has influence on shaping positively the employees' intention to stay in the organization. It is thus expected that affective commitment has a mediating role in the relationship between pay satisfaction and intention to stay in the organization. Therefore, the following hypothesis is developed to be tested in this study.

Hypothesis 4: Affective commitment will positively mediate the relationship between the employees' overall pay satisfaction and their intention to stay in their current banks.

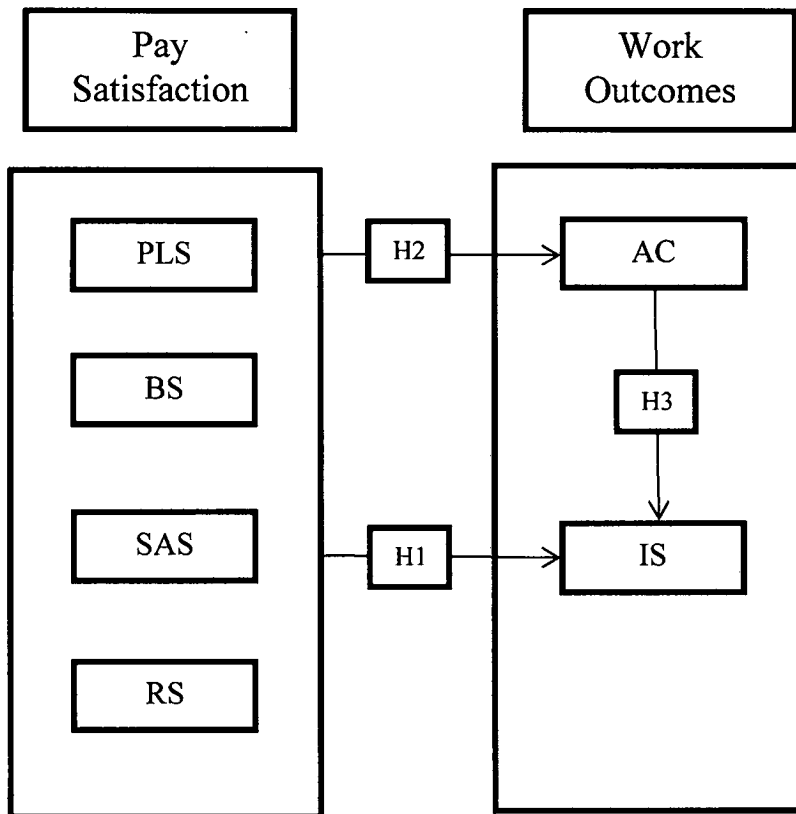
### **3.2 Research Model and Hypotheses**

In light of the discussed above theoretical and empirical relationship between the studied variables, the following research model is developed to be tested in this study. In this model, pay level, pay raise, pay benefits, and pay structure and administration are viewed as separate facets of the overall pay

satisfaction construct. This representation of pay satisfaction as a second-order factor has been empirically supported as it is the most parsimonious way to portray its influence on stay intention and other organizational outcomes (Currall et al., 2005). In this model, the effect of pay satisfaction on stay intention is fully mediated by affective commitment.

Figure 1 presents the theoretical model and summarizes the hypotheses of this study. However, it is important to note that Hypothesis 4 is related to the mediation which is tested through the significance level of path from independent to mediating variable and then mediating to dependent variable. Therefore, this hypothesis is not shown in the research model.

**Figure 1**  
**Hypothesized Research Model**



## 4. Research Method

### 4.1 Questionnaire

In order to empirically measure and then test the relationships between variables, a review of instruments used in other studies regarding the model variables, was undertaken. Based on this review, the survey items were adapted from existing instruments used in previous researches. The measurement item scales, used in the survey questionnaire for all constructs, showed high reliability and demonstrated convergent and discriminant validity in previous studies.

A quantitative study, involving the administration of a survey, was used to collect data on the six constructs that were defined in the hypothesized model. Table 1 summarizes the scales used

to measure the constructs of this study. All constructs were measured using 22 items, and all items were measured with the 5-point Likert scales ranging from 1 = strongly disagree to 5 = strongly agree. The Likert scale was used since it is one of the most frequently encountered formats for measuring attitudes (Bryman and Bell, 2011).

**Table 1**  
**Summary of Scales**

Construct		Source	No. of items
Overall Pay Satisfaction	Pay Level Satisfaction	Heneman and Schwab (1985)	Four
	Benefits Satisfaction	Heneman and Schwab (1985)	Four
	Structure and Administration Satisfaction	Heneman and Schwab (1985)	Four
	Raise Satisfaction	Heneman and Schwab (1985)	Four
Affective Commitment		Allen and Meyer (1990)	Three
Intention to Stay		Ma (2010)	Three

#### 4.2 Participants and Sampling Techniques

The three Egyptian public commercial banks: the National Bank of Egypt, Banque Misr, and Banque du Caire were selected for the purpose of this study. The target subjects in this study are bank employees who have been working for at least two years since a considerable amount of time is required in order to have clear perceptions about pay satisfaction. No reliable data on this

topic was available; therefore a non-probability sampling technique was used. It is worth mentioning that it is difficult to reach and collect data from the entire population, owing to restrictions of time, money, and often access. The decision regarding the sample size in this study was based on the selected statistical analysis method, Structural Equation Modeling (SEM). The SEM is selected for the data analysis because (1) it can test the causal relationships between different constructs with multiple measurement items; (2) it has strong statistical procedures that can deal with complex models; and (3) it provides the link between scores on a measuring instrument and the underlying constructs that they are designed to measure, through a Confirmatory Factor Analysis (CFA) model which tests the relationships between constructs by using a structural model (Hair et al., 2010). Like other statistical techniques, the SEM requires an appropriate sample size, not less than 200, which is recommended by Hair et al. (2010), in order to provide parameter estimates with any degree of confidence and guarantee a robust SEM. Therefore, in order to get the required sample size and ensure a satisfactory return, a total of 375 questionnaires were distributed equally with the help of the coordinators at the head offices across the three banks.

## **5. Results and Data Analysis**

### **5.1 Response Rate and Non-Response Bias**

The response rate for the survey analyzed here is 67%, 375 surveys were distributed and 253 valid surveys returned. Further 5 surveys were discarded because too many items were substantially incomplete. McMillan and Schumacher (1989, p. 296) argue that in surveys that attain a 60% return rate or better, the non-respondents will probably not affect the results appreciably. So, it is reasonable to assume that any non-response bias is small enough to be ignored.

## 5.2 Descriptive Statistics

Table 2 provides the respondents' demographic profile. This profile reveals that most of the respondents were male with a percentage of 74%. The distribution of the participants according to their age is as follows: 44% were under 35 years, 48% were aged 35–45, and 8% were over 45 years. To simplify reporting, managerial levels in the banks were divided into four categories. The table below shows that the percentage of respondents decreases; the higher is the level of management hierarchy. The highest percentage of responses came from the group of Junior Bankers by 45% and the percentage kept decreasing to reach 4% at the top management level.

**Table 2**  
**Demographic Profile**

Variable	Category	Frequency	Percentage
Gender	Male	187	74%
	Female	66	26%
Age	Under 35 years	112	44%
	35–45	121	48%
	Over 45 years	20	8%
Job Title	Banker B/A (Junior)	114	45%
	Excellent Banker (Senior)	95	38%
	Head/Deputy Head of Department	33	13%
	Manager/Deputy Manager	11	4%

Respondents may have different levels of affective commitment, intention to stay, and overall pay satisfaction according to their managerial level. To check the effects of managerial level, an ANalysis Of VAriance (ANOVA) test is performed. The results of ANOVA revealed that the responses are not significantly different based on their managerial level, that is  $P = 0.41$  for affective commitment,  $P = 0.67$  for intention to stay and  $P = 0.89$  for overall pay satisfaction. Thus, respondents' managerial



level is not considered to be a factor that influences the results in this study.

### **5.3 Assessing of the Research Measurement Model**

The research measurement model should be tested at least by the unidimensionality procedure, internal consistency reliability, and convergent validity, in order to achieve the fitness of the measurement model.

In order to test the unidimensionality of the scale items, an Exploratory Factor Analysis (EFA) was conducted on the measurement model. Unidimensionality is aimed to drop the item that consists of less contribution on these factors. As shown below in Table 3, the factor loadings are ranged from 0.61 (IS1) to 0.98 (RS3), hence, the unidimensionality is achieved since all the items exceed the recommended cut-off value of 0.50, suggested by Hair et al. (2010).

**Table 3**  
**Factor Loadings ( $\lambda$ )**

Items	Statements	$\Lambda$
PLS1	My take-home pay	0.94
PLS2	My current salary	0.94
PLS3	My overall level of pay	0.94
PLS4	Size of my current salary	0.89
BS1	My benefits package	0.81
BS2	Amount the company pays toward my benefits	0.68
BS3	The value of my benefits	0.93
BS4	The number of benefits I receive	0.92
SAS1	The company's pay structure	0.91
SAS2	Information the company gives about pay issues of concern to me	0.94
SAS3	Consistency of the company's pay policies	0.92
SAS4	Differences in pay among jobs in the company	0.93
RS1	My most recent raise	0.92
RS2	Influence my supervisor has on my pay	0.96
RS3	The raises I have typically received in the past	0.98
RS4	How my raises are determined	0.89
AC1	I would be very happy to spend the rest of my career in this organization	0.81
AC2	I feel like part of the family at my organization	0.87
AC3	I feel a strong sense of belonging to my organization	0.95
IS1	I will stay at this company even if other companies offer me higher pay and position	0.61
IS2	I would turn down a job offer from another company if it came tomorrow	0.78
IS3	As far as I can see, I intend to stay with my current company	0.87

Once the unidimensionality procedure is achieved, the measurements are subjected to reliability and validity analyses prior to the research model testing and path analysis. Reliability and validity were applied in this study through measures of internal consistency reliability and convergent validity.

**Table 4**  
**Cronbach's Alpha and Average Variance Extracted**

Constructs	Cronbach's $\alpha$	AVE
PLS	0.97	0.98
BS	0.87	0.93
SAS	0.97	0.97
RS	0.97	0.97
AC	0.85	0.94
IS	0.82	0.86

The traditional method applied in this study to test the internal consistency reliability is Cronbach's Alpha ( $\alpha$ ) which was proposed by Nunnally (1978). According to Nunnally and Berstein (1994), internal reliability can be achieved when the Cronbach's  $\alpha$  value is 0.7 or higher. In the table above, the alphas of all the constructs are higher than 0.82, which supports the reliability of the measures used in this study.

On the other hand, convergent validity involves the degree to which individual items reflecting a construct converge in comparison to items measuring different constructs. The common criterion applied to test the convergent validity construct is namely Average Variance Extracted (AVE) and was proposed by Fornell and Larcker (1981). As shown in the table above, the minimum AVE value is 0.86, which exceeds the recommended value of 0.5 as suggested by Fornell and Larcker (1981).

#### **5.4 Evaluating Model Estimates and Goodness-of-Fit**

The estimation of the structural model was constructed through the Analysis of MOment Structures (AMOS) version 21.0 using Maximum Likelihood Estimate (MLE). It is worth mentioning that there is no single statistical test in SEM that can best describe the strength of the model's predictions (Byrne, 2010).

Accordingly, multiple-fit indices should be used in order to assess goodness-of-fit and the final results.

The path analysis revealed a significant chi-square ( $\chi^2$ ) value of 539.92 with 202 degrees of freedom. Baumgartner and Homburg (1996) reported that the chi-square test is not a reliable “fit index” since it is very sensitive to a sample size. However, other indices show a good fit for the measurement model. The table below shows a summary of the overall model fit measurements which suggest that the measurement model fits the data well.

**Table 5**  
**Measurement Model Fit Indices**

Goodness-of-Fit Measures	Recommended Value by Byrne (2010)	Estimates
CMIN/DF	$\leq 3$	2.67
Goodness-of-Fit Index (GFI)	$\geq 0.90$	0.94
Comparative Fit Index (CFI)	$\geq 0.90$	0.94
Tucker-Lewis fit index (TLI), also known as the Non-Normed Fit Index (NNFI)	$\geq 0.90$	0.93
Root Mean Square Error of Approximation (RMSEA)	$\leq 0.08$	0.07

## 6. Structural Model Results and Discussion

The structural model is evaluated by assessing the R-Square (variance accounted for) and the path coefficient. The table below presents the results of the hypotheses tested on the basis of SEM, and the explanatory power of the model which are evaluated by the  $R^2$ .

**Table 6**  
**Structural Model Results**

Construct	R <sup>2</sup>	H	Path Description	B	Result
Affective Commitment	0.47	2	AC <--- OPS	0.68*	Supported
Intention to Stay	0.88	1	IS <--- OPS	0.48 *	Supported
		3	IS <--- AC	0.53*	Supported
		4	IS <--AC<--OPS	0.37*	Supported
Note: *p-value < 0.01					

The results of the four hypotheses of this study are as follows: Hypothesis 1 suggested the positive effect of the employees' overall pay satisfaction on their intention to stay in their current banks. As shown in Table 6, the overall pay satisfaction has a significant and positive path coefficient ( $\beta = 0.48$ ,  $P < 0.01$ ) to the employees' intention to stay, thereby accepting Hypothesis 1. This finding is in line with the previous studies (e.g., Carraher, 2011; Singh and Loncar, 2010; Vandenberghe and Tremblay, 2008; Williams et al., 2006; Currall et al., 2005) suggesting the relationship of the dimensions of pay satisfaction with stay intention.

Likewise, Hypothesis 2, which suggested the positive effect of the employees' overall pay satisfaction on their affective commitment to their banks, has a significant and positive path coefficient ( $\beta = 0.68$ ,  $P < 0.01$ ), and thus Hypothesis 2 is supported. This goes in line with the previous research (e.g., Islam et al., 2012; Meyer et al., 2002) which emphasized that affective commitment is influenced by the employees' pay

] satisfaction. In other words, if they are satisfied with their pay, they will be more likely to continue their membership in their banks.

Moreover, Hypothesis 3, which suggested the positive effect of the employees' affective commitment on their intention to stay in their current banks, has a significant and positive path coefficient ( $\beta = 0.53, P < 0.01$ ), thereby accepting Hypothesis 3. This finding gives a support to the previous studies (e.g., (Perryer et al., 2010; Vandenberghe and Tremblay, 2008; Williams et al., 2006; Meyer et al., 2002) that affective commitment is the best predictor of stay intention and an important variable in differentiating between the stayers and the leavers.

Finally, Hypothesis 4 suggested a mediatory role of affective commitment in the relationship between the employees' overall pay satisfaction and their intention to stay in their current banks. Karriker and Williams (2009) report that, for proving the mediation of a mediating variable, both paths in SEM model (path from independent variable to mediating variable and from mediating to dependent variable) must be significant. As reported, the employees' overall pay satisfaction positively influenced their affective commitment. In addition, the employees' affective commitment has a significant and positive path coefficient with their intention to stay. Therefore, the mediation of affective commitment between the relationship of overall pay satisfaction and intention to stay in the bank is proved ( $\beta = 0.37, P < 0.01$ ), and thus Hypothesis 4 is supported. It is now clear that the total effect of the overall pay satisfaction on intention to stay is assessed to be 0.85, consisting of a direct effect of 0.48 and an indirect effect through affective commitment of 0.37. This study confirms the findings of previous studies (e.g., Vandenberghe and Tremblay, 2008; Lum et al., 1998) which suggested that the effect of pay satisfaction on stay intention is fully mediated by affective commitment.

On the other hand, the two endogenous variables (namely: intention to stay and affective commitment) are tested in the model. Intention to stay is determined by pay satisfaction and affective commitment in an explanatory power ( $R^2$ ) of 0.88. In

other words, the aforementioned variables explain 88% of the variance in intention to stay. Moreover, the affective commitment variable is explained by the explanatory power of 0.47.

### 6.1 Exploratory Analysis

In addition, an exploratory analysis is performed in order to examine the relationships of sub-dimensions of pay satisfaction with affective commitment and intention to stay. First, the relationships among the four dimensions of pay satisfaction is examined, yielding to a total of six correlations shown in Table 7. The direction and the strength of the relationships among the variables are determined by Pearson correlation coefficient. The correlation matrix presented in the Table below shows positive and significant relationships among the four dimensions of pay satisfaction and the correlations coefficients are all fairly high and ranged from 0.69 to 0.74.

**Table 7**  
**Correlation Matrix**

Constructs	PLS	BS	SAS
BS	0.73*		
SAS	0.71*	0.69*	
RS	0.73*	0.71*	0.74*
Note: *Correlation is significant at the 0.01 level (2-tailed)			

However, when the correlation coefficient matrix between the constructs is examined, no correlation coefficient is found to be above 0.90. Accordingly, these results further support that the four dimensions of pay satisfaction (namely: pay level, pay benefits, pay raise, and pay structure and administration) are related but distinct. This introduces the possibility that the diverse dimensions of pay satisfaction may play different roles in the prediction of affective commitment and stay intention. In this regard, the PSQ is used in this exploratory analysis to examine the relationship between each of these four dimensions on one hand, and affective commitment and stay intention on the other hand, in order to provide a more comprehensive picture of

the role of each dimension of pay satisfaction on both affective commitment and stay intention.

Analyzing the results shows that, among the four dimensions of pay satisfaction, only pay level satisfaction ( $\beta = 0.51$ ,  $P < 0.01$ ) is found to positively influence affective commitment. In addition, the results reveal that pay level satisfaction ( $\beta = 0.32$ ,  $p < 0.01$ ) and pay structure and administration satisfaction ( $\beta = 0.17$ ,  $p < 0.01$ ) are found to positively influence intention to stay, while the effects of benefits and pay raise satisfactions are not statistically significant. Based on the results from the path coefficients and the significance level, pay level satisfaction has the greatest effect on intention to stay and is followed by pay structure and administration satisfaction.

In conclusion, these results support that the employees' pay level satisfaction has a strong and positive effect on their affective commitment and their intention to stay in their current banks, comparing to other facets of pay satisfaction. These results are consistent with previous studies (e.g., Carraher, 2011; Williams et al., 2006).

This finding can be considered as one possible explanation of the consequences of the cap law in Egypt: (1) when applied, a massive number of senior specialist banking officials have resigned, seeking better opportunities and higher salaries at foreign, Gulf, or private banks; and (2) when public banks became exempted from applying this law, turnover dropped to its previous level and the employees' intention to stay in their current banks has increased. In the light of this, pay level satisfaction is relatively important in explaining the employees' decision to stay in or leave their banks, and any change in the employees' pay level is therefore critical, particularly in terms of the role pay satisfaction plays on stay intention.

## **7. Conclusion**

The main purpose of this study is to examine empirically the impact of pay satisfaction on the employees' stay intention, using affective commitment as a potential mediator. As stated previously, pay satisfaction is typically depicted with four dimensions: pay level, pay benefits, pay raise, and pay structure



and administration. The four hypotheses derived from the research model were tested in the Egyptian public commercial banks. Generally, the results of this study reveal that the perception of pay satisfaction has direct as well as indirect effects on the employees' intention to stay in or leave their banks. The indirect effect of pay satisfaction on stay intention, which is mediated by affective commitment, suggests that stay intention can be increased by increasing both the level of pay satisfaction and affective commitment. In addition, satisfied employees who tend to have positive perceptions of pay satisfaction are likely to report higher level of commitment and have strong loyalty and intention to stay in the bank. On the contrary, employees who are dissatisfied with their pay are more likely to leave and less affectively committed to their banks. As a result, this leads to a vicious circle causing brains drain as was explained earlier in the case of the cap law in Egypt, when a massive number of senior specialist banking officials in the central bank and the three public commercial banks have resigned, seeking better opportunities and higher salaries at foreign, Gulf, or private banks. These significant results are generally supported by the existing literature and confirm previous findings (e.g., Vandenberghe and Tremblay, 2008; Williams et al., 2006; Tekleab et al., 2005; Currall et al., 2005; DeConinck and Stilwell, 2004; Lum et al., 1998).

### **7.1 Theoretical and Practical Implications**

From a theoretical perspective, the current study contributes to the existing literature of pay satisfaction in several ways. First, it sheds light on the significant influences of the employees' pay satisfaction on the prediction of their stay intention and how pay satisfaction affects stay intention indirectly through affective commitment in the Egyptian context. Second, it provides further support for the contention that pay satisfaction can be best conceptualized as a construct with four related but distinct dimensions proposed by Heneman (1985). These findings contribute to a better understanding of how each dimension of pay satisfaction differentially affect the employees' level of commitment and their stay intention in the banking context.

The results of this study have also several valuable practical implications for the management of public sector banks in understanding how to increase the employees' pay satisfaction and their intention to stay in their current banks. First, the results indicate the importance of viewing pay satisfaction as a total package of pay level, pay raise, pay benefits, and pay structure and administration in a successful retention plan. Second, the importance of this study is that it provides information on which dimension of pay satisfaction influences the banks retention policies. According to the current study's results, the employees' pay level satisfaction in the banking context and particularly in Egypt tends to have a strong and positive effect on their affective commitment and intention to stay in their current banks, comparing to other facets of pay satisfaction. Therefore, banks management should focus more on the employee's pay level satisfaction if desiring to retain qualified and valuable employees. Finally, the results indicate that affective commitment fully mediates the relationship between pay satisfaction and intention to stay. Therefore, if banks managers would like employees to be more engaged in extra-role behaviors, more committed to their banks, and more likely to stay, they should know that improving the employees' pay satisfaction increases their affective commitment, and in turn their likelihood to stay in their current banks.

### **7.2 Limitations and Future Research**

As in all research, there are few limitations with regards to this study which call for future research to gain a better understanding of pay satisfaction consequences. The first limitation is the fact that the data were collected from a single sector, the banking one, and only gathered from the public commercial banks in Egypt. This setting may reduce the generalizability of this study's findings. One particular concern is that these three banks are subject to the Central Bank of Egypt's rules, regulations, monitoring and specifically pay policy. Therefore, in order to gain in-depth knowledge of the subject matter and allow for a great addition to the literature, future research should explore this possibility by testing the model in other settings, especially in the private commercial

banks, since the findings may not be fully applied in this context. Another limitation is related to the data, for the study was collected at a single point in time. It is arguable that cross-sectional data prevents causal inferences. Future research, however, will certainly benefit from longitudinal design to clarify the causal relationships hypothesized in the model. Therefore, a longitudinal investigation would make the findings more robust. Thirdly, future research may explore other factors that might alter the relationship between pay satisfaction and stay intention, or other possible consequences of pay satisfaction. This will reinforce the current findings and add to the limited body of literature available and it may as well provide banks with useful information. Finally, the current research study employed a quantitative-based study using questionnaires and statistical evidence. In this regard, future research may consider using a different methodology such as qualitative study based on interviews that will allow for a more in-depth examination regarding the subject matter in terms of the employees' perceptions of the importance of pay satisfaction in the workplace.

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