

Malaysian OIL and Gas Industry Human Capital Management Determinants

Abstract: This study aims to investigate the determinants of human capital development in oil and gas industry in Malaysia. The data for this research was collected using simple random sampling. Questionnaire was sent by email to executive level employees, the instruments used in this study were job satisfaction, motivation and loyalty. The findings indicate that 70.3% of employees found their current salary offered by their respective firm is attractive. From a descriptive result of job satisfaction, the range of mean is between 2.4 to 3.9. It showed that they were quite satisfied with their job. The mean score showed by employee loyalty measurement is between 2.4 to 3.2, which indicate they are not really keen to stay in the company. The Pearson Correlation indicates positive relationship between compensation with job satisfaction, motivation and loyalty. Result of linear regression analysis for each variable indicates that compensation has a direct significant relationship with job satisfaction, motivation and loyalty. Employee compensation is one of the most important segments in Human Capital Management (HCM). While job seekers look forward to earnings and self-advancement, companies are hiring specifically to maintain and expand their businesses. This creates a win-win situation for both parties that need each other to fulfil their needs. This implies that compensation might affect one's attitude towards his or her job.

keywords: Job Satisfaction, Motivation, Loyalty, Compensation, Oil And Gas, Human Capital Management

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INTRODUCTION

Employees nowadays are more concerned with their lifestyles and how they are linked to their salaries than their predecessors. However, it still can be questioned whether many of them would remain working if it were not for their salaries. As employees, they expect to have compensation plan which are fair and equitable, that it provides them with tangible rewards commensurate with their skills and, also provides recognition and a livelihood. Akintayo (2006) concluded that organizations need to spend more on compensation to make sure that their employees are motivated enough to perform at their best. This is based on his findings on payment to employees generally exceeds 20 per cent of total expenditure in manufacturing firms, and can exceed 80 per cent in service firms.

In modern day organizations, maintaining good products and services are the basis for a company's success. This success definitely depends on employee's performance, which has connection with a vital and highly central aspect in the lives of individuals due to numerous reasons. Steers and Porter (1991) emphasized the first reason is that persons receive some kind of reward, either extrinsic (such as money) or intrinsic (satisfaction coming from the work), in exchange for their performance. The individual holds certain personal expectations in terms of form and amount of reward, which he or she should receive for the provided service. The performance of a person and the decision to remain in the company is influenced by the level of which such expectations are met (Steers and Porter, 1991). Second, the workplace presents opportunities for socialization with other people (Hall and Mirvis, 1994). Third, the job is often a source of rank, or status, in the society in general (Steers and Porter, 1991). In other words, the work may provide a source of social delineation. Fourth, reason pointed by Steers and Porter (1991) indicates that work has an individual meaning for each person. It may range from a source of identity and self-esteem, to a source of frustration, monotony, and a feeling of futility, which may be due to the work itself or even may be due to the personality traits of a person.

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PETRONAS is known as one of the major contributor to the country's economic growth and industrialization. It creates the opportunity for foreign direct investment, a source of foreign exchange earnings and also job creation. Apart from the country's substantial oil and gas reserve, the sustainability of the industry also depends on human resource, also known as an organization's intangible asset. Generally, the company provides competitive salary for new graduates and recognises and rewards employees through performance-related pay and bonuses including flexible working arrangements (subject to business requirements). Their benefits typically include competitive national Employee Provident Fund plan and healthcare coverage. It has been reported by Malaysia Employers Federation that oil and gas industry experienced the least percentage on annual average turnover rate.

Job Satisfaction, Motivation and Employees Loyalty

One of the motivation theories that are commonly used to explain compensation is expectancy theory. Expectancy theory is more concerned with the cognitive antecedents that go into motivation and the way they relate to each other. That is, expectancy theory is a cognitive process theory of motivation that is based on the idea that people believe there are relationships between the effort they put forth at work, the performance they achieve from that effort, and the rewards they receive from their effort and performance. In other words, people will be motivated if they believe that strong effort will lead to good performance and good performance will lead to desired rewards. Vroom (1964) was the first to develop an expectancy theory with direct application to work settings, which was later expanded and refined by Porter and Lawler (1968) and others (Pinder, 1987).

A lot of researchers established the correlation between these variables. As for Abdullah et al., (2009), he emphasized that among the employee satisfaction would result in increased in employee engagement and has the potential of making both the employee and employer equally loyal to the company. He also agreed that employee satisfaction is influenced by benefits package. Shaw et al., (1999) has investigated the relationship between the level of satisfaction and intention to quit a job. In the study, low satisfaction of employees had high inclination to resign from their job. This relation was also found by Mobley et al., (1979) back in seventies. In a broader perspective of satisfaction, Walker (2005) believed that a firm with opportunity to learn and grow for career advancement would also result in employee loyalty. Igalens and Roussel (1999) explored the influence of total compensation to job satisfaction and work motivation based on expectancy theory and discrepancy theory.

Materials And Methods

Based on the characteristic of the problem, the design of the study was categorized as explanation or explanatory research, namely the research that describes the influence of independent variables on the dependent variable through hypothesis testing. This study consists of

the dependent variable which is compensation (pay), while job satisfaction, motivation and loyalty are the dependent variables. As for the relationship between variables, it is explained in Figure 1.

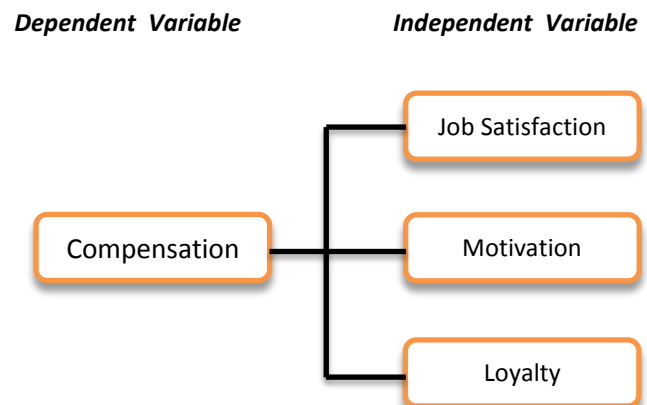


Figure 1: Research Model

A questionnaire developed by Syengo (2007) was used in this research. In the questionnaire, after filling up demographic profile, the respondents were asked about their perception on the attractiveness of their pay compare to other companies in the same industry. Further, they had to state the common benefits offered in the organization, and their view on what should be improved or added in the benefits package. The survey continued with set of employee's job satisfaction, motivation and employee's loyalty. The formats of the questions were based on Likert scale, which respondents need to choose the best options aligned with their views, using the typical of 5-point Likert scale, which is 'Strongly Disagree, Disagree, Neutral, Agree, and Strongly Agree'. The data was collected from employees in PETRONAS on August 2013. 105 respondents were selected randomly from various departments. 64 of them responded to the questionnaire, constituting 60.9% response rate. The surveys were sent through email to the target population of respondents who are managers and executives' level.

Hypotheses Development:

Based on proposed research question and objectives, hypotheses are developed to investigate the relationship between this dependent and independent variables:

- H1: Compensation has a direct significant effect on employee's job satisfaction.
- H2: Compensation has no direct significant effect on employee's job satisfaction
- H3: Compensation has a direct significant effect on employee's work motivation.
- H4: Compensation has no direct significant effect on employee's work motivation.
- H5: Compensation has a direct significant effect on employee's loyalty.
- H6: Compensation has no direct significant effect on employee's loyalty

Data analysis methods: The data was analysed using the Statistical Package for Social Science (SPSS) Version 18. In order meet the research objectives, Pearson Correlation and Linear Regression Model had been used to find the relationship between variables.

Results and Discussion

The respondents were asked to fill in their position, age, marital status, gender and years of service in the company.

Position Held: The target group of respondents are the executive level which in the Table 1 showed there are 87.5% executives while the rest are the managers.

Age: The respondents are consisted of men and women, with the percentage of 67.2% and 32.8% respectively. It can be seen from the Table 1 majority of respondents are in the range of 30-39 years old (78.1%) while the other is in the age of 40-49 years old (21.9%).

Marital Status: There were 79.7% respondents are married, while the other 20.9% are single

Table 1: Demographic Data

Variables	Frequency	Percentage
Position Held		
Manager	8	12.5
Executive	56	87.5
Total	64	
Age		
21-29	0	
30-39	50	78.1
40-49	14	21.9
50-60	0	
Total	64	
Gender		
Male	43	67.2
Female	21	32.8
Total	64	
Marital Status		
Single	13	20.3
Married	51	79.7
Total	64	
Length of Service		
< 1 year	7	10.9
1-2 years	9	14.1
3-4 years	20	31.3
> 5 years	28	43.8
Total	64	
Pay Type		
Normal	56	87.5
Contingent	8	12.5
Total	64	

Length of service: Table 3 shows the majority of respondents had worked more than 5 years in the firm (43.1%), 30.8% for 3-4 years of service, 13.8% for 1-2 years and only 10.8% were less than 1 year. From this data the researcher can conclude that most respondents will build confidence in the data since these respondents were largely aware of their organizations.

Types of Pay: There was 86.2% of respondents received normal pay while 13.8% were under contingent pay. Majority of them were in the pay range of RM5001-9000 (65.6%), while the others were RM 3000-5000 (26.6%) and 7.8% were more than RM10, 000.

Attractiveness of the Pay: As shown in Table 2, the majority of respondents (70.3%) agreed that their salaries were attractive enough compared what was on offer in the market, but some of them (29.7%) said that their salaries were not attractive.

Table 2: Relative Attractiveness of the Pay

Variables	Frequency	Percentage
Attractiveness of Pay		
Yes	45	70.3
No	19	29.7
Total	64	

Employee Benefits: The respondents were asked to list the common benefits that were on offer in their organizations. The results are presented in Table 3. The majority (56.3%) indicated insurance plan, 50% indicated for training and educational allowances, while financial assistance and subsidized meal is 37.5% respectively, 18.8% pointed fuel and subsidized accommodation, 12.5% mentioned car, 6.25% signified clothing allowances and funding of non-job related training while the rest of 31.3% indicated retirement plans.

Levels of Attractiveness of the Benefits: Insurance plan had the highest mean of 3.6, which means that the majority of respondents found it attractive to a great extent. On the other hand, clothing allowances had the lowest mean of 2.0, implying that this benefit was attractive to the employees to a "Moderate Extent". Other benefits namely; financial assistance, personal security, car, fuel, training and educational allowances, funding of non-job related training, fully paid accommodations, subsidized accommodations, subsidized meals and pension scheme all had a mean of between 2.3 to 3.2. This means that the majority of respondents found these benefits attractive either to a "Moderate Extent" or to an "Average Extent".

Job Satisfaction and Motivation: This section focused on what the respondents felt about the job they do. The statement "The process of performance appraisal I use works well" had the lowest mean of 2.6. This means that the respondents disagreed with these statements and showed that they were not happy with current performance appraisal process. "Working there influences my overall attitude towards my job" and "the amount of work expected to be done by me influences my overall attitude

towards the job I do” had the highest mean of 4.1, which means that the majority of respondents agreed with this statement. The other statements had a mean ranging from 2.4 to 3.9, implying that majority of respondents neither agreed nor disagreed with the statement. This is an indication that the majority of respondents were quite satisfied with their jobs. On the other hand, standard deviation, which is a measure of dispersion from the mean score, ranged from 0.83 to 1.31. For response scale of 1 to 5, standard deviation of 1 and above can be considered high.

Employee’s Loyalty: According to the statement, “I feel that I have too few options to consider if I have to leave this organization” had the lowest mean of 2.4 and a standard deviation of 1.13. This means that the majority of respondents said that they disagree with this statement or the majority of respondents feel like they are ready to leave the firm, as they believe there are opportunities provided by other companies. “The organization deserves my loyalty” had the mean of 2.8 and a standard deviation of 0.96. This score shows that the respondents were not sure whether they will be staying in the firm even though majority of them had been working for more than 5 years. The mean of the other variables ranged from 2.5 to 3.2. This also shows clearly that the majority of respondents neither agreed nor disagreed with these variables. The standard deviation, which is a measure of dispersion from the mean score, ranged from 0.93 to 1.37.

Relationship between the Pay with Job Satisfaction: A Pearson’s Correlation was computed to assess the relationship between the pay received by the employees and their perception on job satisfaction. The result is presented in Table 4.

Table 3: Pearson’s Correlation between Pay and Job Satisfaction:

		Pay	Job Satisfaction
Pay	Pearson Correlation	1	.847**
	Sig. (2-tailed)		.000
	N	64	64
Job Satisfaction	Pearson Correlation	.847**	1
	Sig. (2-tailed)	.000	
	N	64	64

** . Correlation is significant at the 0.01 level (2-tailed).

Table 4: Linear Regression

Model	R	R Squared	Adjusted R Squared	Std. Error of the Estimate
1	.847 ^a	.717	.712	.30044

a. Predictors: (Constant), Job Satisfaction

b. Dependent Variable: Pay

With the results of an $R = 0.842$, R squared = 0.717 and adjusted R squared = 0.712; thus, employee job satisfaction accounts for 71% variation in employee pay.

Table 5: ANOVA

ANOVA^a

	Model	Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	14.154	1	14.154	156.804	.000 ^b
	Residual	5.596	62	.090		
	Total	19.750	63			

a. Dependent Variable: Pay

b. Predictors: (Constant), Job Satisfaction

The results indicate that employee motivation is significant to pay ($F=156.804$, df (1,62), $p = 0.000$). As concluded from the above table, the relationship between job satisfaction (JS) and pay adheres to the following equation:

$$\text{Pay (P)} = 0.28 + 0.17 (\text{JS})$$

Relationship between the Pay and Employee’s Motivation

Table 6: Pearson’s Correlation between Pay and Employee’s Motivation

		Correlations	
		Motivation	Pay
Motivation	Pearson Correlation	1	.872**
	Sig. (2-tailed)		.000
	N	64	64
Pay	Pearson Correlation	.872**	1
	Sig. (2-tailed)	.000	
	N	64	64

** . Correlation is significant at the 0.01 level (2-tailed).

As observed in Table 6, the Pearson’s correlation coefficient between variables is close to 1. It shows that there is a strong relationship between pay and employee’s motivation. In particular, the higher the pay received, the higher the motivation level of employees ($r=0.872$, $p<0.001$).

Linear Regression

The following results are provided by the software by applying Linear Regression between pay and employee’s motivation.

Table 7: Linear Regression

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.872 ^a	.761	.757	.27616

a. Predictors: (Constant), Motivation

b. Dependent Variable: Pay

Table 8: ANOVA**ANOVA^a**

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	15.021	1	15.021	196.961	.000 ^b
Residual	4.729	62	.076		
Total	19.750	63			

a. Dependent Variable: Pay

b. Predictors: (Constant), Motivation

Table 9: Coefficients**Coefficients^a**

Model	Unstandardized Coefficients		Standardized Coefficients Beta	T	Sig.	95.0% Confidence Interval for B	
	B	Std. Error				Lower Bound	Upper Bound
1 (Constant)	-.120	.142		-.842	.403	-.403	.164
Motivation	.039	.003	.872	14.034	.000	.033	.044

a. Dependent Variable: Pay

It is revealed from the output that there is a strong positive linear significant correlation between employee pay and loyalty ($\beta=0.872$, $p=0.000$). As referred to ANOVA table, this model could fit the data since the significance of the model is lower than 0.05. The employee predicted pay is equal to equation $-0.120+0.039$ (employee motivation). If there is increase in pay, there is also positive increase in motivation.

Table 10: Pearson's Correlation between Pay and Employee's Loyalty**Correlations**

		Loyalty	Pay
Loyalty	Pearson Correlation	1	.809**
	Sig. (2-tailed)		.000
	N	64	64
Pay	Pearson Correlation	.809**	1
	Sig. (2-tailed)	.000	
	N	64	64

**. Correlation is significant at the 0.01 level (2-tailed).

As it is observed in Table 10, the Pearson's correlation coefficient between variables is closed to 1. It shows that there is strong relationship between pay and employee's loyalty. In particular, the higher the pay received, the higher the loyalty of employees ($r=0.809$, $p<0.001$).

Linear Regression**Table 11: Linear Regression Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.809 ^a	.655	.649	.33154

a. Predictors: (Constant), Loyalty

With the results of an $R=0.809$, R squared = 0.655 and adjusted R squared = 0.649; thus, employee loyalty accounts for 65% variation in employee pay.

Table 12: ANOVA**ANOVA^a**

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	12.935	1	12.935	117.674	.000 ^b
Residual	6.815	62	.110		
Total	19.750	63			

a. Dependent Variable: Pay

b. Predictors: (Constant), Loyalty

The results indicate that employee loyalty is significant to pay ($F=117.674$, $df(1, 62)$, $p=0.000$).

Table 13: Coefficients**Coefficients^a**

Model	Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.
	B	Std. Error			
1 (Constant)	.658	.114		5.762	.000
Loyalty	.021	.002	.809	10.848	.000

a. Dependent Variable: Pay

Conclusion and Implications:

Employee compensation is one of the most important segments in human capital. While job seekers look forward to earnings and self-advancement, companies are hiring specifically to maintain and expand their businesses. This creates a win-win situation for both parties that need each other to fulfil their needs. This implies that compensation might affect one's attitude towards his or her job. Thus, the researcher aims to investigate the relationship between salary and employee's job satisfaction, motivation and loyalty towards the company, specifically in oil and gas industry in Malaysia.

Before the correlation test was performed to investigate the relationship between these two variables, descriptive statistics was run to identify the frequency of pay type and pay range. Most of the respondents received normal pay with the pay range of RM5001-9000 (65.6%). The perception on their job satisfaction was obtained using Likert Scale with 1 to 5 rating. The respondents were asked to rate the statement that related to their satisfaction working in the firm. The scale represent 1=Strongly Disagree, 2=Disagree, 3=Neither agree or disagree, 4=Agree and 5=Strongly Agree.

The result from correlation test showed that there is a strong relationship between pay and job satisfaction since the r value is very close to 1 ($r=0.847$). This result supported H1, which is 'Compensation has a direct significant effect on employee's job satisfaction'.

and H2 is rejected. The finding is similar to Nawab and Bhatti (2011) who conducted a similar research in educational sector in Pakistan. They found that employee compensation and job satisfaction has positive and significant relationship with each other. Lambert et al., (2001) also concluded that compensation significantly influenced job satisfaction.

According to the results presented, there is correlation between pay and employee's motivation when ($r=0.879$, $p<0.001$). It implies H3, 'Compensation has a direct significant effect on employee's work motivation' is accepted and H4 is rejected. However, this is contradictory to Al-Harthy's (2007) findings, when he suggested that non-monetary factors are much more important than monetary factors for motivating the employees. The factors that he meant included interesting and challenging job and good work life balance since this does not require any investment. The result supported previous research by Akintoye (2000) who found that money is the most significant motivational strategy. In addition, this result is aligned with performance to reward in expectancy theory of motivation, which compensation can be a powerful incentive in linking high motivation to rewards.

According to the results presented there is a direct correlation between pay and employee's loyalty ($r=0.809$, $p<0.001$). It implies that H5, 'Compensation has a direct significant effect on employee's loyalty' is accepted and H6 is rejected.

Based on descriptive result, the range of mean score is between 2.5 to 3.1. It indicates that the feeling of belonging to the firm was not adequate to make them stay in the firm. The study by Ahmad (2013) also found a significant and positive relationship between compensation system and organizational commitment in hotel sector. In perspective of pay and employee loyalty, it is not an essential to have high salaries, but good and fair salaries showed a strong correlation with employee retention. This statement is supported by Koschanski and Ledford (2001) which indicates the feeling about pay raises is more important than actual level pay.

In conclusion, the compensation acts as an important tool for human capital management to increase employees' job satisfaction and motivation, which also lead to employee retention. According to the result obtained from employees in oil and gas industry, if pay is increased, level of employees' satisfaction, motivation and loyalty is also increased (positive relationship).

The study recommends that in the future research; the data collection has to be more specific. For example, the respondents are randomly picked from particular department. Oil and gas is a huge sector which is home to many companies that consists of thousands of employee. By having a specific sample, it may increase the accuracy of findings. It is also good to have the same study for other sectors too.

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