

Antecedents and Outcomes of Employee Benefit Satisfaction: An Updated Model

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Previous research on the antecedents and outcomes of employee benefit satisfaction is reviewed. Previous research has suggested a number of antecedents of employee benefit satisfaction, as well as several moderating variables. However, they have not been combined into a single comprehensive model. A comprehensive model incorporating previous research findings is developed with specific hypotheses. There have been four methods of measuring benefit satisfaction in previous research: global measures using single item or short scale measures, measures of several dimensions of benefit satisfaction, measures of degree of satisfaction with specific benefits offered, and measures of dimensions of benefit satisfaction such as satisfaction with benefit quality. Each of these approaches has both strengths and weaknesses. Suggestions for measuring employee benefit satisfaction are offered.

INTRODUCTION

Since Gerhart and Milkovich's (1992) conclusion that "Beyond a handful of studies, employee benefits have been ignored by researchers," this topic has continued to receive little attention (Lengnick-Hall and Bereman, 1994). Williams, McDaniel and Ford (2007) note that "less empirical research has examined the antecedents of benefit satisfaction" than other dimensions of pay satisfaction. This lack of interest in employee benefits is surprising given the increasing costs of benefits to both employers and employees. The Bureau of Labor Statistics estimated that in 2010 state and local government employers spent 34.5% of compensation costs on benefits, while private industry employers spent 29.4%. According to the U.S. Chamber of Commerce, as the economy slowed, employers began cutting back on employee benefits from an average of \$21,527 in 2006 to \$18,496 in 2007. Prior to this economic downturn the U.S. Chamber of Commerce estimated that the cost of employee benefits had increased to more than 44% of payroll expenses in 2005. Further, in times of economic decline which make increases in wages and salaries difficult, employers may place more emphasis on employee benefits in an attempt to attract, motivate, and retain employees. Countering this reason for offering more benefits to employees is the well-documented increasing cost of benefits. Both of these reasons cause employee benefits to be of increased interest to employers.

While earlier research has suggested that employees are generally unaware of their benefits (Gerhart and Milkovich, 1992; Wilson, Northcraft and Neale, 1985; Danehower and Lust, 1996), several recent trends may be causing employees, managers and researchers to have more interest in employee benefits. These include the rising costs of benefits, the trend for employers to cut back on benefits offered, and/or the trend to transfer some of the cost of benefits to employees. In times of economic recession, employers

may attempt to trim benefits costs by offering fewer voluntary benefits, or by increasing employees' share of the cost. Historically, in times of economic prosperity, benefit costs have risen.

BENEFIT SATISFACTION

Harris and Fink (1994) note that the terms benefit and benefit satisfaction have not yet been precisely defined. Lengnick-Hall and Bereman (1994) found several definitions of *benefit* in the literature including: (1) legally required payments which have a direct cost to the employer (e.g., unemployment insurance), (2) benefits not legally mandated, (3) items which have no direct cost to the employer, and (4) employees perceive a service or payment is a benefit. Lengnick-Hall and Bereman (1994) suggest several criteria which can be used in defining benefits: (1) it has a cost to the organization (direct or indirect), (2) it is voluntary (not legally mandated), (3) the organization describes it as a benefit in communications, and (4) it is provided to all employees or large groups of employees based on a consistent policy.

Harris and Fink (1994) point out that researchers have employed different strategies in the measurement of benefit satisfaction, and suggested two general strategies: (1) satisfaction with each specific element of a benefit plan, or (2) satisfaction with benefits in general. Some researchers have used single item measures of overall benefit satisfaction (Lust, 1986), while others have opted for a multi-dimensional measure including such dimensions as benefit level satisfaction and benefit system satisfaction (Miceli and Lane, 1991); and benefit service quality (Daneshower, Celuch and Lust, 1994). Another example is the Benefit Satisfaction Questionnaire designed by Lust and Daneshower (1992) which measures two dimensions: satisfaction with the cost structure of the benefit program, and satisfaction with benefit package quality. Harris and Fink (1994) suggest another alternative is to measure the satisfaction level of individual benefits offered by the employer participating in the study. Thus, there appears to be four possible approaches to measuring benefit satisfaction:

1. A measure of overall benefit satisfaction using a single-item or a set of items (preferred.)
2. Measures of several overall dimensions of satisfaction with the benefit package such as satisfaction with benefit cost, satisfaction with benefit delivery, satisfaction with the levels of benefits provided, and satisfaction with benefit package quality.
3. Measures of degree of satisfaction with specific benefits provided by the employer.
4. Measures of the dimensions of benefit satisfaction (e.g., satisfaction with benefit quality) for each specific benefit offered by the employer.

Each of these methods of measuring benefit satisfaction has strengths and weaknesses. At present there does not appear to be a clear consensus as to which approach is best. The present analysis will adopt Harris and Fink's (1994) suggestion and use both a measure of satisfaction with the individual elements of an organization's benefit plan, and a measure of several dimensions of satisfaction with the overall benefit package. In addition, several moderator variables will be included which have been shown to be related to benefit satisfaction (e.g., employee use of a specific benefit, employee perceived quality of a specific benefit). This approach is consistent with the pay compensation literature. For example, Heneman (1985) suggested that employees develop a general affect about their pay, but also develop specific attitudes toward distinct aspects of their compensation package. Daneshower and Lust (1995) followed this general approach by assessing satisfaction with several specific elements of a benefit package (retirement plan, medical plan, paid time off, and life insurance) as well as satisfaction with two dimensions of benefit satisfaction: satisfaction with the cost structure of the benefit program and satisfaction with benefit package quality. They also assessed overall benefit satisfaction. Based on previous research, this analysis will incorporate additional dimensions of overall benefit satisfaction. This will permit a competitive test of both antecedents and outcomes of both measures of benefit satisfaction.

ANTECEDENTS OF BENEFIT SATISFACTION

Dreher and Bretz (1988) suggest that “two of the principle influences on benefit satisfaction are benefit coverage and employee cost. “Judge (1993) argues that since benefit coverage is consistent across employees in many organizations, researchers should examine issues which differ between individuals such as relative use of benefits. Employee frequency of use of specific benefits would also impact employee knowledge of those benefits.

H1: Employee frequency of benefit use will positively affect employee knowledge of benefits.

Rabin (1994) found that employees who made greater use of their employer’s benefit communication materials were more satisfaction with the company’s benefits plan. Danehower and Lust (1995) found satisfaction with company communications about benefits was significantly related to a general measure of benefit satisfaction.

H2: Organizational communications about benefits will positive affect employee knowledge of benefits.

Dreher, Ash and Bretz (1988) found that satisfaction with benefits increased with greater benefit coverage, and declined with higher employee costs. These relationships were magnified among those employees who possessed accurate information about actuate benefit coverage levels.

H3: Employee knowledge of benefits will moderate relationships between antecedents and benefit satisfaction. Relationships between antecedents and benefit satisfaction will be stronger for employees with greater benefit knowledge.

Miceli and Lane (1991) suggest that employees compare the perceived level of benefits received to the actual level of benefits received in making judgments about benefit satisfaction. While they note that employees may react to individual benefits differently, they treat benefits as if they are unidimensional in developing their model. It is likely that employees do react to individual benefits differently for at least two reasons. First, previous research (e.g., Danehower & Lust, 1996) has shown that employees are generally unaware of their benefits: both the specific benefits offered to them, as well as the employer cost of providing these benefits. However, employees do tend to be sensitive to their cost of benefits (Dreher, et al., 1988). Second, employees have varying preferences for individual benefits, and this is likely to change over the employee’s career as marital status and numbers of dependents change. Employees are likely to be more aware of those benefits for which they have a strong preference at the current time. Further, environmental conditions such as the unemployment rate and inflation may affect employee preferences for benefits (Miceli & Lane, 1991). Surveys which ask for satisfaction with the benefit package in general will not capture these differences. An employee’s general satisfaction with benefits may remain unchanged, while satisfaction levels with individual benefits may change significantly. Thus, the recommended strategy for future benefit satisfaction research appears to be to assess antecedents and benefit satisfaction for each specific benefit offered by the employer.

Danehower and Lust (1992) have proposed that benefit satisfaction consists of two dimensions: satisfaction with the cost of benefits, satisfaction with benefit package quality. In a subsequent study (Danehower & Lust, 1995) the compared general satisfaction with benefits to satisfaction with individual benefits and concluded that little was gained by measuring satisfaction with individual benefits. Their analysis involved three regression models. One model regressed demographic variables of employees on overall satisfaction with benefits. The second model added satisfaction with individual benefits, and the third model added Danehower and Lust’s two-dimensional measure of benefit satisfaction (the Benefit Satisfaction questionnaire). All three models were statistically significant (Model 1 $F = 8.74$, $R^2 = .089$;

Model 2 $F = 40.15$, $R^2 = .572$; Model 3 $F = 80.41$, $R^2 = .633$) at the .001 level. Their conclusion was based on the rather small increase in R^2 from Model 2 to Model 3. However, while they included important demographic moderating variables, their dependent variable was a single item assessing overall satisfaction with the organization's benefit package. Further, they did not take into account other important moderating variables such as employee preferences for specific benefits, employee awareness of individual benefits, and the frequency in which employees used specific benefits. Thus, their study may not have provided an adequate comparative test of measuring overall benefit satisfaction versus satisfaction with individual benefits.

Williams (1995) proposed a model of benefit level satisfaction which included the desirability of benefits (employee preferences) as well as the use of benefits. In a test of this model, Williams (1995) found no support for Miceli and Lane's (1991) discrepancy model, but found the two antecedents most predictive of benefit level satisfaction to be employee ratings of benefit administration and employee costs for benefits. The variable most strongly related to satisfaction with benefit level was benefit administration which was measured as the employer's communication about benefits and responsiveness to employee inputs. This benefit administration measure seems to capture some of employee knowledge of and awareness of benefits (communication about benefits), and to some extent a measure of voice or perceived fairness. If employees are encouraged to provide input about their benefit package it may affect their sense of the fairness with which benefits are administered, a form of procedural justice. Both procedural justice perceptions related to benefit administration, and distributive justice perceptions, related to specific benefits offered may affect employee satisfaction with benefits. Howard (1999) found a measure of distributive justice to be positively related to benefit satisfaction, however a measure of procedural justice was not.

H4: Procedural and distributive justice perceptions will be positively related to employee benefit satisfaction.

Lust and Danehower (1990) provide support for measuring individual benefits rather than general satisfaction with the benefit package. They found different predictors for satisfaction with various benefits. Age, gender and job level predicted satisfaction with health insurance. Age, tenure, gender and perceived benefit importance predicted satisfaction with paid time off. Only perceived benefit importance predicted satisfaction with the pension plan.

Previous research has shown the importance of several demographic variables including age, tenure, number of dependents, marital status, job level, and level of education (Lust, 1990). It is likely that these variables are related to employee preferences for specific benefits. Environmental variables such as the unemployment rate, inflation rate, interest rates and general economic conditions are also likely related to employee preferences for specific benefits.

H5: Several demographic variables (age, organizational tenure, marital status, number of dependents, job level and educational level) will be significantly related to employee benefit satisfaction.

H6: Environmental factors (unemployment rate, inflation rate, interest rates, economic conditions) will be significantly and positively related to employee benefit satisfaction. (That is, higher unemployment rate is related to higher benefit satisfaction).

OUTCOMES OF BENEFIT SATISFACTION

Drehr, Ash and Bretz (1988) suggest that employee benefits fulfill basic economic, security and social needs and result in job satisfaction. Job satisfaction, in turn, influences several important behavioral outcomes such as turnover and absenteeism. Thus, benefit satisfaction will be inversely related to intention to turnover and absenteeism.

H7: Benefit satisfaction will be inversely related to intention to turnover and absenteeism.

Farrell and Rusbult (1982) note that organizational commitment increases with increased investment in the job. Job tenure or seniority is a determinant for the levels of some benefits provided (e.g., vacation days, sick days). Thus, with longer service may come increased benefits, making it difficult to turnover. Continuance commitment captures this notion of lower intent to turnover because to do so would mean a loss of benefits (Meyer, Allen & Smith, 1993; Snape and Redman, 2003). Harris and Fink (1994) argue that one reason that benefit satisfaction is related to attitudinal and behavioral outcomes is that benefits serve as a reward. Thus, employees who are satisfied with their benefits are more likely to be committed to the organization and less likely to turnover.

H8: Benefit satisfaction will be positively related to continuance organizational commitment.

H9: Continuance commitment will be inversely related to intent to turnover and absenteeism.

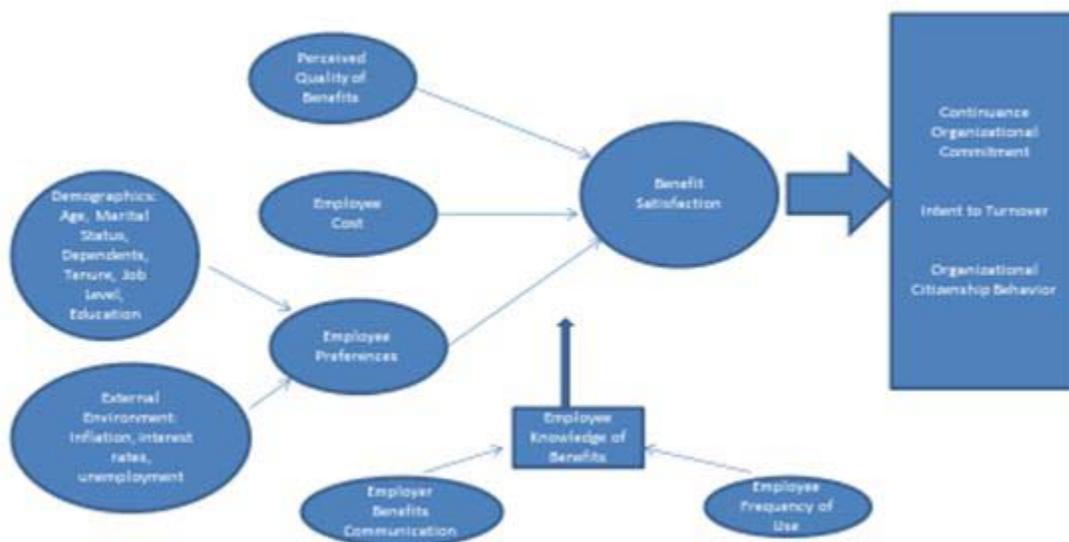
Harris and Fink (1994) also suggest that benefits serve as a signal of the organization's care and concern for employees. Thus, benefit satisfaction would be expected to be related to organizational citizenship behavior (OCB). Organ (1990) has proposed a reciprocity motive for engaging in OCB. When employees perceive the organization has provided something of value to them, they may feel motivated to reciprocate with something of value for the organization. One type of behavior under employees' control are the extra-role, discretionary OCBs.

H10: Benefit satisfaction will be positive related to organizational citizenship behavior.

CONCLUSIONS

Previous research has suggested a number of antecedents of employee benefit satisfaction, as well as several moderating variables. However, they have not been combined into a single comprehensive model. The proposed Benefit Satisfaction Model appears in Figure 1.

**FIGURE 1
EMPLOYEE BENEFIT SATISFACTION MODEL**



Based on previous research on antecedents of benefit satisfaction, the model proposed here includes three primary antecedents: employee cost of benefits, perceived quality of benefits, and employee preference for benefits offered. These three antecedents are moderated by employee awareness and knowledge of the benefits offered which, in turn, is impacted by employees' frequency of use of specific benefits and the employer's communication about benefits. Employee preferences for benefits are affected by several demographic variables including age, organization tenure, job level, marital status, number of dependents, and educational level. Employee preferences are also affected by external environmental variables including the unemployment rate, inflation rate, and interest rates.

The model proposes four outcome variables: continuance organizational commitment, intent to turnover, absenteeism, and organizational citizenship behavior. As research begins to test various parts of this model, some adjustments would be expected. For example, subsequent research may provide evidence that benefit satisfaction impacts other individual or organizational outcome variables, such as in-role job performance, or intention to unionize. Future research may expand the relationships among antecedents and moderating variables by identifying additional variables in each category.

As employee benefit satisfaction continues to be of more interest to practicing managers and researchers alike, this model may serve as a guide to advance our understanding of the causes and outcomes of employee benefit satisfaction.

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