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PAY SATISFACTION
IN A FAMILY OWNED HOTEL
IN CROATIA
SENIOR PROJECT

JELENA HORVAT
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ABSTRACT

According to the literature and the statistics, around 80% of the businesses worldwide are family owned and run. This emphasizes the importance of employees working in those businesses to be satisfied with their overall compensation. The questionnaire measuring pay satisfaction and distributive justice was distributed to 120 hotels that are members of the National Association of Small and Family Hotels in Croatia to investigate if there are differences among employees that are family members and those that are not. After collecting a small number of responses, there was an overall satisfaction with the compensation. There were significant differences comparing employees that are family members to those that are not in three out of four pay satisfaction dimensions (pay level, pay raise, structure and administration).

KEYWORDS

Pay satisfaction, compensation, distributive justice, family owned hotel

INTRODUCTION

Family owned business

According to the Fox Family Enterprise Center, 80% of the world's businesses are family owned, however there is no standardized definition of a family run business, which leads to different researches that try to 'define' a family owned business. Dieguez-Soto et al. (2014) investigated the definitions among the literature available and have set a list of various criteria researchers, prior to them, used when defining a family owned business. The researchers defined a family owned business based on the ownership structure, control over the business, management, transgenerational succession, multiple generations and the values of a certain business. Heck and Trent (1999) and Gomez-Mejia et al. (2007) defined that a business is family owned solely if it owned by one or more family members and the family that founded the business is the major stakeholder. Inc. (n.d.) supports that notion and for a business to be recognized as a family-owned business "two or more family members have to be involved and the majority of ownership or control lies within a family". According to Astrachan and Shanker (2003), if there is even a slight family involvement in the control over the strategic development and growth, a business can be defines as a family owned. In addition, the family has to have at least 10% of the voting rights. Another criterion closely connected with both ownership and control is management. McConaughy et al. (1998) defined a firm as a family owned one if "one or more members have management responsibility"; meaning that the members of the founding family are on one of the executive positions within a firm. Miller at al. (2007) with their research support that definition based on the management components. A business is family owned if it is leading a vision of a family or a coalition of small number of families and is both profitable and sustainable across the generations of the families involved (Handler, 1989. & Astrachan and Shanker, 2003). Astrachan and Shanker (2003) add value to the succession and define a business as family owned if the same family is in the control of

the business for, at least, two generations. If family members support the organizational growth and are willing to participate in decision-making processes, then a business falls under the category of family owned businesses (Kellemarnns et al., 2012). As presented, there are various definitions of a family owned business making it the hardest obstacle for researchers.

Characteristics of a family owned business

The characteristics of a family owned business are divided in three aspects (Duran et al. 2015): “high level of control, wealth concentration and the importance of noneconomic utilities” (Worek et al. 2018). Compared with a non-family business, which values economic utilities and has low wealth concentration (FIGURE 1). The family managing the business is in charge of decision-making processes and control over other stakeholders. The entire wealth is concentrated to one firm and one family, which leads to long-term investments, that are predictable and the risk factor is almost nonexistent (Duran et al.2015). According to Investopedia, economic utility refers to the total satisfaction one (a purchaser) receives from the exchange of their money for a certain service or good. The family owned businesses take into consideration the family-centered goals while making strategic decisions and focus on keeping the family in the business across generations (Kotlar & De Massis, 2013).

Most common conflicts in a family owned business

According to the University of Georgia (n.d.), most common conflicts in family owned businesses are the apparent control, high employee turnover, compensation strategies and the possibility to grow. The apparent control it states that just because an employee has a certain title (e.g. CEO, General Manager, Manager of a certain department), that does not mean that this certain employee has the upper hand in managing the Small and Medium Enterprises. Family ties are more important than the titles. Due to limited possibility for the employees that are non-family members to move forward in their career, there is a high percentage of the

employee (non-family members) turnover. Compensation is “at the heart of more family-businesses questions than any other topic” (Aronoff et al., 2011, p.3). Deciding how to approach the compensation can be tricky because there are family members that have higher salaries and those that work more and get the same amount or less. That is why it is critical to separate the business from the family and be objective when it comes to compensation. Regarding the opportunity to grow, not all family members involved in the business are willing to invest in the business and its growth. This may cause additional conflicts among the family members. Furthermore, emotions often get involved in the family business regarding the inheritance issues and growth options. Having a well-developed succession plan is a key step in avoiding conflict so that all stakeholders are informed of the changes that will take place once the next generation is in charge of the business.

Furthermore, an article published on Inc. (n.d.) emphasizes the importance of proper usage of human resource practices because conflicts arise due to the differences among the employees that are family members and those that are not. The non-family employees have difficulties adapting in the family business and they do not have broad opportunities for their career growth. In addition, to distribute the financial compensation fairly among the employees, regardless of their connection with the business, the managers/owners have to match the guidelines a certain industry has set for a specific job.

This research focuses on small family-owned enterprises because the large companies demand a structure and the importance of family ties gets lost in the business (Miller et al., 2009). Companies with a large number of employees demand administrative link and, while the family ties still exist, this effect of nepotism is lost in the business side of the family run business.

Family owned hotels in Croatia

The official Croatian statistics bureau (Hrvatski Zavod za Statistiku) does not track small family-owned businesses as a special unit. According to the Ministry of Tourism (2013), there are around 340 accommodation facilities/hotels with less than 50 units. However, those facilities are registered as a society with limited responsibility (“društva s ograničenom odgovornošću”) so it is difficult to say whether they are family owned. Those accommodation facilities/hotels comprise of 7,800 accommodation units (rooms, suites, apartments) and over 15,600 beds. The majority of those hotels are 3-star hotels (57%) and 4-star hotels (22%); only 2% is categorized as a 5-star hotel, 12% as a 2-star hotels and 7% as ‘aparthotel’. There are no official statistics about overnight stays and occupancy rates, however, the National Association of Family and Small Hotels (Nacionalna udruga obiteljskih i malih hotela) published unofficial records of an average of 45% annual occupancy rate, meaning more than 2 million overnight stays.

*Compensation**Financial compensation*

Financial compensation is the salary that the employee gets for their work. The employers apply three basic models. Those are the fixed salary, commission rate and a combination of a fixed salary plus the bonuses. When signing a contract, the employee agrees to a fixed salary for hours they work and that is it. The commission based salary is connected with for example how much an employee sells, there is a percentage of his/hers sales they get. This means the more they sell, the higher the salary. This makes the employees motivated to work harder to earn more (Huselid, 1995). The last model is combining a fixed salary plus the bonuses. Employees are highly motivated to work more so they can earn more plus the fact that they

have a fixed salary makes them feel secure about getting the fixed part of their salary regardless of the amount the sell.

Four Types of Compensation

According to Sheehy (2005), there are four types of compensation within a family owned business. The first two types, compensation for what an employee does and the compensation for how well an employee does his/her task, can be associated with both employees that are family members as well as to those that are non-family members. However, the third, compensation for what an employee owns, and fourth type, compensation for who the employee is, are associated solely to employees that are family members and their ownership status. This section identifies various types of compensation that are available to employees that are family members.

Compensation in family owned business

According to Astrachan and Kolenko (1994), there are significant variations in human resources practices between the employees that are family members and those employees that are non-family members. They discovered that family firms used human resources practices such as compensation plans, employee reviews and development plans were used for non-family members in a family owned business. A study done on 124 small and medium sized family businesses in Belgium discovered that the family business with a CEO that is a family member implements less formal compensation strategies compared to the family owned firm with a CEO that is not a family member (Michiels, 2017). The usage of formal compensation practices increases the perception of fairness, however, there are high costs associated with the formal practices and small businesses do not have the financial resources. Furthermore, by using the formal compensation practices, the employers will decrease the opportunity for the

employees to negotiate their, both financial and non-financial, compensation, which will decrease their motivation levels (Marlow and Patton, 2002).

Employee satisfaction

Employee satisfaction “is important in predicting systems stability, reduced turnover and worker motivation” (Ramasodi, 2012). Employee satisfaction, or dissatisfaction, is connected with the employee turnover rates at a certain industries. The organization needs to use proper human resource practices in order to make the employees satisfied and with that retaining them (Robbins, 2001). In addition to the connection of employee satisfaction and employee turnover, higher employee satisfaction results in better job productivity.

Models that describe the factors that influence the employee satisfaction

According to Ledimo and Martins (2013), the Structural Equation Model can help in developing an Employee Satisfaction Diagnostic Model. Structural Equation Model refers to a technique “combining aspects of multiple regression and factor analysis to estimate a series of interrelated dependence relationships simultaneously” (Hair et al. 1998) meaning that future researchers can use this technique and adapt it to the needs of their research based on the interrelations of all factors involved. The process of developing the Employee Satisfaction Diagnostic Model has seven stages that go from developing a theoretical model to interpreting the model to identify the correlation of factors that have an impact on the job satisfaction. The theoretical model states that the organizational strategy, processes and policies and the outcomes of the previously mentioned factors have an impact on the overall employee satisfaction. The Model has three categories, organizational strategy, processes and policies, and the outcomes, that lead to the overall employee satisfaction. Under the processes and policies section, the researchers have put the Human Resources Management

Employee Satisfaction Index Model (Hsu, Wang, 2008) suggests the factors that influence the Employee Satisfaction Level (e.g. fairness, extrinsic awards, autonomy, corporate image, etc.) and states that the higher the Employee Satisfaction Level, the higher overall employee performance and the employee loyalty.

The impact of compensation on the employee satisfaction

Organizational justice

Organizational justice has three dimensions that have an impact on the overall performance of both the employee and the company in general. Those three dimensions are distributive, procedural and interactional justice. For the purpose of this research, the focus is on the distributive justice or the employees' perception of fairness regarding their pay (Yean, 2016).

Equity theory

Equity theory describes individuals that take into consideration the rewards, or compensation, for their work together with the connection of rewards and effort other people receive. Once employees start to notice the "imbalance in their outcome-input ratio relative to others" (Hsu, Wang, 2008), their level of job satisfaction decreases and the probability of them leaving the firm increases. Employees, through socialization and comparison with other employees, realize the correlation between the inputs and outputs mentioned above (Adams, 1963). The key challenge for an organization is develop compensation strategies that employees perceive fair. Once the employees perceive the compensation equal towards all employees, their overall job satisfaction will increase.

Direct impact of compensation on employee satisfaction

Previous research has identified salaries, training, work environment and recognition as the crucial human resource aspects that influence the employee satisfaction (Mathauer et al.

2006). According to Kreitner et al (2002), management needs to create a positive work environment to encourage employee motivation and reduce stress at a workplace, which leads to better employee satisfaction. According to a study conducted in Punjab (Yaseen, 2013), salaries, recognition, promotion opportunities and meaningful work are human resource factors that have a direct impact on the employee satisfaction.

Pay Satisfaction

Heneman and Schwab (1985) developed a pay satisfaction questionnaire (PSQ) comprised of five correlated dimensions describing employees' satisfaction with their pay and compensation structure in general. The questionnaire consists of 18 statements divided into five categories: pay level, benefits, pay raise, structure and administration. After detailed analysis, the researchers concluded that the difference between structure and administration is almost nonexistent; the end version had four dimensions after combining structure and administration into one.

METHOD

The purpose of the primary research was to measure the pay satisfaction of employees working in a family owned hotel in Croatia. In addition to the overall pay satisfaction, the purpose of this research was to compare employees that are family members to those that are non-family member to measure the difference in the satisfaction.

The method for the primary research was a questionnaire made out of three sets of questions related to pay satisfaction and distributive justice. The first question was based on the Pay Satisfaction Questionnaire; the original version had 18 questions divided into four categories however, for the purpose of this research, the model was adapted. The first question had 13 statements in which the respondents had to state their level of satisfaction on a five point Likert scale. The second question was based on measuring distributive justice and had a set of

five statements where the respondents had to state their level of fairness compared various factors on a five point Likert scale. The third question was a stand-alone question developed to measure the perception of the employees in regards to whether or not all employees participate in the same compensation plans. Next were the demographic questions that were designed to help run the statistical analysis.

The questionnaire was distributed both online and in paper version. The online version was distributed via e-mail to small, family owned hotels that are members of the previously mentioned National Association of small and family hotels. The list of the hotels that are members of the Association is publicly published together with their contact information, which was used as a source for this research. These participants were the right choice for this research because they are closely connected to this research. The online versions were sent to 120 hotels and the response rate was 20%; meaning 24 filled out surveys were collected. In order to have a fair amount of surveys, five days later a reminder was sent to the hotels. The reminder was not successful because only two more surveys were filled out. The paper versions were distributed to RIT Croatia students on Dubrovnik campus that stated that they either work for a family owned hotel or their family owns one; six of the surveys were collected in a paper version.

A blank copy of the questionnaire in APPENDIX B

RESULTS

In total 32 surveys were collected, out of which three were invalid because they were related to a non-family owned business. 76% of the respondents were female and 24% were males, which does not give an equally represented demographic category to run detailed analysis. 37.9% of the respondents were employees that are family members and the rest were non-family members. This provided us with a representative amount of respondents to run statistical analysis to measure the significant difference. Furthermore, detailed statistical

analysis was conducted comparing front line employees (55%) with those working in the back office (45%). Another comparison has been done on the employees that are working less than three years with the same company (48%) and those that are working longer than three years (52%).

After the primary statistical analysis, there was an overall satisfaction of the respondents.

After running a detailed statistical analysis (t-Tests and comparison analysis), there was no significant difference between front and back line employees, family and non-family employees and regarding the time they spent working for the same company connected to the stand alone question and the distributive justice. In addition, on the pay satisfaction question, in all categories, except structure and administration, there was no significant difference between front and back line employees and those working less than three years and those working longer. The responses were at all levels showing no significant difference.

There was significant difference in three out of four dimensions of pay satisfaction once employees that are family members were compared to the non-family members. Those three dimensions are pay level, pay raise and structure and administration in which the employees that are family members were significantly more satisfied than the non-family members were; all at 0.05 level(FIGURE 2). When comparing front line employees with those working in the back office in the structure and administration (dimension of pay satisfaction), the employees working in the back office are significantly more satisfied; at 0.10 level. In addition, in the same dimension, employees that are working longer that three years for the same hotel are significantly more satisfied compared to the employees that are working less than three years; at 0.10 level (FIGURE 3).

DISCUSSION

The research showed an overall satisfaction with the compensation in a family owned hotel.

The limitation of the research is the small number of respondents. If this research was done in a longer period and different distribution channels were used, the assumption is that more data that are valid would be received and significances would be emphasized. This research was done during offseason so the results might differ if the research was conducted during the high season. The small family owned hotels that are the main concern of this research distinguish one from another due to the family interference in the business. Those hotels are small with an obvious lack of structure, let alone a proper human resource department that tackles on the compensation issue. The situation might be different if the business entity principle was implemented so that the business side is differentiated from the family issues. However, those are micro businesses and family that runs the business is completely involved in all the processes.

Based on the results, there is no obvious “problem”. The limitations mentioned above might be the reason for that. However, this research could be beneficial to every family owned hotel that cares about their employee satisfaction and wants to improve it.

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APENDIX A

Figure 1.

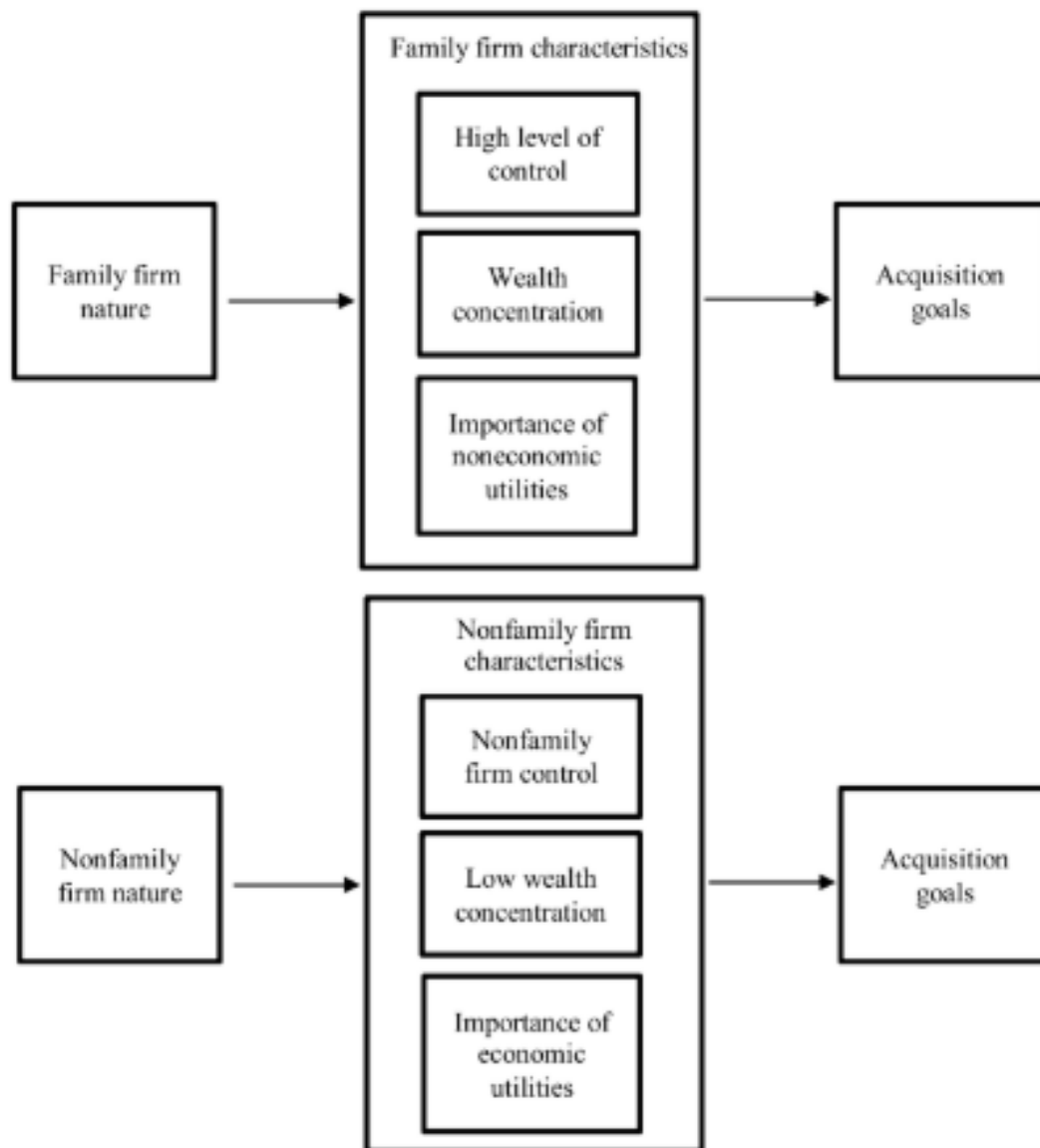
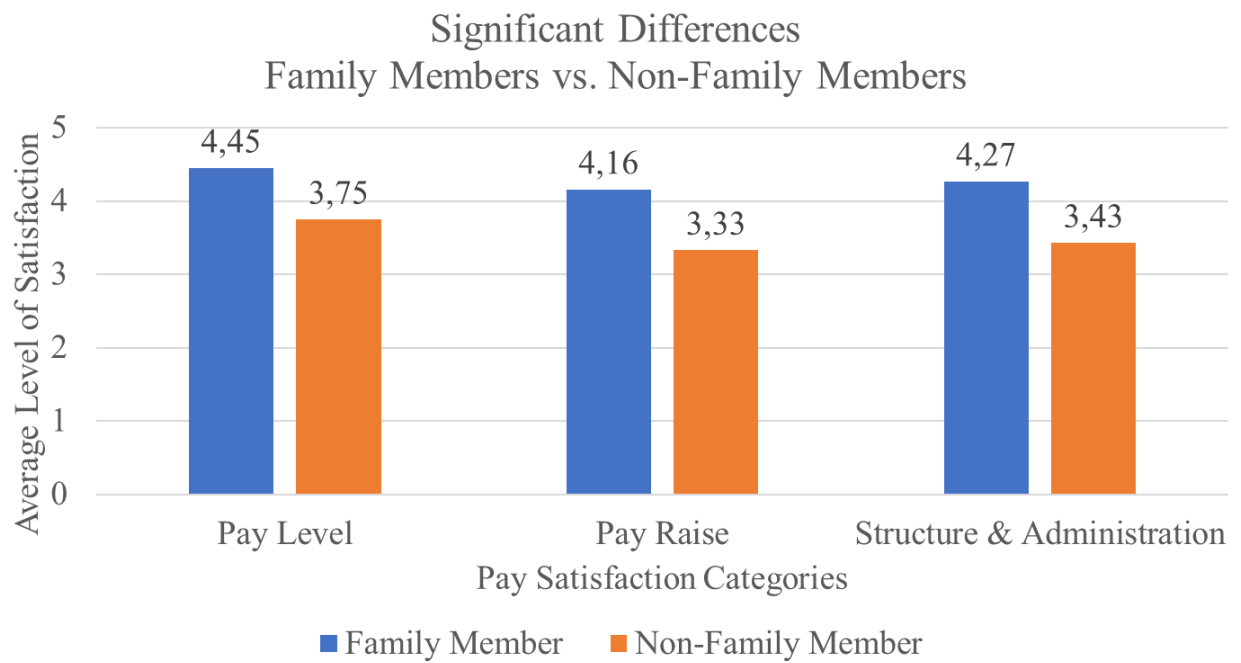


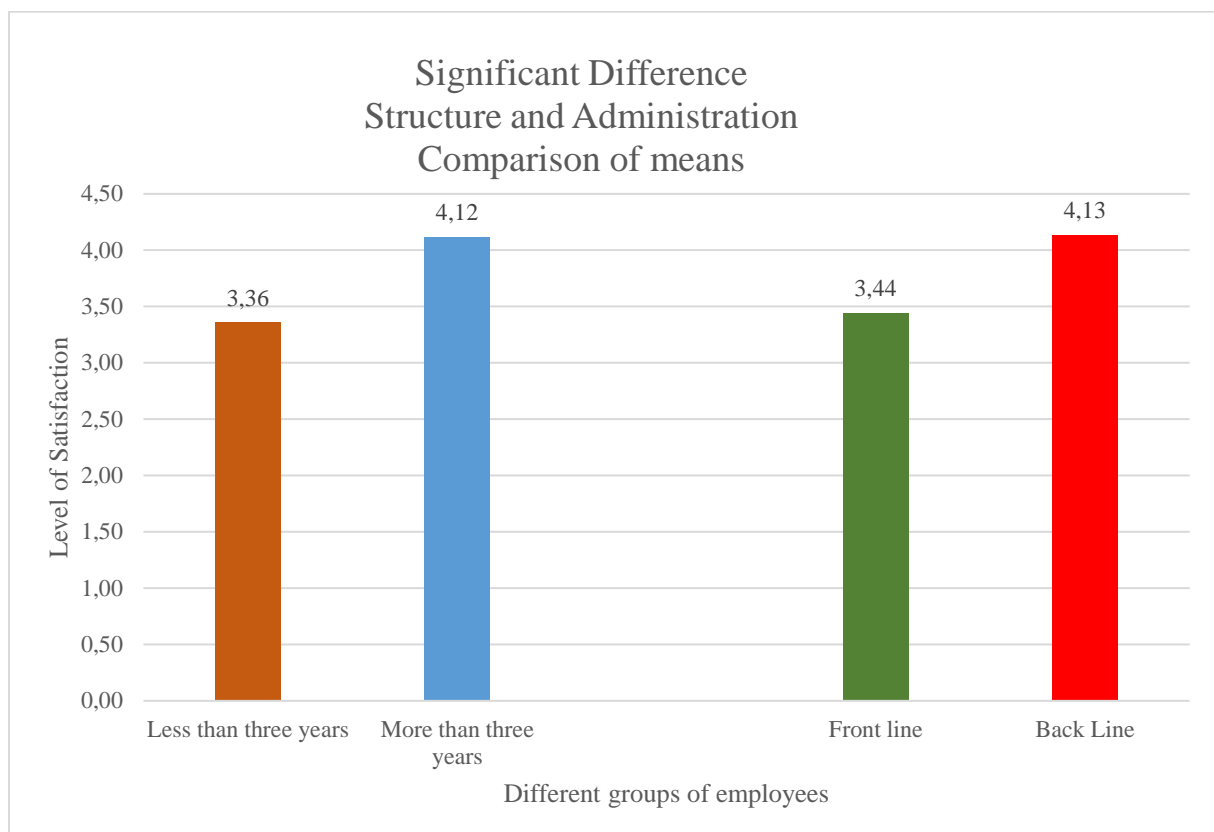
Figure shows a comparison of a family owned business with a non-family owned business

Figure 2.



This figure shows the significant differences between family and non-family members in three dimensions of pay satisfaction.

Figure 3.



This figure shows the significant difference between employees that are working less than three years and those working longer than three years for the same family owned hotel and a significant difference between front and back line employees; all structure and administration (one of four dimensions of pay satisfaction).

APENDIX B

Copy of the questionnaire:

Dear Survey Participant:

My name is Jelena Horvat and I am a senior student at RIT Croatia Dubrovnik, a global campus of Rochester Institute of Technology, based in Rochester, New York.

For my final research project in International Hospitality and Service Management, I am examining the compensation structure in a family owned business and the effect it has on the overall employee satisfaction.

Because you are working in a family owned business, I am inviting you to participate in this research study by completing the attached survey. It will require approximately 10 minutes to complete.

Your participation is completely voluntary. The information you provide on this survey will be kept completely anonymous and confidential. There is no risk to you. In order to ensure that all information will remain confidential, please do not include your name or the name of your company in your answers.

If you choose to participate, please answer all questions as honestly and accurately as possible.

Thank you for taking the time to assist me in my educational endeavors.

If you would like additional information about this survey or my research project, please contact me at +385 99 441 9009 or jxh1387@g.rit.edu or my mentor, Professor Kevin Walker, at email kevin.walker@croatia.rit.edu .

Sincerely,

JELENA HORVAT

HOW SATISFIED ARE YOU WITH YOUR COMPENSATION?

1. Please circle your level of satisfaction with the following factors:

	1	2	3	4	5
	Very dissatisfied	Dissatisfied	Neither satisfied	Satisfied	Very satisfied
			nor satisfied		
<input type="radio"/> My current salary.	1	2	3	4	5
<input type="radio"/> My overall level of pay (salary,bonus,etc.).	1	2	3	4	5
<input type="radio"/> My benefit package.	1	2	3	4	5
<input type="radio"/> The value of my benefits.	1	2	3	4	5
<input type="radio"/> The number of benefits I receive (health, career development, etc).	1	2	3	4	5
<input type="radio"/> My most recent raise.	1	2	3	4	5
<input type="radio"/> Influence my supervisor has over my pay.	1	2	3	4	5
<input type="radio"/> The raises I have typically received in the past.	1	2	3	4	5
<input type="radio"/> How my raises are determined.	1	2	3	4	5
<input type="radio"/> Transparency of information the company gives about pay issues of concern to me.	1	2	3	4	5
<input type="radio"/> Pay of other jobs in the company.	1	2	3	4	5
<input type="radio"/> Consistency of the company's pay policies.	1	2	3	4	5
<input type="radio"/> Differences in pay among jobs in the company.	1	2	3	4	5

2. Please circle your perception of fairness for the following statements:

	1	2	3	4	5
	Very unfair	Unfair	Neither fair	Fair	Very fair
			nor unfair/ Not sure		
<input type="radio"/> My pay is fair compared to my responsibilities.	1	2	3	4	5
<input type="radio"/> My pay is fair compared to the amount of my experience.	1	2	3	4	5
<input type="radio"/> My pay is fair compared to the work I do.	1	2	3	4	5
<input type="radio"/> My pay is fair compared to the stresses and strains of my job.	1	2	3	4	5
<input type="radio"/> My pay is fair compared to the amount of effort I put in.	1	2	3	4	5

3. *Please circle your level of agreement with the following statement:*
In the company I work in, employees who are family members receive the same compensation plans as non-family employees.

Strongly disagree Disagree Neither agree Agree Strongly
agree
nor disagree

4. *Please choose your employment status:*

- Family member working in a family owned business
- Non-family member working in a family owned business
- Owner of a family owned business
- Non- family owned business
- Student
- Other, please specify: _____

5. *Please choose your current position in the firm you work in:*

- Senior management
- Middle management
- Direct supervisor
- Front line (direct contact with customers)
- Back office (no direct contact with customers)
- Other

6. Please choose the category that describes the number of years that you are working in the same family owned business:

- Less than 1 year
- Between 1 and 3 years
- Between 3 and 5 years
- More than 5 years

7. *Please choose your gender:*

- Female
- Male
- Do not want to specify