

CHAPTER I

INTRODUCTION

1.1 Background

Satisfied Employees are vital for the success and performance of an Organization. As per studies, positively motivated employees enhance Organizational performance. Various researches have been conducted on Employee satisfaction because it is always difficult to precisely define the determinants of Employee Satisfaction. Edward Thorndike can be regarded as the one to introduce the concept of Employee Satisfaction. His article, that was published in early 1900s in the Journal of Applied Psychology spoke about the relationship between job and satisfaction.

Townsend et.al., (2007) found that various issues such as employee commitment, employee loyalty, job satisfaction and employee engagement have been linked to Employee Satisfaction.

There is a correlation between employee turnover and employee satisfaction as per various studies conducted over the period. According to Rust et. al, (1996), Employee turnover is inversely proportional to Employee satisfaction; i.e. increase in Employee Satisfaction will lead to reduction in Employee turnover and vice-versa. While Rust et. al, (1996) dwelt on the relationship; Solomon's 1988 study deals on the cost factor. He goes on to suggest that it costs an organization around 1.5 to 2.00 times the annual salary of each person who has quit, in finding suitable replacement and training of new personnel. It struggles hard to reduce employee turnover. Dalton et. al., (1993), while studying deeper in this aspect observes that the replacement cost of a middle manager for an organization is around USD 75,000. All the three studies put together reveal the

importance of retaining employees and emphasize on the fact that satisfied employees are essential for reduced employee turnover.

Industry experts and scholars put forth an argument that diversity is a positive factor and it helps an organization to get competitive edge in its business (Ferleyet al., 2003; Richardet al., 2006). UAE is known for its Multiculturalism and diversity. It provides a greater opportunity for a pool of talented and experienced individuals, thereby enhancing innovation and creativity. But a diverse workforce, at the same time, poses many challenges to management in areas such as trust and commitment, workplace authority, different work ethics, firm structure and work-life balance (Bakr Ahmed, 2008).

In order to gauge the mood and job satisfaction level among employees during the period of recession in 2008, a Job Satisfaction study was conducted among 9760 respondents, in the age limit between 20 and 62 in Saudi Arabia, UAE, Kuwait , Bahrain, Qatar, Jordan, Lebanon, Egypt , Morocco, Pakistan and Algeria. This exercise was repeated in UAE and other GCC Countries in year 2011. These studies revealed that the the Gulf States had a high cost of living. In addition to this, falling dollar lead to an very high level of dissatisfaction among employees in those areas. The surveys revealed that in UAE more than 73 % of the employees were UNHAPPY with work, and only 27% of them expressed satisfaction with their job.

Many of the unsatisfied employees even started pondering whether it is worthwhile to explore new job opportunities in other sectors/countries. A recent study by Aon Hewitt (2014) measures Employee Engagement through a consistent set of survey data. The aim of the study was to assess Say, Stay and Strive behaviors of the employees, viz, the extent the employees converse positively about their company (**Say**); want to continue be a part of their company (**Stay**) and wish to perform beyond in their prescribed role (**Strive**). The aggregate Employee Engagement score in the Middle East decreased by 1% from

2012 to 2013. All the three i.e., Say, Stay and Strive behaviors were showing the declining trend with Strive showing the largest drop of -3%.

The Latest study conducted by Gulf Business (published on 3.6.2015) states that in UAE around 53% of the employees are having low level of satisfaction and 42% feel that their job is stressful, leaving only a negligible 5% who have High Job Satisfaction level.

.The UAE is a supreme example of cultural diversity as far as employees are concerned. In almost all the organizations, whether it is Private Sector or Public Undertakings, UAE has people from all parts of the world participating and rendering their service. In addition to the local Emiratis, there are Arabs from nearby countries, Europeans, Americans, Asians comprising of Iranians, Filipinos, Indians, Pakistanis, Srilankans, Afghans, Nepalese and Bangladeshis. A sizeable percentage of Africans are also employed by organizations in the UAE.

Since UAE is predominantly occupied by Expatriates, Employee Satisfaction among expatriates assumes greater importance as retaining these expatriates will reduce employee turnover or else, as mentioned earlier, it would be a costlier affair to organizations operating in the UAE.

1.2 Employee Satisfaction

Townsend et. al, 2007 goes on to mention that whichever company gives top most priority to their employees / customers, it results in their employees being satisfied leading to loyal customers. These in turn increase the company's profits / goodwill and hence their success is guaranteed. This will enable the company to sustain their business and profitability in the long run.

Patrick Townsend (2008), is of the opinion that an organization should take advantage its available manpower. The best way to do the above is by satisfying their employees. In an organization, one should reach to any level and seek information and inputs from employees irrespective of their position. This

paradigm often help the organization in a better way as all the employees feel their skill and ability is also recognized which leads to improvement in the Employee Satisfaction level.

Spector in 1997 opined that Employee Satisfaction is the extent to which an employee has liking towards his / her job. The factors contributing employee satisfaction and overall employee satisfaction were conventionally described as key elements of organizational management, behavior and development (Lofquist and Dawis, 1969; Smith et al., 1969; Locke, 1976; Cranny et al., 1992; Jasna Auer Antoncic et al., 2011)

Improving the job satisfaction of human resources is very important for every organization because satisfaction creates self-belief, devotion and consequently improves quality of work of employees. Providing employees with rewards, training, work discretion, trust, time availability, management support, loose intra-organizational boundaries, involvement and commitment are regarded as essential characteristics of organizational support which are favorable to improved Employee Satisfaction.

This study is aimed at Employee Satisfaction of expatriate employees working in EPC companies of Oil and Gas industry in the UAE.

1.3 EPC Companies in Oil Industry in UAE

What is EPC?

EPC Stands for Engineering, Procurement and Construction. EPC Companies are those who undertake Lump Sum Turn Key (LSTK) Contracts and they are responsible for Engineering, Procurement of all items of contract, Installation of procured items, Construction of the facilities, Commissioning and handing over of the project. They have to bid for contracts and they face stiff competition in this regard. They are not only bound by cost budget, but also by the time schedule fixed by their client.

Why studies on EPC companies towards Employee Satisfaction Essential?

The EPC Companies work on a tight budget and time schedule. If they fail to complete the project in time, they will have to pay liquidated damage (LD) or penalty which generally goes up to 10% of the contract value. Further, they also will incur additional cost due to extended stay. This will affect the companies' performance and considerable negative effect in the bottom line. Each and every project handled by EPC companies is unique in nature. The persons involved are required to deliver their portion of work till completion of the project. If some employee leaves at middle of the project, the replacement employee will take considerable time to understand the project and to start delivering his / her duties. This will affect the time schedule of the project.

EPC Contracts are therefore different from manufacturing or other service industries contracts. Example of EPC Contracts are: Construction of a Power Plant; Water Desalination Plant; High Pressure Pumping Stations; Gas Compressor Stations; Oil receiving Installations etc.

Increase in Employee turnover leads to a lot of complexities (as mentioned previously) in regard to completing the project before deadline. Hence, Employee Satisfaction gains additional significance when it comes to EPC contracts.

Much of the earlier studies focused only on Employee Satisfaction in general or in particular to a specific industry but not towards EPC. Therefore a concrete research is felt in need of the day and hence the present research is undertaken.

Oil and Gas Industry in UAE

The UAE has become one of the booming economies and it got transformed from a poor desert state to a prosperous country because of its oil exports. The UAE accounts for approximately 10 per cent of the world's total reserves. There is little doubt that oil industry will continue to provide the income for UAE's economic growth as well as expansion of other social services during the decades to come.

After the formation of UAE in the year 1971, within a short span of time, Abu Dhabi turned UAE into one of the major players in international oil export industry with due support from Dubai. 6 trillion cubic meters of natural gas and 98.8 billion barrels of oil were estimated to be the proven reserves based on a study conducted in the year 2000. It is equal to 4 per cent of the world's total oil and gas reserves. Thus UAE has become the third largest gas reserve in the Middle East with Iran and Qatar taking first and second spot respectively. In the world, UAE is 4th biggest reserve while Russia is placed first.

Currently, UAE is the eighth largest oil producer in the world.

Governing Body of the Oil Industry

The Oil and Gas industry is governed by Supreme Petroleum Council (SPC). Abu Dhabi National Oil Company (ADNOC) is the apex company for Oil and Gas Industry. ADMA, ADCO, ZADCO, GASCO, ADGAS, ADNOC Distribution, TAKREER, Al Hosn are some of its major subsidiary companies.

Most of the projects for the oil and gas industry such as laying of new oil / gas pipeline, new plant installations etc are executed by these companies by way of awarding the contracts on Engineering, Procurement and Construction (EPC) basis.

EPC Contracts in the Oil and Gas Industry

EPC Companies are the major contractors involved in executing the projects for the oil companies in UAE. They bid for projects on a LSTK (Lump Sum Turn Key) basis. They work on a allotted cost as well as timeline to complete the projects. Delay in projects will lead to loss of production and the Oil companies will levy heavy penalty on the EPC contractors.

Hence, it is very important for the EPC companies to complete the project well within the time schedule.

The EPC companies hire expatriates for executing their projects. The expatriate staff are from various countries and have different backgrounds. Their satisfaction level should be kept at high level to ensure proper completion of EPC contracts within the allotted budget/time frame. Employee turnover in EPC companies is a big problem since the new employee requires time to understand the project besides getting adjusted to the new environment. This leave the EPC company in considerable stress as it has to complete the project in a tight time schedule.

Therefore, this study is initiated to find out the employee satisfaction level of expatriate employees in EPC companies of Oil industry in the UAE.

1.4 Business Problem

1.4.1 Background

In today's business environment, Employee Satisfaction and retaining talent are considered very essential. For EPC companies operating in Oil and Gas industry, these are very important as they work on tight timeline and budget.

As already mentioned elsewhere, a latest study conducted by Gulf Business (published on 3.6.2015) states that in UAE while around 53% of the employees are having low level of satisfaction, 42% feel that their job is stressful and only 5% rank for full job satisfaction level.

A survey conducted in 2014 (Gulf news, 16.1.2014) states that 50% employees in UAE are not engaged on full time basis. It also states that lower engagement levels will affect the business results. However, as progress of EPC goes on stage to stage basis, it is not possible to engage the entire staff earmarked for the project in one go.

A study conducted by Abubakr M. Suliman Hanan et.al., 2011 concludes that recruitment and retaining of employees has become one of the main problems faced by GCC countries in general and UAE in particular. They state that the staff

turnover costs in organizations operating in UAE costs about AED 9.9 billion a year. The study confirms that the current organizational climate is discouraging and it negatively affects employee satisfaction level. This in turn may hasten employee turnover.

On the other hand, Ovidiu (2008) states that Employee Participation and Empowerment enhance efficiency, growth, innovation, employee motivation and trust in the organization. He is of the opinion that if the management appreciates employees for their work and involves them in decision making process, their enthusiasm and motivation will be enhanced which will lead to better productivity and loyalty. As an acceptance to this fact, Yusheng Zheang et. al.,2013 states that satisfied, motivated employees will work hard for organization and in turn positively influence organizational commitment.

Retention is possible only by keeping the employees satisfied. Otherwise the organization might have to spend around 1.5 to 2 times the salary of the employee(s) left to find replacement(s) and training the new employee(s). The cost effectiveness on the employer retention is proved by Caterpillar, a large multi-national construction equipment supplier and manufacturer, who as per estimates, saved around \$8.8 million in turnover costs alone. This was possible due to increased proportion of engaged employees at one of their European-based plants (Brad Shuck, 2011).

Elisa et al., 2001, in their study state that costs to the organization for an expatriate employee returning home prematurely have been estimated to range between USD 100,000 and USD 500,000, and nearly 20% left their organization only to work for a competitor after returning home.

Recent surveys in UAE state that employee satisfaction level is very low. The survey results show that 53% of the employees are not satisfied with their work in addition to another 42% finding their work conditions very stressful. It is a potential threat as there are chances of decline in the productivity targets due to

lesser output from employees and any increase in the employee turnover will further hamper the productivity schedule. This condition will not only result in huge loss to companies but also it might face the danger of losing their goodwill in the market besides inviting wrath of their client. It may also affect the prospects of bagging fresh/new contracts. Therefore, our study is aimed at finding possible solutions to this business problem.

1.4.2 Business Problem

The EPC Companies in Oil Industry work on a tight timeline and budget. Due to the reduced level of Employee Satisfaction, employee turnover shall increase resulting in:

- Revenue loss for the companies due to replacement cost
- Revenue loss due to companies' extended stay in the project.
- Revenue loss in the form of Liquidated damages and Penalties levied by Clients
- Revenue loss due to less productivity from the existing dissatisfied employees
- Non Revenue Loss due loss of reputation / goodwill in the market
- Losing of future contracts due to above factors.

1.5 Theoretical Background

It seems concept of Employee Satisfaction was an age old phenomena by the fact that various studies, commencing from early 1900s were taken up. An important beginning was made by Edward Thorndike. In his article in the Journal of Applied Psychology he dwelt on the relationship between satisfaction and work. However, deeper studies exploring on the meaning and importance of Employee Satisfaction commenced in mid thirties of the 20th century. The first one being by Elton Mayo (1933) with his book "Human Problems in Industrialized Civilization". Following other theories are also related to Employee Satisfaction:

- Herzberg's motivator-hygiene theory, which is also known as the two-factor theory of job satisfaction in 1950s.
- Maslow's need hierarchy theory in 1954
- Mc Groger's Theory X & Theory Y in 1960
- Alderfer's ERG Theory in 1969
- Adam's Equity Theory 1969

Locke, in 1976, was more specific in defining Job Satisfaction. He defined it as "a positive or pleasurable emotional state originating from the appraisal of a person's job " (pp. 1304)

In 1997, Spector listed 14 facets of Employee Satisfaction. They are Appreciation, Coworkers, Communication, Fringe Benefits, Nature of the work, Job Conditions, Organization, Recognition, Security, Personal Growth, Policies and Procedures, Promotional Opportunities, and Supervision.

Hulin and Judge, in their study undertaken in 1993, mentioned that job satisfaction includes multidimensional psychological responses to an individual's job. These personal responses have affective (emotional), cognitive (evaluative), and behavioral components.

In addition to above, there are theories such as Job Characteristics Model (JCM), Dispositional Approach etc., which are closely related to Employee Satisfaction.

1.6 Motivation for Study

Instilling satisfaction within workers is a crucial task of management since Employee Satisfaction leads to the employees gaining confidence, showing their loyalty towards their employer and ultimately leading to improved quality in the output of the employed. (Teitjen et al., 1998)

By improving the Employee Satisfaction level, it is a win-win situation for both employees as well as employers. In a country like UAE, where 90% of the work

force comprises of expatriates, Employee Satisfaction should be first and foremost agenda of the Management, as replacing an expatriate employee will be time consuming besides involving huge cost.

Very few studies on Expatriate Employee Satisfaction are available in literature. Though it is pivotal to EPC Companies in Oil Industry, there is no literature available specific to these EPC Companies engaged in the execution of contracts awarded by Oil Industry in the UAE. This is another reason which motivated the researcher to undertake the study.