



**COMPARATIVE STUDY ON RELATIONSHIP BETWEEN
COMPENSATION POLICY AND
LEVEL OF ORGANISATIONAL COMMITMENT**

MOKHTAR A RASHID

**UNIVERSITY OF MALAYA
2004**

Perpustakaan Universiti Malaya



A511704211

**Comparative Study on relationship between
Compensation Policy and
Level of Organisational Commitment**

Mokhtar A. Rashid

**Bachelor of Civil Engineering (Hons)
University of Westminster
London, England
1987**

**Submitted to the Faculty of Business and
Accountancy
University of Malaya, in partial fulfillment
of the requirements for the Degree of
Master of Business Administration**

May 2004

ACKNOWLEDGEMENT

First and foremost, my very humble gratitude and great appreciation to Almighty Allah, the Most Gracious and Most Merciful, for enabling me to proceed with this research study until its final form, Alhamdulillah.

A work like this would not be possible without the guidance and facilitation of a knowledgeable mentor and I would like to express my thanks to Prof. Dr. Nor Khomar Ishak, the research's supervisor. Her firm stand in seeing through the organisational behaviour has given me the strength of making sense of the whole exercise.

My heartfelt thanks go to my dearest wife, Aziani Md. Nor who has supported my efforts to complete this course on schedule despite of many clashed occasions that had come our way. Not forgetting to two of my lovely daughters, Milia Marnissa and Monika Maisara who have been my inspirations and courage as dad had been in the midst of countless rites of passage and life events, and finally had made this journey possible.

Last but not least, many thanks to all those respectful HR Managers and engineers from various organisations who had contributed their effort in answering the research questionnaires. May God bless all of you.

MOKHTAR A. RASHID

May 2004

EXECUTIVE SUMMARY

Compensations have been investigated and researched for many years because of its motivational effect on job performance, productivity and most importantly the organisational commitment. As organisations have their own vision and mission in establishing the compensation policy, it is also vital for organisations to know what compensation contents are desired by their employees and their perception towards the policy.

Creating and maintaining the organisational commitment are still plaguing the organisations worldwide. Although many experts have been consulted and many solutions proposed, the panacea has still not been discovered. This study does not pretend to be that panacea. Rather, it is an attempt to seek solutions to problems in one small facet of our very complex organisational behaviour; how the content of compensation policy correlates and affects the level of organisational commitments.

In theories, the concepts underlying the compensation system and its policy are simple and easy to understand. Problems arise in policy decision making when attempts are made to relate the many and varied factors. It is here that complexity becomes an issue. Satisfying the varying and frequently divergent internal and external forces against the organisational needs and constraints will make the implementation of compensation policy a most difficult assignment.

This study investigated the content of compensation policy and the effect on the organisational commitment from ten public listed construction-based companies, registered with the Construction Industry Development Board of Malaysia (CIDB) under Grade 7, and having their offices in Kuala Lumpur. The research findings shed some light on some significant results that provide important and useful information to company's owners, practitioners, professionals, and construction industry in particular, and the whole industry in general.

As expected, better compensation policy significantly correlates with the level of organisational commitments. High level of commitment basically effect the feeling of being loyal, strong sense of belonging and being proud about the company. However, the result demonstrates that there is a contradicting factor in the expectation from organisations and the employees. There is also general agreement between the organisation and employees that merits should also be the important determinant of the compensations.

C O N T E N T

1. INTRODUCTION

| | | |
|-----|---------------------------------|----|
| 1.1 | Background of Study | 6 |
| 1.2 | Research Issues | 8 |
| 1.3 | Objective of Study | 10 |
| 1.4 | Significant of Study | 10 |
| 1.5 | Development of Hypothesis | 11 |
| 1.6 | Study Framework | 12 |

2. LITERATURES REVIEW

| | | |
|-----|---|----|
| 2.1 | Conceptual of Compensation Policy | 14 |
| 2.2 | Conceptual of Organisational Commitment | 17 |
| 2.3 | Relationship between Compensation and Commitment | 19 |

3. RESEARCH METHODOLOGY

| | | |
|-----|----------------------------------|----|
| 3.1 | Research Design | 22 |
| 3.2 | Methodology | 23 |
| 3.3 | Sampling | 23 |
| 3.4 | Instrumentation and Scales | 24 |
| 3.5 | Variables and Measures | 25 |
| 3.6 | Data Analysis Technique | 26 |

4. RESERCH RESULT

| | | |
|-----|---|----|
| 4.1 | The Survey Result | 30 |
| 4.2 | Profiles of Respondents | 30 |
| 4.3 | Measurement for Individual Organisation..... | 39 |
| 4.4 | Overall Criteria of Compensation Policy | 42 |
| 4.5 | Discussion of Results | 43 |

5. CONCLUSION & RECOMMENDATIONS

| | | |
|-----|--|----|
| 5.1 | Summary of Study | 50 |
| 5.2 | Implications of Study Research | 52 |
| 5.3 | Limitation of Study | 53 |
| 5.4 | Recommendation for Future Research | 54 |

Bibliography

Appendices