

This chapter describes the background of the study and indicates the issues pertaining to compensation policy and organisational commitment. It also explains the objectives and the significant of the study.

### **1.1 Background of Study**

Man's major challenges and opportunities for change occur at the work place. Albert Camus (1975) wrote, "Without work all life goes rotten. But when work is soulless, life stifles and dies..." A basic concept guiding this part of the study is that man not only *needs* to work, but he *wants* to. From his work, he provides for his physical and mental survival; but the work must be meaningful; and one of the primary ways in which man measures the value of his work is through the compensation he receives.

The major difficulty in understanding the role of work in today's modern life is that people look upon their jobs more as a source of mental fulfilment rather than physical survival. Present compensation practices must therefore relate to these changing requirements.

In the past in many organisations, compensation to the majority of employees depended on such factors as knowledge, responsibility, working conditions, and physical effort. Today, however, the success of an organisation goes beyond these requirements and focuses on such nebulous terms as *commitment* – a dedication of soul as well as body (Richard I. Henderson 1976).

Du Bois and Associates (1997) research suggests that at least 80 percent of an organisational employee at all levels must be committed, for the organisation to succeed in its total quality, re-engineering or re-organisation efforts.

To promote this valuable attribute of commitment, the modern organisation must compensate the employees who provide them. Only through active and positive involvement and commitment will an organisation receive worthwhile contributions from its members, Richard further explained.

Being compensated is perhaps the only reason most people go to work, preached K. Rajkumar (1985). With the resources in all organisation limited at any time, the major goal of salary and benefits policies is to get the maximum possible returns and commitments for the resources expended. Among the major objectives of compensations are:

- to attract and retain the right number, right calibre and type of personnel
- to motivate and stimulate the commitment of employees, thus achieving the organisation's performance.

Porter and Lawler (1968) have defined compensation as desirable or positively valued outcomes or returns to a person that are provided by himself (intrinsic compensation) or by others (extrinsic compensation), while Reif, Newstrom and St. Loius, Jr. (1976) defined organisational compensation as anything that employees perceive as need satisfying.

What constitutes a compensation for a given individual can range from traditional economic compensation, such as salary and fringe benefits, to psychosocial kind of compensation, such as praise from a superior. To the extent that formal compensations predominate in terms of importance to employees, management is in a good position to influence behaviours leading to performance and profitability.

Compensation provides an organisation with a major opportunity for bridging the ever-widening gap between organisational objectives and workers expectations.

To bridge this gap, they must respond to and satisfy important individual needs and provide satisfactory compensation practices. The content of the compensation policy in organisations must have their roots at the work place of each employee.

The content and criteria of the compensation policy have been discussed by many authors such as Richard I. Henderson (1976), Allan N. Nash and Stephen J. Carrol, Jr. (1975), Milkovich and Newman (1993), Michael Armstrong and Helen Murlis (1998), Tan Kwang How (2001). It is suggested that four main criteria to be considered in this study, and there are as follow:

- Internal Equity
- External Equity
- Compensation based on performance
- Confidentiality towards the policy

This study, among other things, will examine how organisations adopt these criteria in their compensation policy and will measure the level of its organisational commitment. In addition, this study will also dictate the expectations from the employees about the organisation's compensation policy.

## **1.2 Research Issues**

The compensation systems in many organisations are designed to attract, retain and motivate employees, rather similar to those of other organisations in the industry. However, many organisations are unaware of which elements in their compensation policy are the most motivational and which provides the maximum commitments relative to costs. Also, what their employees especially the key-personnel perceive as the probabilities of obtaining the compensation in relation to the efforts they put in, and what they feel should be the criterion used in determining the compensation policy.

The changing attitudes towards career have also been the important issue in determining the direction of compensation policy. There has been some speculation that young generation today does not value money as much as their predecessors did. Such a change in values could have important implications for compensation policies of the future. Little research bears on this question (Allan N. Nash & Stephen J. Carrol Jr. 1975).

Increasing proportion of professionals also has contributed into the current issues facing by the stakeholders of the industry. The complexity of recent technological developments has created a need for organisations to employ specialised personnel with vast experience. Because of such problems, traditional method in compensation practices will never be appropriate (Bernett, R. 1995). Obviously new practices need to be established to avoid employees' turnover.

The growing problem of supplemental compensation is bugging today's organisations. The proportion of total salary that is made up of supplemental compensation has been growing very rapidly. Many arguments are being brought up recently on this issue. Some companies view supplemental compensation as not related to performance (Schuster 1974); meanwhile many groups are relatively dissatisfied with their organisation's fringe-benefits program (Neidt 1970).

Finally, the market pressure over compensation level has been very prominent in the establishing compensation policy. In the past, wage controls have been periodically imposed on most large organisations. Some argues these must be continued on a permanent basis in the future. The market pressure has been identified as the most significant attraction for employees to join another company that can offer a better compensation package (Julie L. Hotchkiss 1989).

### **1.3 Objectives of study**

Early work and recent past organisational behaviour studies took a somewhat limited view of organisations, being primarily concerned with job satisfaction, productivity and internal functioning. Very little had been said on compensation policies and how it affects the employees' commitment (Richard Thorpe and Gill Homan 2000).

No book can provide all the answers nor can it provide a fail-safe formula in generating the best compensation policy. What it can provide are the knowledge and techniques that lead to answers. That is why we find that different companies employ different kinds of compensation practices which the decisions are made under a set of decision-making constraints (T Julie L. Hotchkiss 1989) and this will provide different result and performance and directing will influence employees commitments.

It is the objectives of this study to obtain systematic information on key-personnel's from the construction-based companies about the extent of the level of commitments, their expectation on how compensation policy should best be.

### **1.4 Significant of study**

Compensation decision-making is a critical task in an organisation activity. Organisations are vitally interested in attracting, retaining and motivating employees to high levels of performance. Indeed, the organisational survival requires them to do so.

One needs only to observe the Malaysian economy to realise that while some organisations have a difficult time in deploying their resources, others do not. As a result, some organisations achieve unprecedented productivity and

commitment growth, but others watch their productivity slip to the point where they can no longer compete, and many fail altogether.

This study will provide some realistic exposure especially to the owner of companies, decision makers of compensation policy like human resource managers, industry professionals and the practitioners of all industry in general.

Their decisions will determine whether the company achieves its goals or fails. The decisions have an impact upon the company achieving high productivity and high levels of commitment or slowly slipping into oblivion.

### **1.5 Development of Hypothesis**

Many authors believed that there are relationship between compensation policy and commitment by the employees towards the organisation they work at (Ronald G. Ehrenberg 1990). The work force should also be the right number, right experience and right type of personnel (Frederick S. Hills & Thomas J Bergmann & Vida G. Scarpello 1994; Michael Armstrong & Helen Murlis 1998; Richard I. Henderson 1976).

Compensation schemes provide the psychological and sociological effects. Psychological effect means the incentives affect the mind or mental behaviour that would become more receptive to efficiency and self-development, reducing the amount of supervision and increase commitment. Whilst the sociological effect demonstrates the effect of society or group of employees (Michael Armstrong & Helen Murlis 1998).

Researches also had pointed out that men prefer to work in cooperation than in competition (Richard I. Henderson 1976).

In line with the factors pointed out, the following hypothesis is developed;

**Study Hypothesis:** There is a positive relationship between the compensation policy and the level of organisational commitment.

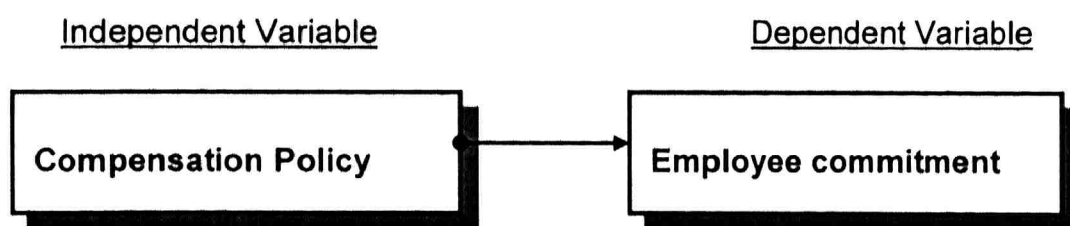
**Null Hypothesis:** There is no relationship between the compensation policy and the level of organisational commitment.

## 1.6 Study Framework

The variables chosen in this study are of the type that can be measured, and they represent the concept of the study. This study investigated two different types of variables, independent and dependent variables. The independent variables are the factors that are hypothesized to cause certain effects upon the dependent variables. Dependent variables are the quantity that is affected by the independent variables.

This study identified the Compensation Policy as the independent variable, while the Employee's Commitment as the dependent variable. This relationship can be illustrated as shown in Figure 1 below:

FIGURE 1: Study Framework



Many scholars have created models that represent the overall direction of establishing the compensation policy. The models presented next in Figure 2 and

Figure 3 serve as aid to better understand the overall view of how compensation is being established.

FIGURE 2: Total Reward Process by Michael Armstrong & Helen Murlis

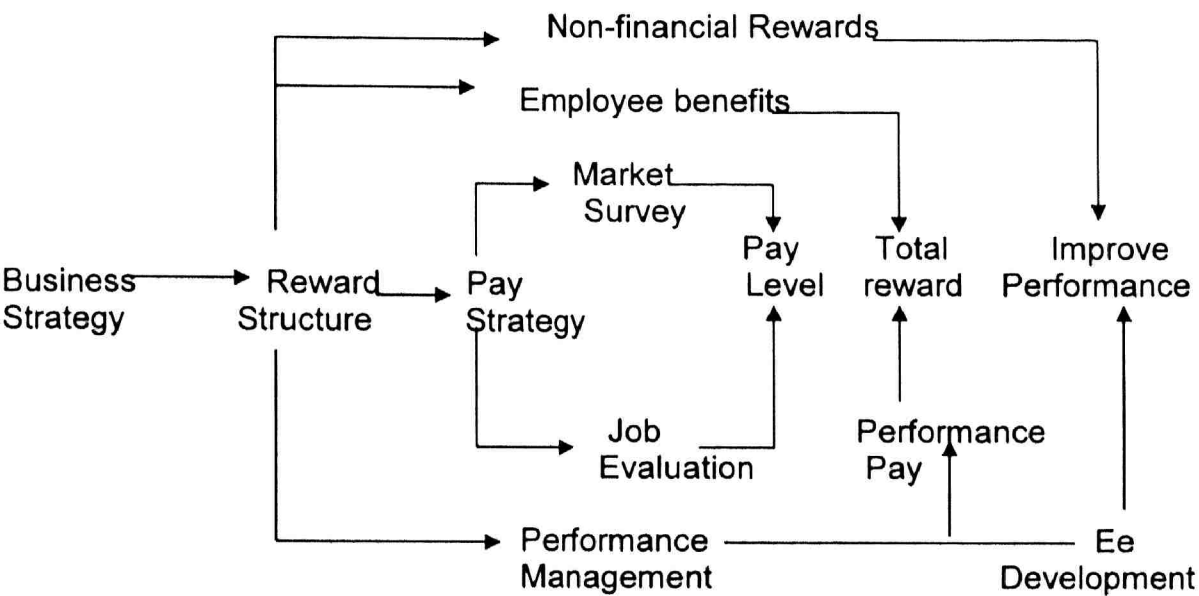


FIGURE 3: Strategic Reward Management by Michael Armstrong & Helen Murlis

