



Human Resource Management

Elixir Human Res. Mgmt. 49 (2012) 9973-9976

Elixir
ISSN: 2229-712X

The role of wage and benefit in engaging employee commitment

Khalizani Khalid¹ and Khalisanni Khalid²

¹Faculty of Business Management, Universiti Teknologi MARA (Perak) 32600 Bota, Perak, Malaysia.

²Technical Service Centre, Malaysian Agriculture Research and Development Institute (MARDI), 43300 Serdang, Selangor, Malaysia.

ARTICLE INFO

Article history:

Received: 17 June 2012;

Received in revised form:

28 July 2012;

Accepted: 10 August 2012;

Keywords

Employees' commitment,
Wages,
Benefits.

ABSTRACT

This study aimed to determine the relationship between wages, benefits and employees' commitment. Many factors can influence employees' commitment but this research only emphasize on wages and benefits. Wages and benefits will encourage employees to be committed and motivates them to perform better. The more employees are well paid or are paid their expected wages, the more employees are willing to express their dedication to the organization. The wages and benefits will be offered based on the job descriptions and specification of the employees. Through this study, employees' commitment level can be identified by taking into consideration the wages and benefits that received by employee.

© 2012 Elixir All rights reserved.

Introduction

Encouraging employees to work and be committed to organization toward achieving organizational goals and objectives is one of the most significant challenges for any management team (Floyd & Wooldridge, 1994; Guth & Macmillan, 1986). Recent research have found that employee commitment is a complex concept made up of a variety of elements (Meyer & Allen, 1991) Although job and organizational satisfaction and corporate pride are essential facets of commitment, a host of wages and benefits have an impact on whether employees remain truly committed to their employer. In its simplest form, however, commitment to an organization is the employee's perceived intention to stay with that organization (Parker & Wright, 2001).

Individuals with higher level of commitment to the organization are more likely to put in efforts to add value to the organization. They would be more willing to contribute their ideas, cooperate with their superiors, follow instructions and directives from the management and engage themselves in activities that they perceive as beneficial to the organization as a whole (Chong, 2004). However, one of the basic conditions of employment to satisfy and fulfil these human needs at work organizations is monetary reward that is, wages and salaries which is pay and also including benefits (Omolayo and Owolabi, 2007).

Wages is pay that employee receive or obtain for work done. Meanwhile, benefits can be defined as any form of compensation other than wages and salary that provided by organization. The employees tend to express commitment when there is an increase in wages and benefits. Through wages and benefits that provided by employer, employee become more motivates and directly increases their level of commitment. In addition, wages also is a yardstick in order to determine the employees' commitment level to the organization and it is needed as means of fulfilling and meeting the needs of employees (Omolayo & Owolabi, 2007). Adequate reward system, in term of wages and benefits very important especially

if the organization wants to realize and achieve its goals and objectives.

Employees' commitment very important to an organization's successful. Organization also will succeed if each employees show good performance in performing their tasks or job with sound level of employee commitment. Besides, employees' commitment will reduce the turnover rate among employees. Employees' commitment in organization should be improved in turn to bring greater performance and productivity to the organization. This research will focus on assessing employee commitment to the organization using employees' wages and benefits. Identifying the link between wages, benefits and employees' commitment is needed, so that organization can determine whether wages and benefits can contribute to increase employees' commitment and help the organization success. This study was conducted by identifying the employees' commitment level that could be affected by wages and benefits. Besides, this study also was conducted to find whether employee with higher wages and extra benefits tend to committed to the organization or employee with low wages and fewer benefits tend to express more commitment with the organization. So that, this study can identify the categories of employees that tend to commit to the organization.

Literature Review

Employee Commitment

Employees' commitment also known as organization commitment is defined as the employees' feeling of obligation to stay with the organization (Allen & Meyer, 1990). Organization commitment also refers to the relative strength of an individual's identification with and involvement in an organization (Mowday et al., 1979). It involves active relationship with the organization in which individuals are willing to give something of them in order to help the organization succeed and prosper (Meyer & Allen, 1991). According to March and Simeon (1958), real commitment often evolves into an exchange relationship in which individuals attach themselves to the organization in return for certain rewards or outcomes. Herscovitch and Meyer (2002) defined

Tele:

E-mail addresses: lyzakhalid76@gmail.com

© 2012 Elixir All rights reserved

employees' commitment as the degree to which an employee identifies with the goals and values of the organization and is willing to exert effort to help it succeed.

Employees commitment usually related with job effectiveness, level of satisfaction and the employees' intention to quit or stay with their organizations. Individuals with higher commitment level to the organization are tending to put in efforts to add value to the organization. They would be more willing to contribute their ideas, cooperate with their superiors, follow instructions and directives from the management and engage themselves in activities that they perceive as beneficial to the organization as a whole (Chong, 2004).

Allen and Meyer (1990) model of three components of organizational commitment, namely, affective, continuous and normative commitment described affective commitment as employee's emotional attachment to, identification with, and involvement in the organization. The continuous commitment refers to commitment based on the costs that the employee associates with leaving the organization. The normative commitment refers to the employee's feeling of obligation to remain with the organization.

Employees expect that their effort will lead to desired result or outcome (reward), hence, their commitment to the organization. According to Martin and Shawn (1984), the higher the expectation of employees in term of reward, the greater the commitment, while the lower the expectation of employees in terms of reward, the lesser the commitment.

Popoola (2009) found that there was a significant correlation between wages and organizational commitment. This implies that the higher wages of the employees, the more they exhibit high organizational commitment. Abel (2006) reiterated that good wages and attractive conditions of service might foster high organizational commitment in workers irrespective of the organization they work for. There are moderately strong relationships between commitment and compensation satisfaction, and between total compensation and pay for performance. Thus, it can conclude that there is a direct relationship between satisfaction with compensation and employee commitment: The higher the satisfaction, the higher the commitment (Parker & Wright, 2001).

To build commitment, managers must communicate with employees' assess their capacity to engage in various initiatives, give honest feedback, develop their strengths, identify their "blind-spots", make decisions and most of all, value each person's unique style and capabilities (Chong, 2004). Job commitment is often viewed as an employee's belief in the organizational goals and values, his/her willingness to put in effort on behalf of the organization, and desire to remain or maintain membership with the organization (Blau & Boal, 1987; Ivancevich & Matteson, 1993; Korsgaard & Sapienza, 2002; Mowday et al., 1979). If an organization determines the level and structure and level of pay based on proper rules, this may motivate employees to improve their commitment with an organization (Barmby, 2002; Chang, 2006).

According to Hong et al. (1995) the High Commitment Management (HCM) practices are about employers using practices that encourage commitment in their employees. This theory holds out the possibility of being tested in one of two ways. If employers were practicing HCM one would expect employees to show greater levels of commitment. Chong (2004) added that when employees think they are involved, they are also expected to exhibit a higher level of commitment. This type

of management theory would lead us to expect that jobs with more responsibility and discretion in the higher status occupations would be expected to be associated with higher levels of commitment. Satisfaction with rewards from work, satisfaction with the job itself, and feeling secure are all likely to be associated with higher levels of commitment, as are higher pay levels (Omolayo & Owolabi, 2007).

Wages

Wages is defined as payment for labour or services to a worker, especially remuneration on an hourly, daily, or weekly basis or by the piece (Parker & Wright, 2001). Wages in economic perception is the portion of the national product that represents the aggregate paid for all contributing labour and services as distinguished from the portion retained by management or reinvested in capital goods (Omolayo & Owolabi, 2007). Wage is the cash compensation that an employer pays for the work performed. Wage tends to reflect the value of the work or skills and generally ignores differences attributable to individual employees (Milkovich & Newman, 2008). Some pay systems set wage as a function of the skill or education an employee possesses; this is common for engineers and schoolteachers (Odden & Kelley, 2002).

According to Milkovich and Newman (2008) the expectation (reward) of employees on task performed motivates and encourages them to be committed. Wages is monetary reward that employee obtained as a return for work done. Thus, the higher the expectation of workers, the greater the commitment. On the other hand, the lesser the expectation of workers, the lower the commitment (Martin & Shawn, 1984).

Wages is a yardstick in identifying the level of employees' commitment and it is needed as means of fulfilling and meeting the needs of employees. This is because without pay, employees will not be able to feed themselves, take care of their nuclear and extended families, belong to associations of their choice, and gain recognition and respect from others (Omolayo & Owolabi, 2007). The fulfilment of employee's personal needs brings about greater commitment, but this fulfilment of needs cannot be accomplished without giving the employees monetary reward which would be used to meet and fulfil these needs. The level of employees' commitment increases if it is back up with monetary reward, and this in turn brings greater performance and productivity to the organization. Inadequate monetary reward system is seen as a major setback of employees' commitment and this can bring about increase in absenteeism, lateness, low performance, feeling of grievances, and employees turnover (Chang, 2006).

Hong et al. (1995) stated that wages and benefits have been shown for years to be the major influences of why people take jobs. It is also commonly accepted that their motivation and commitment power increasingly diminished once the candidate becomes an employee. The Performance Pyramid model, however, places wages and benefits as the fundamental foundation that must be in place before higher needs become commitment drivers.

According to White (1981) income (wages or salary) involves "the promise of pay made against a commitment of work". In other words, employees express their intention to remain or maintain employment in an organization, by taking up responsibilities and in return, expect organizations to fulfil the promise of transferring the promise into a liquid asset (wage or salary) paid to the employee as a result of the expressed commitment/involvement to work. Thereby creating a bond

between the organization and the worker sustained by continues promise of income-earning, which drives employee to express loyalty to their organization (Meyer & Allen, 1991; Boulding, 1950).

Wages represents an instrument for employee continued expression of commitment to their organizations. In other words, the more employees are well paid or are paid their expected wages (reward for commitment), the more employees are willing to express their dedication to the organization, and by implication this means the higher the wages the higher the commitment (Ogba, 2008).

Rewarding for better performance and deferring compensation to future periods are two important and not necessarily conflicting elements of the firm's wage policy which combines different components, probably to accomplish multiple aims like the retention of able workers and the motivation of employees to become more productive (Chang, 2006). A salary system with a deferred compensation component is likely to encourage workers to make productivity enhancing investments that are difficult to verify as it creates confidence among workers that they will be rewarded for improving their productivity, and it is likely to reduce turnover (Hong et al., 1995).

Benefits

Benefits is defined as any form of compensation provided by the organization other than wages or salaries that are paid for in whole or in part by the employer (Jusoff et al., 2008). Benefits are also essential for the development of corporate industrial relations. Examples include retirement plans, child care, elder care, hospitalization programs, social security, vacation and paid holidays (Cohen, 1993).

Benefits include income protection, work/life services, and allowances. Some income protection programs are legally required (Milkovich & Newman, 2008). They also stated that medical insurance, retirement programs, life insurance and savings plans are common benefits. They help employees from the financial risks inherent in daily life. Work/life balance is a programs that help employees better integrate their work and life responsibilities include time away from work (vacations), access to services to meet specific needs (drug counselling, financial planning) and flexible work arrangements such as nonpaid time off.

According to Herzberg's two factor theory (motivation and hygiene), an employee benefits programme was a necessary and sufficient working condition. The hygiene factor will affect employees' work-motivation and thus productivity (Hong et al., 1995). Thus the employee benefits become essential if employee satisfaction to be maintained and employee commitment is to be increased.

Malaysia Employment Act 1955 has some provisions which are compulsory for every employer to provide some form of benefits to their employees. These mandatory benefits become the employers' liability which has to be paid for. In addition to the mandatory benefits, some companies may also provide fringe benefits. Both mandatory and fringe benefits were having significant and positive relationship with organizational commitment (Jusoff et al., 2008).

Benefits have implications on employee commitment. Study by Grover and Crooker (1995) found a positive correlation between the availability of such benefits and commitment, even for those who would not benefit directly. They argued that organizations that offer such benefits are perceived by

employees as showing greater care and concern, and as being fair in their dealings with employees.

Wages and benefits are extremely important to both new applicants and existing employees. The compensation received from work is a major reason that most people seek employment. Compensation not only provides a means of sustenance and allows people to satisfy their materialistic and recreational needs, it also serves their ego or self-esteem needs. Consequently, if a firm's compensation system is viewed as inadequate, top applicants may reject that company's employment offers, and current employees may choose to leave the organization (Kleiman, 2000).

Conceptual Framework

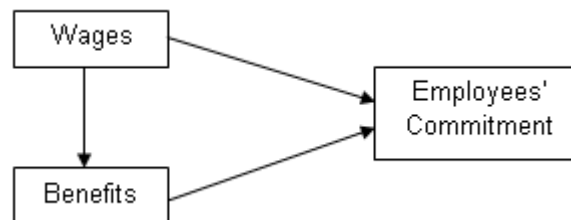


Figure 1. Conceptual Framework

For the first relationship, wages are independent variable and benefits are dependent variable. For the second relationship, wages are independent variable and employees' commitment is dependent variables. The last relationship which is between benefits and employees' commitment, benefits are independent variable and employees' commitment is dependent variable. Wages which are paying that employee receive or obtain for work done is one of the variable that influence employees' commitment level. The higher the wages of workers, the greater employees' commitment. In contrast, the lower wages of workers, the lower employees' commitment. The level of employees' commitment also will be expected to be higher if the organization provides appropriate benefits to each employee. Nowadays, benefits become more important in order to strengthen the employees' commitment.

Conclusion

Wages and benefits are very important aspect in order to encourage employees to be committed to the organization. This statement was supported by the regression analysis that had been done in data analysis. In the survey, most of respondents were satisfied with the wages and benefits that given by the organization. They are satisfied because the wages and benefits that given by the organization are equivalent with their education level, employment grade and length of service. The result of this study will provide recommendation for the organizations on how and what to do to be competitive in the market and in managing human capital. This could be done through periodic increase in the employees pay and management also should take into consideration type of benefits that employees most preferred at current situation in order to retain employees and indirectly employees also will be more committed to the organization. This system should favour the employees because they are the engine and the oil that keeps the wheels of the organization working.

References

Abel, C. O. (2006). Organizational commitment and job performance among white-collar workers in Northern Nigeria. *Journal of Industrial Psychology* 22(2), 115-129.

- Allen, N., & Meyer, J. (1990). The measurement of the antecedents of affective, continuance and normative commitment to the organization. *Journal of Occupational Psychology* 63, 1-18.
- Barmby, T. (2002). Worker absenteeism: A discrete hazard model with bivariate heterogeneity. *Labour Economics* 9, 469-476.
- Blau, G. J., & Boal, K. B. (1987). Conceptualizing how job involvement and organizational commitment affect turnover and absenteeism. *Academy of Management Review* 12, 288-300.
- Boulding, K. E. (1950). Income or welfare. *The Review of Economic Studies* 17(2), 77-86.
- Chang, E. (2006). Individual pay for performance and commitment HR practices in South Korea. *Journal of Pwrlld Business* 41(4), 368-381.
- Chong, S. F. (2004). The influence of employee characteristics and job attitudes on organizational commitment. *Malaysian Management Review*, 26-38.
- Cohen, A. (1993). Age and tenure in relation to organizational commitment: A meta-analysis. *Basic and Applied Social Psychology* 14, 143-159.
- Floyd, S. W., & Wooldridge, R. B. (1994). Dinosaurs or Dynamos? Middle management's strategic role. *Academy of Management Executive* 8(4), 47-57.
- Grover, S., & Crooker, K. (1995). Who appreciates family-responsive human resource policies: The impact of family-friendly policies on organizational attachment. *Personnel Psychology* 48, 271-288.
- Guth, W. D., & Macmillan, I. C. (1986). Strategy implementation versus management self-interest. *Journal of Strategic Management* 36, 300-313.
- Herscovitch, L., & Meyer, J. P. (2002). Commitment to organizational change: Extension of a three component model. *Journal of Applied Psychology* 87(3), 474-487.
- Hong, J. C., Yang, S. D., Wang, L. J., Chiou, E. F., Sun, F. Y., & Huang, T. L. (1995). Impact of employee benefits on work motivation and productivity. *The International Journal of Career Management* 7(6), 10-14.
- Ivancevich, J., & Matteson, M. (1993). *Organizational behavior and management ed.* Boston: Irwin.
- Jusoff, K., Ju, S. Y., Kong, L. K., & Husin, Z. H. (2008). The influence of employee benefits towards organizational commitment. *Asian Social Sciences* 4(8), 147-150.
- Kleiman, L. S. (2000). *Human resource management: A tool for competitive advantage.* Ohio: South-Western Collage Publishing.
- Korsgaard, M. A., & Sapienza, H. J. (2002). Perceived fairness, decision control and commitment in international joint venture management teams. *Strategic Management Journal* 23, 1141-1160.
- March, J., & Simeon, W. (1958). *Organization Behaviour ed.* New York: McGraw Hill.
- Martin, T. N., & Shawn, O. M. (1984). Predictors of organizational commitment. *Journal of Vocational Behaviour* 25(3), 270-283.
- Meyer, J., & Allen, N. (1991). A three component conceptualization of organizational commitment. *Human Resources Management Review* 1, 61-89.
- Milkovich, G. T., & Newman, J. M. (2008). *Compensation 9th ed.* New York: McGraw Hill International Edition.
- Mowday, R. T., Steers, R. M., & Porter, L. W. (1979). The measurement of organizational commitment. *Journal of Vocational Behaviour* 14, 224-247.
- Odden, A., & Kelley, C. (2002). *Pating teachers for what they know and do: New and smarter compensation strategies to improve schools.* California: Thousand Oaks.
- Ogba, I. E. (2008). Commitment in the workplace: The impact of income and age on employee commitment in Nigerian banking sector. *International Journal of Academic Policies and Studies* 31(11), 867-878.
- Omolayo, B., & Owolabi, A. B. (2007). Monetary reward: A predictor of employees' commitment to medium scale organization in Nigeria. *Bangladesh e-Journal of Sociology* 4(1), 42-48.
- Parker, O., & Wright, L. (2001). The missing link pay and employee commitment. *Ivey Business Journal*, 70-73.
- Popoola, S. O. (2009). Organizational commitment of records management personnel in Nigerian private universities. *International Journal of Management Studies* 19(3), 204-217.
- White, W. H. (1981). The promise of pay made against a commitment of work. *Fortune*, 54-58.