

THE INFLUENCE OF COMPENSATION PRACTICE ON PERFORMANCE OF ENFORCEMENT EMPLOYEES

Mohd Hamran Mohamad¹
Khulida Kirana Yahya²
Suhaimi Ishak³
Rashid Nordin⁴

Abstract

The aim of this study is to investigate the influence of organizational compensation practice on performance among the enforcement employees in Malaysia. This study used 300 questionnaires collected from the employees working in enforcement based sector. The data were analyzed using descriptive analysis, Cronbach alpha, confirmatory factor analysis and analysis of regression using structural equation modeling (SEM) technique. This study performed a reliable and valid measurement scale through a good model fit after some items of endogenous and exogenous variables were deleted. Based on the results of regression analysis, this study found that employees' performances were influenced by the compensation practice. Further, this study provided the discussion and recommendation from the findings and suggested for future research.

Keywords: *Compensation, Performance of Employees, Enforcement, Structural Equation Modelling*

2016 GBSE Journal

Introduction

Performance of the employees is an important element to be sustained in organization because it is the main factor that depicts the strength and stability of an organization from the view of societies. In organization, employees performances were measured based on various dimensions such as productivity (Halkos & Bousinakis, 2010; Maduka & Okafor, 2014), creativity and innovation (Hyypia & Parjanen, 2013), service quality (Timothy & Abu Bakar, 2013) and more specific performance was measured in terms of effectiveness (Dizgah, Chegini, Farahbod & Kordabadi, 2011; Laschinger, Wilk, Cho & Greco, 2009) and efficiency (Aktau, Cicek & Kiyak, 2011) that performed by employees. For this study, employees performance refers to the effectiveness of the employees. This is because effectiveness is one of the characteristics that related to the practice of good governance which must be performed by each employee to provide good service delivery (Mohd Hamran, Zulkiflee & Khulida Kirana, 2014). Good governance of effectiveness is part of Malaysian government agenda in handling red tape procedures

¹ Lecturer, Faculty of Defence Studies and Management, Universiti Pertahanan Nasional Malaysia, 57000 Kem Sungai Besi, Kuala Lumpur . Tel: +60199142393, E-mail: hamran@upnm.edu.my

² Lecturer, College of Business, Universiti Utara Malaysia , 06000. Sintok, Kedah. Tel: +604-9287101, E-mail: khulida@uum.edu.my

³ Lecturer, College of Business, Universiti Utara Malaysia , 06000. Sintok, Kedah. Tel: +604-9287101, E-mail: suhaimiishak@uum.edu.my

⁴ Faculty of Defence Studies and Management, Universiti Pertahanan Nasional Malaysia, 57000 Kem Sungai Besi, Kuala Lumpur . Tel: +60390513400, E-mail: rashid@upnm.edu.my.

problem, slow work process and importantly, to fight corruption among the civil servants (Mohd Sidek, 2005, Siddiqee, 2008) such as individuals who serve as enforcement personnel. Thus, effectiveness of Malaysian public management should be contributed by effective enforcement personnel.

As said by Peter Drucker, effectiveness is defined as doing the right things (Soltani, 2006). Meanwhile, Robbins (2009) explained effectiveness as the extent that leads an organization attains its goal. Hence, qualified employees who are assigned the right jobs and doing the right things as well as able to realize the goals will bring to the organizational excellence. Many past researches (Ali et al., 2015; Bello, 2012; Ponnu & Tennakoon, 2009; Mola-Hosseini & Arsalan, 2009; Uzonna, 2013) have investigated the determinants (i.e., leadership styles, organizational justice, employees empowerment, motivational antecedents) that affected either employees performances in general or in the aspect of productivity, engagement and attitude of commitment. There are also studies that examine the relationship between the determinant of compensation and employees performances (Mathis & Jackson, 2000; Sopiah, 2013; Qureshi & Sajjad, 2015).

Compensation is part of human resource management practices which is known as employee remuneration (Maimunah, 2015). It is a main needs in the life of employees (Qureshi & Sajjad, 2015). According to Milkovich and Newman (1999), compensation that consists of financial returns, tangible services and benefits would motivate employees to perform well and showing their actual capability in achieving the organizational goals. Maimunah (2015) explained about a well practice of compensation by the HR specialist would maintain talented workers who are able to display effective and efficient tasks implementation. Surprisingly, based on detail revisions, lack of study has focused on the impact of compensation on employees performances that measured by employees' effectiveness. Moreover, little is known about this relationship in the context of public sector good governance characteristic mainly related to Malaysian enforcement agency (i.e., Local Authorities, Road Department & Custom Department). Thus, this study aims to examine the influence of compensation practice on employees performances based on their effectiveness characteristic in Malaysian local authorities (LAs).

Literature Review

The Relationship Between Compensation and Employees Performance (Effectiveness)

The influence of compensation on employees performances has been investigated by many studies in different context. For example, a study by Jamil and Raja (2011) used sample of 201 employees in public and private sector organizations in Pakistan, Abdul Hameed et al. (2014) used 200 sample of employees working in banking industry in Pakistan and a study by Umar (2010) involved 50 sample of employees working in pharmaceutical companies in Nigeria revealed that compensation practice that emphasize on rewards, salary and benefits had been a main predictor of their performances. Hence, it is hypothesized that:

H1: There is a significant influence of compensation on performance of the employees.

Blau (1964) developed the concept and understanding of social exchange theory which is relevant for the research literature in human resource management practice and its outcomes. The theory could be interpreted that employees performance may increase when there is a trusted and satisfied compensation

provided to them by the management. While, according to Bass's (1985), the interaction between leaders and followers in succeeding the jobs can affect followers' trust as well as encourage them to struggle for the organization interests. The importance and congruence of the theory to the employees performances research framework is the employees' effectiveness can be realized if the management solves immediate problem and emphasizes reward (compensation) performance (Pillai et al., 1999; Tatum et al., 2006). There will be the enhancement of employees' confidence to their organization and they will do their job effectively when a proper practice of compensation activity is provided.

The above discussion is beneficial for determining a research framework for this study as illustrated in Figure 1.



Figure 1: Conceptual Framework

Methodology

This study was designed to test the effect of compensation on employee performance in the enforcement based organization of Malaysia in central region. According to the official information from the human resource management of particular organizations, there are more than four hundred of enforcement employees working in the central region of Malaysia. This means that the population of this study was more than four hundred. Therefore, based on the sample size determination table by Krejcie and Morgan (1970) and following the recommendation of Sekaran and Bougie (2010), a double of 210 questionnaires were distributed on the respondents to ensure the representation of sample size. Data was collected from the enforcement employees who work in local authorities. The proportionate stratified sampling method was employed in order to ensure the randomness of data collection. The final usable questionnaires were 300.

The measurement scales of constructs were taken from previous researches. Particularly, five items were taken from the study of Bigliardi et al. (2005) and Tsui et al. (1997) to measure compensation. To measure employees performance based on their effectiveness good governance, seven items were taken from Quinn (1988) to ensure they are fit to the context of the present study. All of the designed measurements were measured on a five-Point Likert scale ranging from strongly disagree (1) to strongly agree (5).

Analyses and Results

The analysis of demographic profile of the sample indicated that 52% of the respondents are male, whereas 48% are female. Furthermore, 9.7% of the respondents were 25 years old or less, while 51.3% represented the age group of 26 to 35. Those whose ages between 36 and 45 had accounted for 20.7% of the study, while 18.3% represented the age group of 46 and more. Most of the respondents (54.3%) have highest qualification at SPM level (Sijil Pelajaran Malaysia). Meanwhile, majority of them (33.7%) have length of service between 6-10 years.

To ensure construct validity, confirmatory factor analysis was conducted using AMOS to determine the values of factor loadings on items. The final model fit of overall measurement model proved the construct validity which all items had high values of factor loadings (more than 0.5). This result was generated through the deletion of two items of endogenous construct when their errors showed high values of modification indices. Furthermore, the reliability test was conducted on all constructs and the results of cronbach's alpha showed their internal consistency (compensation = 0.818; employees performance in effectiveness = 0.872).

Table 1: Respondents' Profile

DEMOGRAPHIC	CHARACTERISTICS	FREQUENCY	PERCENTAGE
Gender	Male	156	52.0
	Female	144	48.0
Age	Less than 25 years	29	9.7
	Between 25 and 35 years	154	51.3
	Between 36 and 45 years	62	20.7
	46 years and above	55	18.3
Highest	Primary School	4	1.3
	Certificate		
Academic Qualification	SRP/PMR	6	2.0
	SPM	163	54.3
	STPM	25	8.3
	Diploma	71	23.7
	Others	31	10.3
Length of Service	5 years and below	67	22.3
	6 - 10 years	101	33.7
	11 - 15 years	58	19.3
	16 - 20 years	28	9.3
	21 years and above	46	15.3

The finding also indicated that compensation has significant positive impact on employee performance (effectiveness) ($\beta = 0.545$, $t\text{-value} = 7.879$, $p < 0.001$). Obviously, the hypothesis (H1) of this study as stated above is supported. The regression results of SEM analysis are shown below in Figure 1.

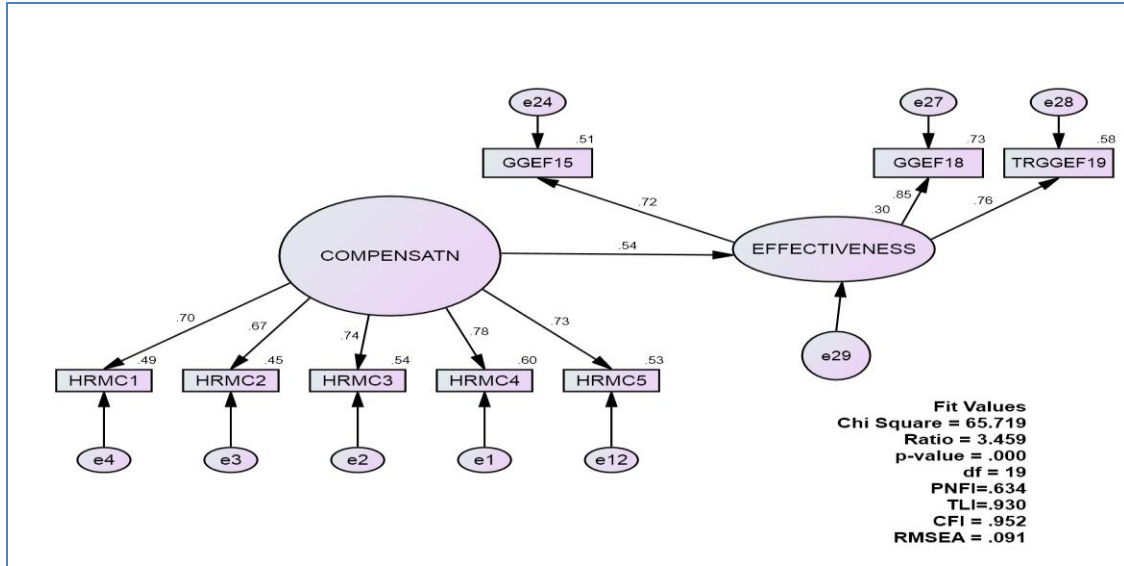


Figure 1: Structural Model

Discussion

The main objective of this study was to test the impact of compensation on employees performances based on their effectiveness to bring empirical evidence from enforcement industry. In general, the findings support the positive effect of compensation on employees’ effectiveness. In other words, more acceptable compensation provided to the employees increases their performances. Such finding confirms the importance of compensation practice in increasing the effectiveness of employees, particularly, when the compensation provided to them is perceived competitive, attractive, fair and fulfilling their needs. Moreover, the employees will be motivated to increase their effectiveness when they are well informed and really understand the procedures and policies of compensation practiced by the LAs as the public sector organizations. This is because in LAs, the practice of the compensation is slightly different from the private sector organizations since the policies and procedures of compensation are formed and determined by the central federal body namely Public Service Department of Malaysia (PSDM) (Ahmad Atory et al., 2010). Thus, the effective flow of compensation information from the PSDM to all public sector organizations’ employees is a main factor to influence the understanding and acceptance of employees on the compensation practice by their organizations. Thereby, this will lead them to perform effectively. The finding was supported by certain previous researches (Jane & Silas Nyaroo, 2013; Sopia, 2013; Qureshi & Sajjad, 2015;) although they were conducted in different settings and contexts.

Conclusion

This study confirms that compensation significantly has direct effect with employees performances. They are the employees who involve in enforcement activities. This result in line with the past researches and contributes to the human resource management practices research literature related to Western and Eastern organizational settings. Thus, the practice of compensation by the human resource management becomes an important determinant to develop effective employees which must be highly considered by the public sector organizations management in Malaysia as well as those who are going to conduct future researches. This will help to increase the good governance practice among the employees and fighting

themselves from misconduct especially corruption. Consequently, supporting the LAs in delivering quality of services to the public beside, they will be more trusted in future.

References

- Abdul Hameed, Muhammad Ramzan, Hafiz, M. K. Z., Ghazanfar, A., Muhammad Arslan. (2014). Impact of compensation on employee performance (empirical evidence from banking sector of Pakistan). *International Journal of Business and Social Science*, 5(2), 302-309.
- Ahmad Atory, H., Malike, B., Mohamad, S. K., Subri, H., & Zawiyah, M. Z. (2010). *Kerajaan tempatan (Edisi Ulangkaji)*. Sintok, Malaysia: Pusat Pendidikan Profesional Dan Lanjutan (PACE), Universiti Utara Malaysia.
- Aktaú, E. , Çiçek , I., & Kıyak, M. (2011). The effect of organizational culture on organizational efficiency: The moderating role of organizational environment and CEO values . *Procedia Social and Behavioral Sciences* 24, 1560–1573.
- Ali, S., Mostafa, M., Omiddavarpanah, & Mansour, A. (2015). Effect of organizational justice and job performance: the mediating effect of Organizational citizenship behavior. *GMP Review*, 17(1), 122-130.
- Bass, B. M. (1985). *Leadership and performance beyond expectations*. New York: Free Press.
- Bello, S. M. (2012). Impact of ethical leadership on employee job performance. *International Journal of Business and Social Science*, 3(11). 228-236.
- Bigliardi, B., Petroni, A., & Ivo Dormio, A. (2005). Organizational socialization, career aspirations and turnover intentions among design engineers. *Leadership & Organization Development Journal*, 26(6), 424-441.
- Blau, P. (1964). *Power and exchange in social life*. NY: John Wiley & Sons.
- Dizgah, M. R., Chegini, M. G., Farahbod, F., & Kordabadi, S. K. (2011). *Journal of Applied and Scientific Research*, 1(9), 973-980.
- Halkos, G., & Bousinakis, D. (2010). The effect of stress and satisfaction on productivity. *International Journal of Productivity and Performance Management*, 59 (5), 415 – 431.
- Hyypia, M., & Parjanen, S. (2013). Boosting creativity with transformational leadership.in Fuzzy Front end innovation processes. *Interdisciplinary Journal of Information, Knowledge and Management*, 8, 21-41.
- Jamil, B., & Raja, N. S. (2011). Impact of compensation, performance evaluation and promotion practice on government employees performance vs private employees performance. *Interdisciplinary Journal of Contemporary Research in Business*, 3(8), 907-913.
- Jane, N. W., & Silas Nyaroo, M.A. (2013). Effect of compensation on performance of public school teachers in Eldoret Municipality, Kenya. *International Journal of Scientific and Research Publications*, 3(6), 1-4.
- Krejcie, R. V., & Morgan, D. W. (1970). Determining sample sizes for research activities. *Educational and Psychological Measurement*, 30, 607-610.
- Laschinger, S., Wilk, P., Cho, J., & Greco, P. (2009). *Journal of Nursing Management* ,17, 636–646.
- Maimunah, A. (2014). *Human resource management: Principles and practices (3rd ed)*. Shah Alam, Selangor: Oxford Fajar Sdn. Bhd.
- Maduka, C. E., & Okafor, O. (2014). Effect of motivation on employee productivity. A study on manufacturing companies in Nnewi. *International Journal of Managerial Studies and Research*, 2(7), 137-147.
- Milkovich, G.T., & Newman, J.M. (1999). *Compensation*. New York: Irwin McGraw-Hill.

- Mohd Hamran, M., Zulkiflee, D., & Khulida Kirana, Y. (2014). Impact on employees' good governance characteristics. The role of transformational leadership as determinant factor. *International Journal of Science, Environment and Technology*, 3(1), 320-338.
- Mohd Sidek, H. (2007). *Garis panduan untuk mempertingkatkan tadbir urus dalam sektor awam*. Jabatan Perdana Menteri, Putrajaya, Malaysia. Retrieved March, 27, 2013, from www.mampu.gov.my/.
- Mola-Hosseini, A., & Arsalan, E. (2009). The relationship between employees empowerment and organizational effectiveness in Rafsanjan public organizations. *Tosee Va Sarmaye*, 2 (4), 117-140.
- Pillai, R., Scriesheim, C. A., & Williams, E. S. (1999). Fairness perceptions and trust as mediators for transformational and transactional leadership: A two-sample study. *Journal of Management*, 25(6), 897–933.
- Ponnu, C.H., & Tennakoon, G. (2009). The association between ethical leadership and employee outcomes- the Malaysian case. *Electronic Journal of Business Ethics and Organization Studies*, 14 (1), 21-32.
- Quinn, R. E. (1988). *Beyond rational management*. San Francisco, CA: Jossey-Bass.
- Qureshi, M. O., & Sajjad, S. R. (2015). An empirical analysis of the impact of compensation on job performance and work family conflict in the Kingdom of Saudi Arabia. A correlation model. *European Scientific Journal*, 11(4), 170-187.
- Robbins, S. P. (2009). *Organizational theory: structure, design and application (29 ed)*. Tehran: Safar Publication.
- Sekaran, U., & Bougie, R. (2011). *Research method for business. A skill building approach (5th ed.)*. Chichester: John Wiley.
- Siddiquee, N. A. (2008). Service delivery innovations and governance: The Malaysian experience. *Journal of Transforming Government: People, Process and Policy*, 2(3), 194-213. doi: 10.1108/17506160810902194
- Sopiah. (2013). The effect of compensation toward job satisfaction and job performance of outsourcing employees of syariah banks in Malang, Indonesia. *International Journal of Learning & Development*, 3(2), 77-91.
- Soltani, I. (2006). Benchmarking role in promoting the effectiveness of process and research of human resource management. *Modiriyat Farda*, No. 14.
- Timothy, A. T., & Abu Bakar, H. S. (2013). Impact of employee empowerment on service quality. An empirical analysis on the Nigerian banking industry. *British Journal on Marketing Studies*, 1(4), 32-40.
- Tsui, A.S., Pearce, J.L., Porter, L.W., & Tripoli, A.M. (1997). Alternative approaches to the employee–organization relationship: Does investment in employees pay off? *Academy of Management Journal*, 40, 1089–121.
- Umar, G. (2010). The influence of compensation on performance of sales representatives of pharmaceutical companies based in Ilorin, Nigeria. *African Research Review*, 4(3b), 223-239.
- Uzonna, U. R. (2013). Impact of motivation on employees' performance: A case study of Credit West Bank Cyprus. *Journal of Economics and International Finance* . 5(5), 199-211.