

A STUDY ON IMPACT OF EMPLOYEE COMPENSATION ON EMPLOYEE COMMITMENT

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ABSTRACT

Compensation is a fundamental component in attracting and maintaining the best employees and establish that an organization have the competitive limit in the increasingly competitive globe. Compensation refers to the reward of any Service or works provide by an individual to any firm or organisation. The study deals with the influence of compensation or the organisation commitment of administration staff. The study includes three dimensions of organisation commitment namely affective commitment, continuous commitment, and normative commitment. The data was collected from 100 administration staff in the manufacturing industry. Regression analysis was used to analyse the data. The results prove that the compensation predicts affective commitment, normative commitment and continuous commitment.

Keywords: *Employee Compensation, Affective commitment, Continuous commitment, and Normative Commitment.*

INTRODUCTION

Compensation refers to the benefit the employees receive in exchange for their work. It is composed of the base wage or salary and incentives or bonuses and benefit. Compensation is a fundamental factor in attracting and retaining the best employees in the organisation.

Every employees need to be compensated for their efforts based on volume of predication. Compensation refers to all forms of financial rewards received by employees. Compensation dissatisfaction can lead to absenteeism, turnover, low performance, job dissatisfaction, strikes and grievances. Employee compensation may influences employee commitment. The commitment of employees towards organization improves the organization effectiveness. Organisation gives compensation in order to fulfil requirement of employee, so it makes the employee feel that organization is concerned for the employee. By three ways employees are committed to the organisation. They are affective commitment, continuance commitment and normative commitment. Affective commitment refers to an employee is emotionally attachment to the organization. This leads to employee's willingness to stay long time in an organization, continuance commitment makes the employee to remain in the organization for a long period of time. The employee feels that they might loss the benefits which they won't expect from another organisation. The employee with normative commitment feel a sense of obligation towards the organization even though they are unhappy with the job, or even if they desire to pursue better opportunities.

They feel that they should stay with the organization, because it's the right thing to do. Compensation plays a major role in influencing the commitment of employees. Compensation helps the employee to stay back in the organization. Every employee's needs are met by the compensation they receive. Hence in this study we analyse the impact of compensation on all the dimensions of employee's commitment.

REVIEW OF LITERATURE

Francis J. Gorman (1974) states that in October of 1972, congress proposed the most significant and far reaching amendments to the longshore's men and harbor workers' compensation since federal compensation benefits were first made available in 1927. This act brought major alterations in the level of benefits, administration by the secretary of labour and procedure within the compensation system. The jurisdictional scope of the longshore's men act has been expanded, third party rights have been redrawn and security against loss actions have been eliminated. As a result of this changes made in the harbor workers' compensation act, the patterns of federal compensation practice and maritime personal injury legal proceedings are completely altered and it increased occasions for the court to comment on the effect of these amendments.

Armstrong and Brown (2005) suggest that management of compensation is a constituent of Human resource management. It encourages the attainment of employees and follows a deliberate way to worth individuals for their successful reach. Due to its concern in human resource development it is added to HRM activities. This suggestion terminates that its work are only to bring optimistic employment relation and involves intellectual agreements through which the compensation for people can be easily acknowledged.

Boyd, Salamin (2001) Even though many researches are conducted regarding the compensation of employees ,only a few are known by the deliberate compensation system which is lined up with the organisation plan of action. Still the subject is unclear, even though many analyses are done on this subject. Salary structure was found to be oriented with the divisional strategies. Furthermore, the most important factor which affects the compensation was found to be the position hold by the employees in the company. It is totally to be blamed for the impact brought on the reward system.

Barry Gerhart and George T. Milkovich (1990) This study lies on literature of compensation of strategy and analyse compensation ideas which includes Base salary, incentives and bonus more or less 16,000 top and middle level managers and 200 firms in compensation are found using longitudinal data. The supposition is made to analyse base pay and pay mix. This study concludes that organisation shows less liability when it comes to salary conclusion and differ in pay mix than salary level.

Natalie J. Allen, John P Meyer (1990) states that commitment of organisation is studied in two ways involving three component models. It states that the employee's commitment relies in three phases. First, the affective commitment of organisation defines that the employees are emotionally attached with the organisation. Second, the continuance commitment of organisation defines that the employees perceive the need to stay with their organisation because of their income and fringe benefits which they won't get these benefits in another organisation. Lastly, the normative commitment of organisation defines how employees feel to stay in the organisation. The employee who committed normatively with organisation feels that they should stay in their organisation. In first study, scales are used to measure these elements. Relationships between the components of commitment with its variables considered their predecessor were explored in Second study. Canonical correlation analysis is used to find the result. Finally it shows that affective and continuance elements of

organizational commitment were empirically suggested that, as predicted by the model, the affective and continuance components of Organizational commitment are empirically identifiable with dissimilar correlates. Although the affective and normative elements, identifiable, appear to be slightly related.

Barbara B. Brown (March 25, 2003) the need of the study is to investigate the relationship between employees' perceptions with their immediate supervisors "relations-oriented, task-oriented leadership behaviors and different types of commitment of the organization. Bass & Avolio's (1995) Multifactor Leadership Questionnaire is used to measure relations-oriented and task-oriented leadership behaviors. Meyer & Allen's (1997) Organizational Commitment Questionnaire is used to measure commitment of the organization. Respondents in the survey include 361 employees who work for the city of Charlottesville, Virginia. Component scores were used to execute regressions and investigate the number of variance relations-oriented leadership behaviors and task-oriented leadership behaviors described in commitment of organization. Relations-oriented leadership behaviors described the greatest number of variance in affective commitment, slightly less variance in normative commitment, and there is no variance in continuance commitment. The conclusion for task-oriented leadership behaviors unveils the similar pattern of relationships with the different types of commitment of the organization is weaker.

Harold L. Angle and James L. Perry (March 1981) the study undertake to relate the commitment of lower-level employees in organization to improve organizational effectiveness by offering bus services. Commitment of the organization is found to be associated with organizational sustainable, turnover, and delay rate, except operating costs and absenteeism. Here two subscales are used to measure value of commitment and commitment to stay in an organization. Less significant differences were found between the subscales, as they relate to various guidelines of organization effectiveness, and the general pattern suggested that it is required to avoid simplistic impression about the impact of commitment on organization.

Isaiah O. Ugboro (2006) this study is formulate to discover the relationship between job redesign, employee empowerment and desire to quit measured by affective commitment of the organization among remnants of organizational restricting and downsizing. The study concentrates on employees and middle level managers of organization in supervisory level because remnants of the group is needed to expect extended roles, functions and responsibilities in a position restructuring and downsizing environment. Finally the result reveals that there is positive significant relationship between job redesign, and affective commitment. Hence it provides empirical data to influence theoretical models for maintaining and reduce remnant who intent to quit and future voluntary turnover among remnants of downsizing and restructuring.

Avari (2011) the study shows the relationship among the strategic compensation Practices and affective organizational commitment. The research was cross sectional to fetch out in universities of medical sciences in Malaysia. The objective of the study is to investigate the relationships between strategic compensation practices, and affective organizational commitment. The samples were collected from four universities of medical science and the data analysis is done with descriptive statistics. The research finding reveals that there is significant relationship between compensation policies of pay- for-performance, pay for understanding and organization commitment.

Pare, G. & Tremblay, M. (2007) investigated that there is a relationships among a multidimensional, theoretically grounded arrangement of high-involvement of human resources (HR) practices and turnover purpose. Data is collected from 394 respondents and it is used to test the research model. The confirmatory

factor analysis method was used to analyze the samples of the respondents. Every Employee perception is analyzed in relation with the variables of organization commitment, fair justice and citizenship behavior. The findings reveal that there is a strong positive correlation between employee commitment and compensation policy of the organization.

Chew (2008) the study is undertaken to determine the effect of fundamental human resource (HR) practices on permanent employee's organization commitment and desired to stay. The study is fetch out in three phases. First, the data is collected from 13 experts and interviewed using the Delphi technique. Second, in-depth interviews with 12 HR managers are conducted. In third phase, 457 employees from nine Australian organizations. Delphi technique is used to interview the respondents while the hypothesis is tested using structural equation modelling. Finally findings reveal that compensation and commitment relationship were positive and significant

Rizal (2014) the study is undertaken to investigate the effect of compensation on employee motivation, employee commitment towards the organization and employee performance at local revenue management of the organization in Indonesia. Data which is collected from respondents is analyzed using a structural equation model. The findings of the research shows that compensation significantly affects employees' motivation and their commitment towards the organization, but it does not have significant affect on employee performance. Commitment is found to have significant support on employee performance.

Nawab, S., & Bhatti, K. K. (2011) have studied the impact of Employee compensation on Job satisfaction and Organisational commitment. The sample consists of 224 Pakistani University teachers. Pearson Correlation Analysis was used to analyse the collected data. Finally the result proves that universities should adapt compensation plans in order to enhance their competitiveness whereas, organizational commitment is the dream of every institution.

OBJECTIVES OF THE STUDY:

- To study the impact of compensation organization commit.
- To identify the compensation pattern provided to the employees.
- To identify the employee commitment level of employees in manufacturing sector.
- To understand how compensation improve the motivation of the Employees.
- To identify the problem of compensation system of the organization.
- To find out employees preference regarding compensation which they like to have in future.

SCOPE OF THE STUDY

- The study has been undertaken to find out effectiveness of employee commitment in the organization.
- To find out the actual drawback involved in compensation that can be evaluated through this study.
- This study is used to bring out the solution for the problems faced by the employees utilize the compensation.

- Through the study, company would be able to know the present commitment level of employee on compensation.

LIMITATIONS OF THE STUDY

- It is difficult to find out the definite situation inside the company.
- Employees may not be able to provide proper information regarding compensation system of the organization.
- The topic is actually a confidential matter of a company. That's why it is difficult for us to prepare a good report.
- Due to the limitation of the time the study could not be made more detailed.

RESERCH METHODOLOGY

This study deals with the influence of compensation on the organisation commitment of administration staff. The study includes three dimensions of organisation commitment namely affective commitment, continuous commitment, and normative commitment. The data was collected from 100 administration staff in the manufacturing industry. Regression analysis was used to analyse the data. Research Design describes the study and focus at finding Employee Compensation and Employee Commitment in Integral Coach Factory Chennai.

a. Primary data

In this study, the primary data was collected through structured questionnaire. Questionnaire is implemented to collect the primary data from 100 selected sample respondents in organization.

b. Secondary data

Except the primary data, the secondary data was also collected for the study. Websites, books were referred for this purpose from the library to promote proper understating of the study.

Compensation and Affective commitment:

The first table of interest is the **Model Summary** table, as shown below:

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.417 ^a	.174	.166	.24350

a. Predictors: (Constant), Employee Compensation

This table provides the R and R^2 values. The R value represents the simple correlation and is 0.417, which indicates a low degree of correlation. The R^2 value indicates how much of the total variation in the dependent

variable, Affective commitment, can be explained by the independent variable, Compensation. In this case, 17.4% can be explained.

The next table is the ANOVA table, which reports how well the regression equation fits the data (i.e., predicts the dependent variable) and is shown below:

ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.224	1	1.224	20.646	.000 ^b
	Residual	5.811	98	.059		
	Total	7.035	99			

a. Dependent Variable: Affective commitment

b. Predictors: (Constant), Employee Compensation

This table indicates that the regression model predicts the dependent variable significantly well. Here, $p < 0.000$, which is less than 0.05, and indicates that, overall, the regression model statistically significantly predicts the outcome variable (i.e., it is a good fit for the data).

The **Coefficients** table provides us with the necessary information to predict affective commitment from compensation, as well as determine whether compensation contributes statistically significantly to the model. Regression coefficient (B = 0.230) represents the mean change in the affective commitment for one unit of change in the compensation.

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.326	.171		13.598	.000
	Employee Compensation	.230	.051	.417	4.544	.000

Dependent Variable: Affective Commitment

The regression equation is:

Affective Commitment = 1 + 0.230(Compensation)

Compensation and Continuance commitment:

The second table of interest is the **Model Summary** table, as shown below:

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.374 ^a	.140	.131	.41042

a. Predictors: (Constant), Employee Compensation

This table provides the R and R^2 values. The R value represents the simple correlation and is 0.374, which indicates a low degree of correlation. The R^2 value indicates how much of the total variation in the dependent variable, Continuance Commitment, can be explained by the independent variable, Compensation. In this case, 14.0% can be explained.

The next table is the **ANOVA** table, which reports how well the regression equation fits the data (i.e., predicts the dependent variable) and is shown below:

ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.680	1	2.680	15.911	.000
	Residual	16.508	98	.168		
	Total	19.188	99			

a. Dependent Variable: Continuance commitment

b. Predictors: (Constant), Employee Compensation

This table indicates that the regression model predicts the dependent variable significantly well. Here, $p < 0.0005$, which is less than 0.05, and indicates that, overall, the regression model statistically significantly predicts the outcome variable (i.e., it is a good fit for the data).

The **Coefficients** table provides us with the necessary information to predict Continuance Commitment from Compensation, as well as determine whether Compensation contributes statistically significantly to the model. Regression coefficient ($B=0.340$) represent the mean change in the continuance commitment for one unit of change in the compensation.

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.999	.288		6.933	.000
	Employee Compensation	.340	.085	.374	3.989	.000

a. Dependent Variable: Continuance Commitment

To present the regression equation as:

$$\text{Continuance Commitment} = 8287 + 0.340(\text{Compensation})$$

Compensation and Normative commitment:

The third table of interest is the **Model Summary** table, as shown below:

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.414 ^a	.171	.163	.56241

a) Predictors: (Constant), Employee Compensation

This table provides the R and R^2 values. The R value represents the simple correlation and is 0.414, which indicates a low degree of correlation. The R^2 value indicates how much of the total variation in the dependent variable, Normative commitment, can be explained by the independent variable, Compensation. In this case, 17.1% can be explained.

The next table is the **ANOVA** table, which reports how well the regression equation fits the data (i.e., predicts the dependent variable) and is shown below:

ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6.397	1	6.397	20.225	.000
	Residual	30.998	98	.316		
	Total	37.396	99			

a. Dependent Variable: Normative commitment

b. Predictors: (Constant), Employee Compensation

This table indicates that the regression model predicts the dependent variable significantly well. Here, $p < 0.0005$, which is less than 0.05, and indicates that, overall, the regression model statistically significantly predicts the outcome variable (i.e., it is a good fit for the data).

The **Coefficients** table provides us with the necessary information to predict normative commitment from Compensation as well as determine whether Compensation contributes statistically significantly to the model. Regression coefficient ($B = 0.526$) represents the mean change in the normative commitment for one unit of change in the compensation.

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.535	.395		3.886	.000
	Employee Compensation	.526	.117	.414	4.497	.000

a. Dependent Variable: Normative Commitment

To present the regression equation as:

$$\text{Normative Commitment} = 2 + 0.526(\text{Compensation})$$

Regression Analysis predicts that Employee Compensation influences affective commitment, continuance commitment, and normative commitment. Among all these three phases Employee compensation strongly influences normative commitment.

IMPLICATIONS:

Identity of recognition improves the employee commitment towards the organisation. Essentially, each individual wants to be recognised and appreciated as a valued person, particularly by the employer. The benefits can be handled by cafeteria approach. Due to the difference in Gender, age, marital status, educational qualification, there is a chance of differences in their choice of a particular benefit. This is known as the cafeteria approach. Lack of Medical Reimbursement in the organisation will lead to less Employee commitment. The benefits should satisfy real needs of the workers. This means that the organisation must first determine what the employee's real needs are with the active participation of workers. Obtain feedback from employee and, conduct employee compensation surveys often. Ask employees what they want more in their positions, and what they want less. This help them to show that organisation were concerned. Crèches can be developed to improve the commitment of women employees. The organization can provide their employees with simple rewards which may bring them with large outcome towards their excellence. Employers should praise and recognize their employees in a specific manner.

CONCLUSION

An organization should concentrate towards the growth of their employees which automatically creates good commitment of employees towards their goals and objectives. An employer's main goal is to attract and retain the employees by structuring the compensation in an effective manner. An organization to excel its needs to focus on all parts of their management, optimizing the use and effectiveness of all of its resources. Compensation must motivate the employees to contribute their best and it must be fixed as per their needs and aspirations and should be based on their performance. There is need for innovative tools and techniques and strategies in compensation management that customize the individual needs of the employees for ensuring better productivity and performance at the workplace. The fact is employee commitment and engagement towards an organization paves the way for an organization to achieve its goals and objectives in a standard approach. Hence by planning the compensation effectively, high standard of performance can be achieved.

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