

**RELATIONSHIP OF ORGANIZATION'S BENEFIT AND
COMPENSATION SCHEME WITH EMPLOYEE
PRODUCTIVITY AND LOYALTY**

BY

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ABSTRACT

This is a descriptive research on the possible relationship between compensation and benefit scheme with employee productivity and loyalty in an organization, namely, Astro, a major private broadcasting station in Malaysia. The study seeks to establish the correlation between the various compensation benefits given by the company with employee productivity and loyalty. It examines the correlation according to respondent characteristics, and its consistency. This research also studies the benefits most preferred by respondents. The research methodology is a survey questionnaire among a random sample of Astro employees from various departments. The survey was done using Microsoft Excel to collect data, measure and calculate the result. Analysis was made using a Statistical Package for the Social Sciences (SPSS) software. The main finding of the study is the positive correlation between compensation and benefit scheme with employee productivity and loyalty. Paid annual leave and competitive salary benefit is the most preferred by employees. The study recommends that Astro periodically reviews its compensation package for the mutual benefit of itself and its employees.

TABLE OF CONTENTS

	Page
Abstract	ii
Acknowledgement	iii
Declaration	iv
Table of Contents	
1. INTRODUCTION	
1.1. Background of the Study	3
1.2. Current Situation Analysis	4
1.3. Research Problems	6
1.4. Objectives of the Study	7
1.5. Hypothesis	8
1.6. Significance of the Study	9
1.7. Definition of terms	10
1.8. Limitation of Study	11
2. LITERATURE REVIEW	
2.1. Compensation and Benefits	14
2.2. Summary	38
3. RESEARCH METHODOLOGY	
3.1. Research design	40
3.2. Survey	41
3.3. Advantages of survey	42

3.4. Disadvantages of survey	43
3.5. Study population and sampling procedure	45
3.6. Operational definitions	45
3.7. Advantages	46
3.8. Disadvantages	46
3.9. Instrumentation	47
3.10. Data collection procedures	48
3.11. Scale reliabilities	49
3.12. Data analysis	50
3.13. Summary	52
4. DATA ANALYSIS AND RESULTS	
4.1. Respondents Characteristic	53
4.1.1. Type of Job/Department	55
4.1.2. Gender	56
4.1.3. Age Group	57
4.1.4. Status	58
4.1.5. Academic Qualification	60
4.2. Ranking Benefits	61
4.3. Rating Benefits	61
4.4. Academic Qualification	
4.4.1. Productivity Ranking	62
4.4.2. Productivity Rating	66
4.4.3. Loyalty Ranking	67

4.4.4. Loyalty Rating	71
4.5. Gender	
4.5.1. Productivity Ranking	73
4.5.2. Productivity Rating	75
4.5.3. Loyalty Ranking	77
4.5.4. Loyalty Rating	79
4.6. Department	
4.6.1. Productivity Ranking	81
4.6.2. Productivity Rating	84
4.6.3. Loyalty Ranking	86
4.6.4. Loyalty Rating	89
4.7. Status	
4.7.1. Productivity Ranking	91
4.7.2. Productivity Rating	93
4.7.3. Loyalty Ranking	95
4.7.4. Loyalty Rating	97
4.8. Age Group	
4.8.1. Productivity Ranking	99
4.8.2. Productivity Rating	101
4.8.3. Loyalty Ranking	103
4.8.4. Loyalty Rating	105
4.9. Overall Productivity Ranking Summary	107
4.9.1. Productivity Chart	108

4.10.	Overall Loyalty Ranking Summary	109
4.10.1.	Loyalty Chart	110
4.11.	Overall Productivity Rating Summary	111
4.11.1.	Descriptive Statistics	113
4.11.2.	Case Processing Summary	113
4.12.	Overall Loyalty Rating Summary	114
4.12.1.	Descriptive Statistics	115
4.12.2.	Case Processing Summary	116
4.12.3.	T-test	117
4.13.	Overall Productive Rating Summary	
4.13.1.	Descriptive Statistics	118
4.13.2.	Case Processing Summary	119
4.13.3.	T-test	120
4.14.	Summary	121
5.	DISCUSSION	
5.1.	Correlation between Respondents' Characteristics with Benefit	
5.1.1.	Productivity Ranking and Rating by Academic Qualification	121
5.1.2.	Loyalty Ranking and Rating by Academic Qualification	123
5.1.3.	Productivity Ranking and Rating by Gender	124
5.1.4.	Loyalty Ranking and Rating by Gender	126

5.1.5. Loyalty Ranking and Rating by Department	127
5.1.6. Loyalty Ranking and Rating by Department	128
5.1.7. Productivity Ranking and Rating by Marital Status	129
5.1.8. Loyalty Ranking and Rating by Marital Status	130
5.1.9. Productivity Ranking and Rating by Age Group	131
5.1.10. Loyalty Ranking and Rating by Age Group	132
5.1.11. Overall Productivity Ranking and Rating	133
5.1.12. Overall Loyalty Ranking and Rating	134
5.2. Discussion on the correlation between Maslow's hierarchy of need theory with Benefit	135
5.3. Discussion on the Effect of the Top 3 Most Desired Benefits	
5.3.1. Paid Annual Leave	136
5.3.2. Company's Higher Salary	136
5.3.3. Performance Bonus	137
5.4. Benefit to Organization	138
5.5. Other Factors Affecting Employee Productivity and Loyalty	138
5.6. Summary	139
 6. CONCLUSION AND RECOMMENDATIONS	
6.1. Summary of Overall Finding	141
6.2. Recommendations	

6.2.1. Recommendations for Astro on Employee	
Compensation and Benefits	143
6.2.2. General Recommendations for Other Organizations	147
6.2.3. Further research	148
6.3. Summary	149
6.4. REFERENCES	150
6.5. Web Search	151
6.6. INDICES	

CHAPTER 1

INTRODUCTION

Productivity and loyalty play a big role in an organization. It helps the organization grow to its true potential by employees who are most productive and loyal. Organizations must plan its compensation and benefit scheme well to ensure employees are rewarded accordingly. This role is played by human resource by identifying essential benefits and attractive compensation and is supported by top management. Major organizations such as those in the financial, oil and gas industries in both developed and developing countries have competitive compensation and benefits. Among the benefits provided are housing, group insurance (health, dental, life etc.), disability income protection, retirement benefits, daycare, tuition reimbursement, sick leave, vacation (paid and non-paid), social security, profit sharing, funding of education, and other specialized benefits (http://en.wikipedia.org/wiki/Employee_benefit).

In Malaysia, the Ministry of Human Resources (MOHR) (<http://www.mohr.gov.my>) is responsible for the formulation, management, and enforcement of the country's labour and human resources policies, programs and legislations. MOHR looks after the private sector in terms of working hours, wage structure, safety and occupational health, trade unionism, industrial relations, expatriate and foreign workers, and compensation and benefits. On the other hand, the Public Service Department (PSD) of Malaysia (<http://www.jpa.gov.my/english/default.asp>) is the central agency responsible for personnel

matters of Government employees covering matters such as recruitment, promotion and discipline, training and career development, salary structure, administrative reforms, pensions, and remuneration and benefits.

This study will examine the Compensation and Benefit (CAB) of the private sector, namely, of one of the major corporations in Malaysia. The corporation is MEASAT Broadcast Network Systems (Astro). Astro is a sole leading provider of satellite pay television in Malaysia. It was founded in 1996 (http://en.wikipedia.org/wiki/Astro_%28satellite_TV%29). It provides mainly media entertainment content for its customers. It is a major organization that employs around 3000 staff. It is divided into several main departments such as customer services, production, programming, finance and human resources. Human resource plays an integral part on understanding the human relationship with an organization to provide competitive benefit to its employees. To understand the role, human resource can do a study on the effects of benefit and compensation to its employee. Such a study can be done by doing surveys, analyzing its feedback and practicing it.

1.1 Background of the Study

The subject of this study is examining the relationship of Organization's Benefit and Compensation Scheme with Employee Productivity and Loyalty of a specific organization, namely, Astro. Astro is made up of several main departments that have their own unique compensation and benefit structures. This study will examine how Astro's benefit and compensation scheme affects employee productivity and loyalty

The main objective of this research is to find which compensation and benefit has the best effect on employee productivity and loyalty. For example, how does an organization's insurance coverage affect an employee loyalty? Or how does overtime benefit increase productivity? Calculation can be done by putting a numerical value in a survey that will be further explained below. It is always a challenge as each employee has his or her own sensitivity on the effect of the benefit.

It is hoped that this study will provide a template for organization to give the best terms and main benefits that they can offer. This research will also help smaller organizations to compete with their bigger counterparts on targeting which compensation and benefits employees desired most.

1.2 Current Situation Analysis

There have not been many studies on the relationship between compensation and benefit with employee productivity and loyalty. There are, however, other works such as the effect of job satisfaction from employee to the organization, which is a close resemblance to this study. Nevertheless, the difference of job satisfaction study is that it scrutinizes more on how style of management is affecting employee behaviour.

Corporations such as Astro offer competitive compensation and benefits against other top corporate organizations. This competitive benefit can be in the form of paid vacation and performance bonuses. Paid vacation and performance bonuses can be considered as luxury benefits where most companies such as small-medium enterprises (SME) cannot afford. Astro also offers common benefits such as annual leave and medical leave. It has also introduced a new benefit in the form of share allocation to employees when it launched its own initial public offering (IPO). Introduction of these new and generous benefits will generally boost employee loyalty and productivity and raise the organization's competitiveness.

As for the public sector, the Malaysian Government announced in 2007 higher salaries and better benefits for its employees. By having better financial and social security, this would in effect improve its employee productivity and loyalty. The Malaysian government also introduced its own employee productivity performance system called the Malaysia Remuneration System (MRS). The objective of MRS is to monitor and

enhance employee productivity in order to improve government administrative machinery and delivery service.

A competent and motivated workforce is always an important asset to any organization. This workforce consists of employees who are highly efficient, productive, dedicated and loyal to the organization. To introduce competitiveness among the workforce, there should be a fair performance assessment and reward system that will produce the best and sustain the competitiveness to have more such personnel and thereby raise the productivity of the organization. An organization normally has its own employee productivity monitoring system or employee scorecard such as the key performance index (KPI). Astro is one such organization. KPI is a set of ranking given on the performance of the employee on key job activity such as input and output, skills, planning, decision-making, and leadership. An employee's annual salary increment depends on his KPI. KPI is categorized into three or four levels, normally excellent, good, mediocre and poor. Employees scoring excellent KPI will receive higher bonuses, sometimes four times the quantum. Department productivity can also be calculated using PKI by adding up the indices of all the employees and dividing the total with the number of staff to get the average. This result will help identify the productivity of various departments and implement measures to sustain and improve each one accordingly.

In certain organizations there is a different compensation and benefit scheme for strategic departments or ones that constantly face acute problems. In Astro it is the Customer Services Department because of the high turnover due its lower salary than other

departments. The organization is aware of this problem and, to minimize it, introduces quarterly instead of yearly bonuses to staff of the department.

In the public sector, the pension benefit is what attract people most to work with the government. Pension benefit means that a person would still be paid after he or she had retired but at a lower quantum. The pension payment is based on mechanism such as years of work, grade level and last drawn salary. Basically, the longer you work in the government the bigger the pension is. Other attractive benefit offered in the public sector is quarters or in lieu, housing allowance, housing and car loans.

1.3 Research Problems

This research is chosen because of the limited study of this subject in Malaysia. Most organizations have limited knowledge of the effect of this relationship. The research problem is the unknown effect of the benefit and how effective is the benefit to employees. Human resource department in an organization needs this study to help them plan the compensation and benefits to its employees.

The compensation and benefit is seen as a reward for employee productivity and loyalty to the organization. However, it is a known fact that most organizations cannot provide all the compensation and benefit due to financial limitation. It is a general rule that the employee will be more productive and loyal if the organization provides more compensation and benefits. This however, could lead the employee searching for

organization that offers better benefits. The problem is not many organizations can provide more benefits particularly the small and medium enterprises (SME). It is a challenge for SMEs to compete with big organizations in terms of benefits and compensation. Big organizations usually provide luxury benefits such as paid vacation and share allocation. The next best thing for SMEs is to identify the most preferred benefit so that they can strategize well.

Reward differentiation based on employee productivity is one of the problems faced by human resource, as the “high flyers” prefer better benefit as a reward for their higher contribution. To differentiate employee productivity, a scorecard or an employee productivity monitoring system can be established as explained above. This scorecard is a way to measure the individual employee’s productivity.

It is always important that the organization have a highly productive and loyal work force. This research may help organization to understand more on how its current compensation and benefit scheme is affecting employees. Measures can be taken by organizations to improve or maintain the current scheme based on the research findings.

1.4 Objectives of the Study

The objective of this research is to study how the relationship between organization compensation and benefit will influence employee productivity and loyalty by using a mathematical model and formulas. The objective of this research is also to study on how

the organization compensation and benefit plan affect individual employee according to age group, status, gender, job areas and academic qualification. A survey with Likert scale and ranking are used to identify the numerical value of the compensation and benefit. By identifying which compensation and benefit that has the highest value or desired most, the organization can focus and provide better rate of the preferred benefits. This research will also help organization to improve its employee loyalty by having the most desired benefit it can offer to its employees.

The second objective of the research is to find the most desirable compensation and benefit in Astro. The respondents of the survey will be mainly from Astro.

1.5 Hypothesis

In this research, the main hypothesis is that employees will be more productive and loyal if they were given proper benefit and compensation, while the null hypothesis is organization compensation and benefit will not boost employee productivity and reduce employee loyalty.

The second hypothesis is respondent characteristic such as gender and age plays an important an important part in determining how the benefit is affecting the employee productivity and loyalty. The null hypothesis is respondent characteristic does not play a part in determining how the benefit is affecting the employee productivity and loyalty.

The third hypothesis is paid annual leave benefit is the most desired benefit from all respondents to improve productivity and loyalty. The null hypothesis is paid annual leave benefit is not the most desired benefit.

The fourth hypothesis is respondents' desired different benefit for loyalty and productivity. The null hypothesis is respondents' desired the same benefit for loyalty and productivity.

The fifth hypothesis is master's respondents preferred higher salary compare than the organization competitor as their most desired benefit for productivity and loyalty. The null master's respondents do not prefer higher salary compare than the organization competitor as their most desired benefit for productivity and loyalty.

The null hypotheses proposes something initially presumed true. All the hypotheses are rejected only when it becomes evidently false, that is, when the researcher has a certain degree of confidence, usually 95% to 99%, that the data do not support the null hypotheses.

1.6 Significance of the Study

The significance of this study is to offer human resource the advantage to identify readily which compensation and benefit influence employee to work more and stay with the organization longer. This study will also help human resource department to target or

tie up benefits with certain group of employees based on their characteristics such as age group, marital status, educational qualification, and length of experience.

This study will also add or enhance existing work by other researches on employee's compensation and benefit. It can create ideas or provide alternative plans for human resource in dealing with compensation system.

Data and findings from this study can also be used as a secondary resource for more research on this subject.

1.7 Definition of terms

Compensation refers to the monetary returns to an employee for his or her services such as periodic salary, wage and commission (<http://en.wikipedia.org/wiki/Salary>). A salary can be monthly, a wage daily, and commission a certain percentage of sales. In many developed countries, there is minimum wage. In many countries, including Malaysia, there is instead a starting salary based on one's qualification and experience with an annual increment subject to one's performance.

Benefit refers to a non-monetary return to an employee for his services such sick leave, retirement benefit and profit sharing. It is basically an additional income to the employee's normal salary or compensation (http://en.wikipedia.org/wiki/Employee_benefit). An organization that offers a variety of

benefit as well as competitive is normally one which is established and successful. Benefits can influence employees to be more productive and loyal to the organization.

Employee productivity refers to a quantitative measurement based on the ratio of output per employee-hour. This can be measured by Key Performance Index (KPI) that is provided by the company. KPI can measure how many tasks or output performed by the employee. This will help the company monitor, change and update employee productivity accordingly.

Employee loyalty refers to in a way how far an employee will act and stay in organization to achieve its objective. A loyal employee will be fully involved in, and enthusiastic about, his or her work. Employee loyalty is related to how the benefit affects the employee. For example, the availability of retirement benefit such as pension and competitive in its quantum will endear employees to the organization and make them loyal and remain in it for a long time. One of the attractive factors of Malaysian public service is the derivative pension that is passed on to the wife and underage children of a retired employee upon his death.

1.8 Limitation of Study

Limitation of this study can be in the form of sampling, complete list of benefit, time, financial, technique, data and human resource.

The first limitation is identifying complete list compensation and benefits from both private and public sectors. Respondents can identify and provide the necessary feedback if a comprehensive list of benefit is shown in the questionnaire. However, the downside having a complete list is that it may be too long and respondents may not understand some of the benefits. Our list contains the common compensation and benefits provided by both local public and private sectors such as salary, medical and housing. It covers the essential ones and we therefore think it is adequate and understood by our respondents.

The second constraint is finding the right size of the sample as well as the right respondents. This is because the respondents are randomly selected and limited from a small-diversified group in one to five organizations in Astro. In sampling size, the limitation is finding a relatively large number of respondents to make the study more valid. A total of a 100 respondents are used for sampling in this study. They are from different departments so as to achieve a better result on the organization. However, the majority of the respondents are from customer service department. We balanced this to a certain extent by including a small number of respondents from other organizations in the same industry. We further feel that the sample size is adequate for our type of study.

Last but not least is the limitation that goes with questionnaire survey methodology. Questions may be ambiguous or not understood by respondents. This is despite careful drafting of the questions and pre-testing them, as in our case. There is still that possibility. The ranking may be another limitation. In our case, we chose Likert ranking which we feel

appropriate for this type of study. Finally, a questionnaire survey is as good as the respondents. We hope our respondents are good in the sense that they are truthful and professional in their answers and comments. We have no reason to think otherwise especially the researcher is from the same organization and has served in it for some time. The researcher also wishes to pledge to set aside any biases in order to evaluate the data objectively.

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Web Search

http://en.wikipedia.org/wiki/Astro_%28satellite_TV%29

http://en.wikipedia.org/wiki/Employee_benefit

<http://en.wikipedia.org/wiki/Salary>

http://en.wikipedia.org/wiki/Statistical_survey

<http://www.jpa.gov.my/english/default.asp>

<http://www.mohr.gov.my>

<http://www.paysalary.com>

Survey

The survey consist of 4 sections

1. Productivity Ranking
2. Productivity Rating
3. Loyalty Ranking
4. Productivity Rating

Respondents are advised to complete every item or questions in the survey