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(AIJBES)**www.aijb.com**DOES COMPENSATION INFLUENCE THE PERFORMANCE OF
ORGANIZATIONS IN MALAYSIA?**Khairunnisa Ahmad Mokhtar^{1*} Hadziroh Ibrahim²

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This work is licensed under [CC BY 4.0](https://creativecommons.org/licenses/by/4.0/)**Abstract:**

Compensation is one of the relevant topics to be discussed in many organizations either in Malaysia or other countries. Presently, the compensation issue increasingly catches the interest of academics, employers, employees, and also organizations in Malaysia. This study was conducted to examine the influence of compensation to the employees and their performance to achieve the organization's goal. Due to high pressure was living cost and high risk when they are doing their works in the organizations, then they have to be more secured, either with the safety or wages. Over the past year, there is an attempt by many organizations today to identify innovative compensation strategies that are directly linked to improving organizational performance as well as work performance. This paper aims to review how compensation influences the work performance and the effect comes from the extraordinary growth of information and communication technologies (ICT), compensation has been recently proposed to indicate the integration of ICT purposely to support the traditional participatory process. However, this paper will discuss the implications of compensation in the organization in Malaysia and discusses the experience's views too. Although this study already discussed the implications and experiences by the compensation, we hope that Malaysian can provide useful insight, knowledge, and understanding from the employer to the employees where there had no problem created by them. Toward the end of this paper, a conceptual framework will be offered. Based on the discussion on related empirical review, the compensation factors are proposed to have significant influences on work performance in the organization in Malaysia. In the future, we hope that future studies would focus on other discussions of compensation factors or reward satisfaction. Therefore, future research should

be alert on how to make sure this issue is not getting worst but be more effective and comprehensive to implement to the next generations.

Keywords:

Compensations; Work Performance; Implications; Experiences; Malaysia

Introduction

Performance in Malaysia nowadays has their own changes since the first revolution, for example with the great findings, the big data and the internet give an impact to this higher education industry which is increased. To achieve the organization goal, every organization is looking through to performance of workers and the organization itself. The main concept of compensation is based on how satisfied the worker with the wages or salary given. The primary goal of the present study is to seek a better understanding of the antecedents of pay satisfaction, and specifically, to focus on pay comparisons and the perceptions of fairness and organizational justice.

Nowadays work performance is an issue for the development as well as how to develop the organization performance and how to achieve the organization's goal. Besides, the work performance cannot be defined from any specific ways, it is because the performance is depending on the size, policy and strategy of the organization by concern with day to day routine with the responsibilities and also with the effort to their jobs as well (Akter, & Husain, 2016).

Compensation or pay level is really synonym on how employee feels from what they had received from organization. Meanwhile, an inferior quality of psychological factor of people may affect lower productivity in completing task. Hence, no matter how good is the physical environment of the workstation provided by an organization, employees still cannot deliver the best effort if there exist feeling of unhappiness which is the salary as their important need.

In addition, the main concept of compensation is based on how satisfied the employee is with the salary given. In Malaysia as reported by Benjamin (2018), the issue that is often discussed is the compensation system in Malaysia is the highest in the organizational hierarchy. For example, an issue a few years ago, a quality control assistant at a factory had a serious accident and was rushed to a government hospital, but his parents transferred him to a private hospital. "When his parents went to the factory to ask for a letter of guarantee, they were told that their son was only insured for RM20,000 while his medical expenses increased to RM40,000. The family had to borrow the rest from relatives and friends and also made them debtors while in the process". Therefore, having a strong safety net for employees is very important for an organization.

This article reviews a variety of literature, including journal articles, reports, from electronic sources and others. Therefore, this article begins with the introduction or background of compensation, how to determine compensation to employees and the experience of compensation practices from other countries. Past research is mostly focused on how compensation helps or influences the organization as well as the employee himself. This article

emphasizes the conceptual framework developed based on practical discussions as well as empirical surveys related to compensation as well as job performance in the public sector.

Literature Review

Compensation

The definition of compensation is about the right schemes to ensure those hardworking employees and directly rewarded fairly and most cost-effectively for the company. It's can turn then motivates employees to sustains their performance itself. Besides, people who work in any organization they might devise policies include; salaries, bonuses, commission, pensions, life assurance, profit sharing, etc. they are mostly administering, managing, and evaluating the payroll, salary structures, and incentive schemes. This is to make sure that the right people get the right amount of money at the right time.

According to Workmen's Compensation Act 1952, to provide for the payment of compensation to workmen for an injury suffered in the course of employment. This act is shown how important compensation to employee and workmen. This is one of the things an organization can protect their employees and the performance of them. From this act, section 4 (c),

“An accident happening to a workman in or about any premises at which he is for the time being employed for his employer's trade or business shall be deemed to arise out of and in the course of his employment if it happens while he is taking a step, on or actual emergency at those premises, to protect persons who are, or thought to be or possibly to be, injured or imperilled, or to aren't to minimize property damage”.

Some peoples were asking why compensation is one of the needed things in the organization? It is the strategy to help the organization increase motivation. It is also appropriate for compensated employees to feel more appreciated and willing to come into works. Besides, the morale of all employees will be encouraged to work with a good performance. Furthermore, when employees know that they will get a bonus or incentives, they will be highly motivated to deliver better results. Bonus and incentive compensation plans become a crucial point for business success.

On the other hand, why is compensation needed in the organization is to keep a competitive edge for recruitment?. This shows, all the candidates always look to put themselves in the best how to promote position financially. The recruitment and retention of talented employees is the most common goal shared by most employers. To some amount, the availability and cost of competent applicants for open positions are defined by market factors that are beyond the control of the recruiter. While an employer may set payment levels for new hires and promote those salary ranges, it does so from the perspective of other employers looking to hire from the same candidate pool.

Compensation are including benefits and reward career also had significant with money. The compensation reward schemes are not only important for retaining and motivating employees, but also for attracting new people to joining the organizations. Salary and incentive packages are one of the main reasons why people apply for jobs. The more attractive compensation and benefits schemes tend to generate intended to join the organization. Consequently, those who

work in this area need to be numerate and have a detailed knowledge of financial laws and regulations. This well to monitor their company salary structures and benefits, which were required to research and analysis the salary rates of the employees in the organizations.

Sometimes, most employers decided not to provide anything where needs a heavy cost exercise or we can say as millennial because they always think that they provide something with no return back. Consequently, the negative perception of development or the millennium principal seems to revolve around the notion that they imbued with a sense of entitlement of realism (Tamilwanan, 2020). Besides, from an employment perspective, millennial employees are demanding more at the workplace, particularly concerning relation to compensation and benefits, leaving employers puzzled as to how to deal with this delicate issue.

How Determines Compensation?

According to Heathfield (2019), there are six reasons how the companies or organization determine the compensation. First, an availability of skilled employees in the marketplace. In this context organization with many alternatives do not need to compensate the chosen employee with more than the market rate. For example; when one company needs a particular skill and has two people to choose, so they don't need to pay the employees much.

Second is desire to attract and retain particular employee. For example, an organization are had to choose the right employee and then they have to pay more, and vice versa. But then, but if has a reputation as a horrible place to work, they may need to pay more to attract employees performs. The third reason is, employee contribution and accomplishments, some companies can recognize the difference in how much an employee contributes to the company through pay differentiation with the merit increase. But some companies are looking with some honesty to determine an employee is unworthy of compensation increases or not (Heathfield, 2019).

How the companies determine compensation are based from market research about the worth of similar jobs. This is explained that the numerous companies do some formal salary survey, and they found that companies reported that their current pay and benefits for jobs based provide a good insight into the competitive rates based on employee performances. From the previous experiences, employees are looking at salary offered to the senior employees. Salary for a new employee and also increase it by a small percentage will be unfair compensation and discord within the company itself (Heathfield, 2019). The last one is company's profitability or funds available in a non-profit or public sector setting. According to Heathfield (2019), people are willing to work for one organization because of trust. They believed in the mission and vision of the organization and perceived that the organization value may be consistent with their own personal values. Some public sector organizations have the low pay checks, but they have high benefits, for example health insurance and the pensions.

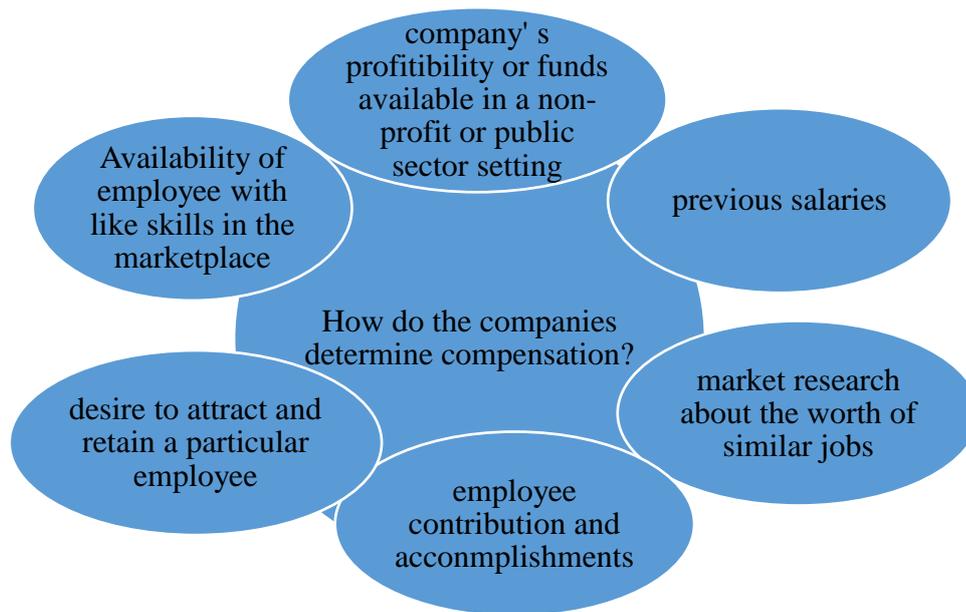


Figure 1: Compensation Determine for An Employee

Source: Heathfield (2019)

Implication of Compensation to Work Performance

According to Akter and Husain (2016), they are study about the relationship between organization-level compensation decisions and job performance. They also examined on how companies' pay structures and pay levels relate to resource efficiency, patient care outcomes, and financial performance. It is observed that there are many approaches to incentive compensation such as cash bonuses, stock purchase and profit sharing and it is also examined that individual and group incentive concept can be associated with reward and compensation for business community. The concept of compensation is about all forms of financial returns and tangible services were give a benefit to employees receive as part of an employment relationship. For example, compensation surrounded by the employee wages and salaries, incentive-payments, bonuses, and commissions. Employee compensation contains all forms of pay and rewards received by employees for the performance of their jobs. Besides, employee compensation means all forms of pay or rewards going to employees and arising from their employment and it may be direct financial payments (Pay in the form of wages, salaries, incentives, commissions, and bonuses) and indirect financial payments (Pay in the form of financial benefits such as insurance).

To understand how compensation are related to the work performance, researcher is willing to conduct research about how compensation functions. Based on the study conducted for employees at the Employees Provident Fund (EPF), which is situated in Kuala Terengganu, they are satisfied with their job performance as well as the non-financial compensation received from their employer (Mas Anom, Mohd Noor Azman, Mohd Zainudin & Nurul Fatini, 2017). In accordance with this, compensation is a systematic approach including wage and incentives to employee to directly exchange for work performance and also assisting recruitment.

On the other side, organizations in higher education will gain an insight from the current study on how to improve factors that impact job satisfaction through compensation. It is because, the result that the researcher found is a positive and significant relationship between compensation and work performance. So, it is important on higher education institution to pay much attention for the compensation. From this finding, it shown that compensation is a useful instrument in the hand of the management to contribute to the organizational effectiveness and directly can effect positively on the behavior and productivity (Mabaso & Dlamini, 2019).

Compensation Experiences: Malaysia and Other Countries

Based from the information gathered for the suggestion boxes provided in Telekom Malaysia it was mentioned that employees usually walk out of the company because of their dissatisfaction with the payment given, and argued for their inequity with others (Rudzi Munap, Muhamad Izwan & Baharom, 2013). Thus, the compensation is related to pay level satisfaction towards employee current wages or salary. In addition, from the research they can assume the compensation systems or salary systems also involved pay grades often used in public sector, for example for the federal, military and for higher education.

Through, according to Muhamad Ariff Ibrahim, Wan Shahrazad and Sarah Waheeda (2018), in Malaysia the recent problems associated with the university's academic staff being dissatisfied with the increase in salaries and incentives received by school teachers while the burden of teacher duties is much less than that of them. These problems create dissatisfaction with the academic staff and create unproductive behaviors that interfere with the productivity of teaching, organization and so on. In addition, many previous studies have only examined organizational behavior, performance, etc. among school teachers and other professions.

Besides, compared to other countries like Indonesia, the researcher agreed that from the increased suitable reward system which focused on pay level, an employee will seek to increase their achievement and appreciated their work because the motivation and expectations of obtaining the reward (Muhammad Idrus Taba, 2017).

On the other side, Singapore also emphasis the issues of compensation for their workers. According to Lim (2019), Singapore is looking seriously about the workers injury and safety. They also make changes to the Work Injury Compensation (WICA), and awarded only after a doctor makes a permanent incapacity assessment to the compensation based on the prevailing state of capacity. The change is needed because some injured workers receive their compensation after several month, so it causes uncertainty, especially for the foreign workers. This is will happens to who are unable to return back to their country and the situation also applies to the local too, who are bear and higher maintenance expenses.

Past Research in Compensation

Compensation is about pay were provided by an employer to employees for services rendered (i.e., time, effort and skill). This is including both fixed and variable pay tied to performance levels. Compensation as financial and non-financial extrinsic rewards provided by an employer for the time, skills and efforts made available by the employee in fulfilling job requirements aimed at achieving organizational objectives. Compensation is important for both employers and employees regarding attracting, retaining and motivating employees. Because

compensation is including claims on goods and services paid to an employee in the form of money or a form that is quickly and easily exchangeable into money (Mabaso, 2018).

Past research is shown that from provide cross function and cross industry training, Malaysian workers were trained in a specific industry find themselves redundant the moment a new technology crops up. Besides, when there are retrenched, they are unable to be gainfully employed again due to absence of cross industry skills. For example, a manufacturing employee will not be able to obtain jobs in the booming service industry because he doesn't have the required skills. Skill categories of workers must be widened, it is because from that it easily availability of foreign workers has created a situation where wages have come down, resulting in Malaysian workers shunning jobs that are seen as dangerous, dirty and difficult (3D) and involve long hours at work. Thus, skill application by using the right methodology should be taken into consideration and compensation should be given accordingly. The Human Resources Ministry must give these jobs due recognition to attract Malaysian workers to learn the skills and take them up (Benjamin, 2018).

According to Mabaso and Dlamini (2019), salary is provided by the employer to their employees for services rendered (time, effort and skills). It is included both either employee or employers are fixed and variable paid are tied to performance levels. Compensation is important for both side regarding to attracting, retaining and also motivating the employees. But then, for the Malaysia perspective, money and perks matters is to make employees happy and hardworking, whereby, Malaysian employees' performance are influenced by the type of compensation, for example financial and non-financial (Mas Anom. et.al 2017).

A few years ago, there had found about 5 top trend compensation were by the election, changes and also because of the competitive market. The most popular trend is compliance heated up with minimum wage, gender pay equity, and the act changes. In this trend it was studies on many state and local minimum wages changes in 2016. In United State on that time, the new administration was appointed, and the fewer regulations to being upheld at the federal level, are begins. So, from that he equal and fair pay were driving forces for the legislation, is a dominant theme across the laws was needed for better communications. From that, it shown that many effected organizations spent many months to preparing for the changes, auditing their jobs, pay and options for the ensuring compliance.

The second trend is, companies focus in market competitiveness. During the changes of this compensation views among employers and employees, the unemployment rate is lower than before the recession. It is shown that employees are looking for job all the time and at the same times, there had almost 60% of employees felt that they had lower paid from their organizations, from that it is actually make then intend to leave their organization within in the next six months. The effect from this situation make the organization have turn the market data to shore the pay decisions and how the market impact.

In the other hand, it is shown that the companies are starting to care about transparency and communication. The transparency had arisen as a key point of the organization in 2016. Transparency is not only for all or nothing for the option for the organization but the rather of ways to communicated effectively about the decisions that went into the setting or adjusting pay in the organizations. The fourth trend are found is organizations are managing performance

more frequently. The researcher had found that in many organization, large and small, had to decide to change their performance management process. Some of them had said that the annual performance management process, had to complete with stack ranking because if the opposite from the intended responses. It created a highly competitive environment and has been linked to a fight or flight physiological responses.

And the last but not least trend is companies explore mix of the pay options. From this, it is gone are the days where companies compensate with just base pay. In order to compete for the top talent, companies are exploring all options for recognizing and rewarding employees. That includes using team-based incentives to drive collaboration, providing creative perks and offering performance-based incentives across the organization from executives to individual contributors.

Conceptual Framework

This conceptual framework is for investigating the determinants of compensation was based on the theory of Human capital (Becker, 1975), which identifies several employees to attribute such as investment in training, education, on-the-job training, and labour market experience. This is directly are associated with lifetime earnings and the link to employee's compensation. In the research had proposed the most frequently research areas in economic sciences in the last decades. This are led to researching a number of economic issues including education and family economics (Koziol, et. (2014).

Furthermore, why human capital theory related to compensation and performance is because, according to Hannan (2018), this theory is to understanding how wages or salary are determined. It is by earning in the market value once depend on how's employee's information and skills. Besides, this is also often by the outcome of investment only if the expected stream of future benefit was acquiring the skills. The important aspect of an organization is depending on how the employees perform was related to compensation provided. The more they get, then the more can motivate them to performs well together to achieves the organization's goal.

The compensation and benefits schemes are ensuring that hard working employees are rewarded fairly and in the most cost-effective way for the company. This in turn and then motivates employees to sustain their performance. The most employees are don't just work because of their job passion but, they also want a decent salary and other incentives that will reward them for their hard work in the organizations. The size of the organisation determines what kind of work you might be doing in your compensation and benefits career. In smaller organisations, some people might deal with the whole range of responsibilities, whereas larger companies may offer careers which focus on one specific aspect of the compensation and benefits remit, such as payroll management.

In this theoretical framework the researcher consists of compensation are including investment in training, education, on-the-job training and also the labour market experiences. Thus, based on this theory, the related literature above, this conceptual framework for examining the of influences of compensation value to the organization performances as shown in figure 2 below. It is are relevant to this theory, an investment in human capital depend upon the costs of acquiring the skills and the returns that are expected from the investment. So, from that it is shown that the human capital theory is most significant with the compensation and work

performance among employees in the organizations. The Figure 2 below, it's shown the proposed of conceptual framework. In the framework, the influence of the compensation as independent variable and work performance as dependent variables.

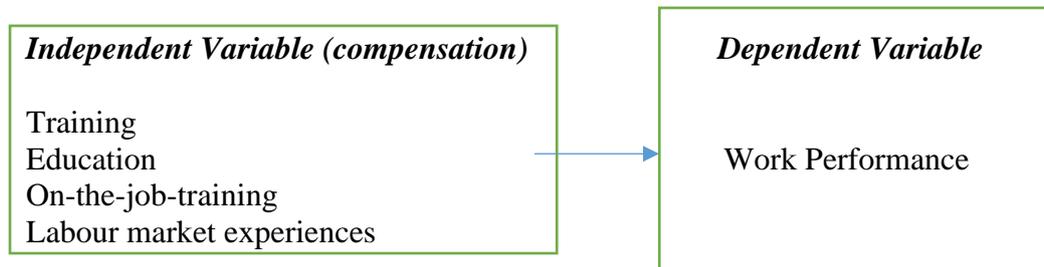


Figure 2: Proposed Conceptual Framework

Conclusion and Future Research

In Malaysia situation, employers should be more aware on the needs of their employees from the psychological or environment needs, either its effect their work performance or not. Compensation in Malaysia still needs to be more aware and perform on the right track by the organizations leaders and they have to be more concerns about the compensation in overall. However, it is not impossible to be more successful from the employees' performance, because organization in Malaysia also can learns from the other countries about how to be more alert about the compensation strategy that they had given to their employees. Although this study already discussed about the implications and experiences by the compensation, we hope that Malaysian can provide useful insight, knowledge and understanding to the workers. In future, we hope that for the future study would focus other discussions of compensation or in reward satisfaction.

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