

## Impact of compensation and benefits on executives' performance: A study in Malaysian manufacturing industry

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Bokhori Md Amin <sup>1,\*</sup>, Abdul Halim Abdul Majid <sup>1</sup>

<sup>1</sup> School of Business Management, COB Universiti Utara Malaysia, 06010 UUM Sintok, MALAYSIA

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### ABSTRACT

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Compensation and benefits is very important to every executives to perform their job well. Organizations are therefore need to ensure their executives are satisfied particularly with issues related to compensation and benefits. This paper measures the impact of compensation and benefits on executives' performance. A questionnaire was used to collect data on factors related to compensation and benefits such as monetary and non-monetary rewards that may affect executives' performance within the Malaysian manufacturing industry in Penang Malaysia. The collected data was then analysed using SPSS version 20. Both descriptive and inferential techniques were conducted. Findings indicated that there is significant influence of compensation and benefits on executives' performance. It is proved that from regression analyses, that all independent variables have positive and significant influence on employees' performance.

#### Keywords:

Compensation and benefits, monetary rewards, non-monetary rewards, bonus and allowances, executive performance

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## 1. Introduction

Compensation and benefits is normally referred to what executives receive in the form of pay, wages, monetary and non-monetary rewards as an exchange to what they serve at workplace [1]. Compensation and benefits is part of the human resource tools in which executives and their respective organization exchange to achieve organization goals [2]. Executive pay is necessary to be considered by organizations. From the executives' perspective, one of the most important element is cash or monetary reward/return. According to Zhu [3], compensation and benefits is mostly equal to half of the total emolument of the organization's budget. It is one of the main elements to attract the executives, retain and motivate them to improve their performance.

\* Corresponding author.

E-mail address: [Bokhori2017@gmail.com](mailto:Bokhori2017@gmail.com) (Bokhori Md Amin)

## 2. Literature Review

### 2.1 Executives' Performance

Executives' performance refers to the capabilities and abilities of executives to perform their job. Executives with high skills and capabilities normally will perform well. Executives' performance consists of three major dimensions: job productivity, job quality and job accomplishment [4]. Job productivity refers to the executives performing their job with maximum output and targets. Job quality refers to the objectives and goals that are achieved. Whereas, job accomplishment refers to the executives' achievement, including skills, abilities and capabilities to perform their responsibilities to attain maximum outcomes. According to Balochi [5], best employees and excellent performance lead to high quality of job performance; executives can complete their tasks within the time limit, and the targeted output and productivity are achieved.

Further, satisfied executives would perform their job well, and willing to execute extra duties assigned by the authorities. To be satisfied, among other expected conditions are that they will be paid competitively, be given autonomy, recognition and appreciation, both in monetary as well as non-monetary terms. Moreover, Chandrasekar [6] stated that executives' performance can also be affected by personal problems, superiors' attitude, work environment, overall industrial culture, job responsibilities, financial and non-financial incentives and rewards. Most executives can perform well if they can adapt to their jobs [7]. Executives' performance depends on the executives' willingness to perform their jobs in a responsible manner. The willingness of executives to perform their jobs well will increase productivity. This relates to the desire of the executives to undertake their job responsibilities to support all activities and achieve industrial goals [8]. Surinder [9] found that executives' excellent job performance depends on certain factors, such as the work environment, facilities given by the industry, stress-free working conditions, regular feedback from superiors and opportunities for career advancement. Luftim [10] found in his research that executives' performance will be more effective if the industry can provide them with clear performance standards.

Thus, the manufacturing industry should also focus on enhancing executives' skills and responsibilities according to the performance standards to help executives achieve industrial goals. Executives who have good track record make the industry more aware of their performance; subsequently, they can be regularly monitored to help them improve their performance and complete their tasks within the time limit. Armstrong [11] found that the industry should have a rewards system where executives with good performance can be rewarded. This will increase executives' intention and performance that leading to high productivity, quality and goals attainment. Excellent executives' performance in the manufacturing industry depends on their positive behaviour that can lead to overall performance improvement at the workplace.

### 2.2 Compensation and Benefits

In any manufacturing industry, it is claimed that the most important component to improve executives' performance are the HRM practices. The HRM practices must provide the best services and benefits to executives. The HRM practitioners must monitor and take care of the executives' compensation and benefits. Compensation and benefits is defined as the rewards earned by executives in return for their labour [1]. According to Armstrong [11], there are three dimensions of compensation and benefits: direct financial compensation and benefits; indirect compensation and benefits; and non-financial compensation and benefits. Direct financial benefits refer to any payment

received in the form of wages, salaries, bonuses and commissions provided by the industry. Indirect compensation and benefits refer to the financial rewards that are not included in direct financial benefits as a part of social contract between the industry and executives, such as leave, retirement plans, education and services. Whereby, non-financial compensation and benefits refer to career development, advancement opportunities like promotion, opportunities for recognitions as well as work environment and conditions.

The consequences of implementing a good compensation and benefits practice for executives, whether monetary or non-monetary, is that it can motivate executives to perform better at the workplace. This includes monetary incentives for executives for excellent job performance, executives being satisfied with their salary, yearly bonus, allowances, retirement plan and any non-monetary rewards given by the industry, promotion for executives for their good performance, insurance coverage and career development for every executive who performs his or her job well. Guest [2] stated compensation and benefits are very crucial. It includes salary, wages or any monetary and non-monetary rewards that can be given to increase executives' performance. According to Zhu [3], compensation and benefits are given to executives after their work is done; the normal practice is salary, wages and any rewards given in the middle or end of the month. Compensation and benefits in the form of monetary incentives are very important to lead executives to increase their performance.

The industry will face problems if executives are not satisfied with the compensation and benefits given; this can ultimately lead to low performance and productivity as well as high turnover. The HR department must have strategies in place to maintain and lead executives to ensure that all executives are retained in the manufacturing industry [12]. Executives are aware that the industry will pay them more pay for better performance. In other words, compensation and benefits in an industry will affect the executives' decision as to whether they want to stay with the industry and whether it lead them to perform their responsibilities and tasks given well [13]. There are many kinds of compensation and benefits and it depends on whether executives can perform only one job or multiple jobs and how well they perform these job/s at the workplace. It includes bonus payment, fair monetary incentives or promotion for long serving executives. The salary paid to executives can be performance-based or non-performance based pay [14].

Acemoglu [15] found that executives with multiple skills and showing excellent performance will be considered for higher salary compared to others. The higher salary given can encourage them to maintain their good performance, increase productivity and achieve industrial goals. Executives who are highly motivated will perform their job well [16]. The performance-based pay will encourage and lead executives to work hard to increase productivity; defect-free performance can be paid extra bonus [17]. Executives' performance-based pay will make executives produce the best results by being committed and multi-skilled with increased knowledge [18]. Therefore, salary-based compensation and benefits have a positive impact on executives' performance.

According to Rizwan [13], compensation in the form of incentives and rewards can also further boost executives' performance. Executives' tend to undertake their jobs seriously because the HR department will appraise their performance. Executives will show good performance since they are fully aware that the industry will give monetary incentives, free insurance coverage, yearly bonus, monetary allowances, best retirement plans and career development for good performance. Incentives and rewards will lead to the success of the industry; executives will be willing to use their creativity and be encouraged to work positively to get the highest productivity. Andrew [19] stated that the HR managers should look comprehensively into the process of leading executives, i.e., not only evaluating their performance but also showing how easy it is for executives to get incentives

and rewards for their performance. The incentives and rewards system that has strict criteria to be fulfilled will demotivate executives, which in turn, will affect their performance [20].

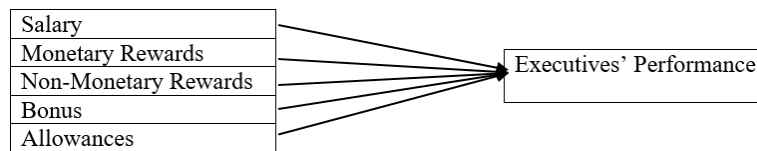
Incentives and rewards will highly lead executives to be creative and innovative, thus leading the industry to achieve its goals. These incentives will help the executives to perform their jobs well [21]. Bernstein [22] found that executives who are satisfied will have an impact on the overall industrial performance and achievement of industrial goals. Job satisfaction, through incentives and rewards, can psychologically lead executives to perform their job well [23]. Hartman [24] found that HRM practices, specifically incentives and rewards are vital for excellent performance. Giving rewards is away to encourage executives to generate and innovate ideas; innovation increases the financial and non-financial performance in an industry. Executives are more satisfied when rewards are given. Executives will not be interested to participate if there are no rewards [25]. A good relationship between executives and their superior can be created through rewards which in turn can lead to motivation, excellent job performance, executives' satisfaction, reduced turnover and industrial citizenship behaviour [26]. Nsour [20] found that the industry should recognize the achievement of executives and those who constantly improve their output should be compensated to encourage them in their day-to-day job performance.

The manufacturing industry must recognize executives' achievement so that they will continue to improve and enhance their day-to-day responsibilities which can lead to higher productivity. Therefore, the success of an industry depends on executives' successful performance. Executives who are motivated to perform well are an asset to the industry and help in maximizing profits. Ali [27] stated that indirect compensation refers to any cash received by executives based on their performance. This is part of the strategies of an industry to improve executives' performance. The financial benefits of executives' performance are wages and salaries; while non-financial benefits include insurance coverage, medical treatment, free travel and also teamwork among executives at the workplace. Hafiza, [28] found that there are many other types of indirect compensation offered by the manufacturing industry, such as social security, workers' compensation, retirement plan, paid holiday and paid vacation, generally depending on the executives' services.

Other benefits include meal allowance, food services, free meal coupon and transport allowance. Indirect compensation can psychologically change the attitude of executives to positive thinking and to move towards higher productivity [29]. Executives perform well in the manufacturing industry to ensure that they will get the best compensation and benefits. Executives with high productivity are lead executives to work with excellent result [30]. A good relationship between rewards and executives' performance means that executives are satisfied and work positively towards achieving industrial goals. Rewards given to executives is often the most important factor that can encourage executives to be more productive at the workplace [31]. Therefore, in this present paper covers and focuses on compensation and benefits in which executives are offered, if they perform their job well (i.e., fair salary, other monetary incentives, promotion opportunities, insurance coverage, bonus, allowances, retirement plans, and career development).

### **3. Theoretical Framework**

From the above review, the dependent variable is the executives' performance whereas independent variables include salary, monetary rewards, non-monetary rewards, bonus and allowances. See Figure 1.0 below.



**Fig.1.** Schematic diagram of the framework

## 4. Research Design

### 4.1 Population

There are 6000 executives in manufacturing sectors within the scope of the Perai Industrial Estate/Zone and Bayan Lepas Industrial Park/Zone in Penang, Malaysia. The data was collected from both manufacturing industry, be it in electronic and non-electronic industry.

### 4.2 Sample

About 361 questionnaires were distributed among the permanent executives of manufacturing industry and a systematic random sampling method was used in selecting the respondents. After one month, overall about 210 questionnaires were collected and 10 of these were found to be not complete. Then those 10 were rejected and the remaining 200 questionnaires were accepted and used for further analysis.

### 4.3 Measurement Scale

All the questionnaires were designed in Likert scale (Strongly Disagree (1), Disagree (2), Neutral (3), Agree (4), and Strongly Agree (5)). All questions regarding to each variables are given below:

#### 4.3.1 Salary

To measure the impact of salary, the question was: I feel that my salary is fair for the kind of job I perform.

#### 4.3.2 Monetary Incentive

To measure the impact of monetary incentives, the question was: *I fell that any monetary incentives given by company are fair for the kind of job I perform.*

#### 4.3.3 Non-monetary rewards

To measure the impact of non-monetary rewards, the question was: I am satisfied with any non-monetary rewards given by my industry.

#### 4.3.4 Bonus

*To measure the impact of bonus, the question was: My workplace pays me yearly bonus.*

#### 4.3.4 Allowance

To measure the impact of allowance, the question was: *I am satisfied with any allowances given by my industry.*

#### 4.4. Procedure for Data Analysis

Both descriptive and inferential statistics were used to analyse the collected data. The process of analysis was carried out in SPSS 20.0 version. Among the descriptive analysis were mean and standard deviation. Whereas for the inferential techniques, the regression were run to measure the impact of the independent variables on employees' performance.

### 5. Result and Discussion

Table 1 below shows the descriptive analysis of each of the independent variables in terms of their mean and standard deviation.

**Table 1**  
Descriptive Statistic

		EP	B1- Salary	B2- Monetary Rewards	B3- Non- Monetary Rewards	B4- Bonus	B5- Allowances
N	Valid	200	200	200	200	200	200
	Missing	0	0	0	0	0	0
Mean		3.7425	3.7800	3.7500	3.7400	3.7650	3.6500
Std. Deviation		.67059	.78401	.84918	.82815	.80187	.83124

Based on the descriptive analysis shown in Table 1, the mean of salary, monetary rewards, non-monetary rewards, bonus, allowances and executives' performance are between 3.650 – 3.780 and standard deviation between 0.670 – 0.849, respectively. Hence it means that all the independent variables were rated well (more to the scale of agree and strongly agree) by most respondents. Furthermore Table 2, below indicates the summary of the results from regression analysis.

**Table 2**  
Regression Analysis

Model	Coefficients <sup>a</sup>			t	Sig.	
	Unstandardized Coefficients		Standardized Coefficients			
	B	Std. Error	Beta			
1	(Constant)	.237	.108		2.196	.029
	B1- Salary	.103	.032	.121	3.203	.002
	B2- Monetary Rewards	.335	.031	.425	10.697	.000
	B3- Non-Monetary Rewards	.211	.029	.261	7.280	.000
	B4- Bonus	.166	.031	.199	5.330	.000
	B5- Allowances	.121	.028	.150	4.384	.000

a. Dependent Variable: Executives' Performance

Note: B1 – salary; B2 - monetary rewards; B3 - non-monetary rewards; B4 – bonus; and B5 – allowances.

### *Salary*

H1: There is a significant impact of salary on executives' performance. Both t-value and significant value for salary indicate that within this scope of study, the hypothesis is supported. In brief, from the regression result it can be concluded that salary has a significant positive impact on executives' performance.

### *Monetary Rewards*

H2: There is a significant impact of monetary rewards on executives' performance. The regression result ( $p=0.000$ ) as well as t-value (10.697) show that there is significant impact of monetary reward on executives' performance.

### *Non-Monetary Rewards*

H3: There is a significant impact of non-monetary rewards on executives' performance. As shown in Table 1.0 that value of significant for non-monetary rewards is  $p= 0.000$  and t-value of 7.280, thus it could be said that non-monetary has a positive impact on executives' performance at workplace.

### *Bonus*

H4: Bonus has significant impact on executives' performance. Both the value of p and t, show that bonus also has a significantly positive impact on executives' performance.

### *Allowances*

H5: There is a significant impact of allowances on executives' performance. As shown in Table 1.0, the result clearly indicates that allowances has a significant positive impact on executives' performance.

## **6. Conclusion**

From the above results, it can be concluded that all those sub-dimensions of compensation and benefits under studied have shown significant positive impact on executives' performance within the scope of this present study. It has been proven with the regression analysis that all of the independent variables have significant relationship on executives' performance. These empirical results shall be seriously considered by all employers within the Manufacturing Industry in Penang, Malaysia as well as offered insight to the others. Executives' performance has been to a certain extent, impacted by the how-much and ways in which employers set the salary, monetary rewards, non-monetary rewards, bonuses and allowances.

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