

Structural Relationship Between Pay Administration and Employee's Commitment: A Case Study in Pos Malaysia Berhad

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Abstract

Pay administration is one of the most important functions in the organisational administration domain. Contemporary research shows that the capability of an organisation's administrator to share the information about pay administration, encourage employees' engagement in pay administration, and enforce good performance evaluation may have a positive and significant influence on employees' commitment toward the organisation. However, there is a limited explanation about the importance of pay administration as an important factor in the organisational pay administration domain. This study is performed to analyse the importance and performance of each element in pay administration towards employee commitment. Main data are collected from 400 self-report questionnaires filled by the employees of Pos Malaysia Berhad in Klang Valley. The results of Partial Least Square - Structural Equation Modeling (PLS-SEM) stipulate that pay administration is positively and significantly interrelated with employees' commitment. Therefore, the results show that the ability of an organisation's pay administrator to successfully implement effective information sharing, encourage employee engagement, and practice good performance evaluation in administering pay systems may enhance employees' commitment to the organisation.

Keywords:

Employee's Commitment, Employees' Engagement, Information Sharing, Pay Administration, Performance Evaluation

INTRODUCTION

Pay is frequently referred to as a financial reward allocated by the employer to its employee for work accomplished by the employee (Pajuste & Ruffo, 2019; Perdana, 2021). Based on contemporary literature, prominent scholars agree that the pay system plays an important role in confronting the issue of employees' commitments towards the organisation. Competitive pay is considered a substantial strategy to recruit new competent employees and preserve existing competent employees (Mabaso & Dlamini, 2018; Raihan, Nizam, & Siddique, 2021). Furthermore, competitive pay also may help to enhance employees' motivation to be more productive. Subsequently, it may improve an organisation's competitiveness in the borderless market (Katovich & Maia, 2018; Nguyen, 2019). This situation proves that pay is an essential element in the organisational administration domain.

Based on the latest literature, the implementation of payment systems in the organisation is based on two approaches. Firstly, the traditional approach. In this approach, the employer will determine the amount of pay for their employee based on job factors such

as seniority, length of service, position, and classification of job (Hee et al., 2019; Kaur, Sharma, & Jha, 2019). Secondly, the contemporary approach. In this approach, the employer will determine the amount of pay for their employee based on the employee's actual performance (Lee & Kang, 2017; Yu, 2019). The majority of researchers agreed that this approach is still relevant. However, it has some limitations. It is unable to attract and preserve competent employees in the organisation, only suitable for the organisation that operates in the local market, and less competition (Lopez-Cabrales, Bornay-Barrachina, & Diaz-Fernandez, 2017; Woo & Cho, 2016). Meanwhile, implementing pay systems based on performance may help the organisation be more competitive in the borderless market (Iqbal et al., 2019; Kang & Lee, 2021).

To ensure the implementation of pay systems is successfully achieved, organisations need to intensify the pay administration procedure. Pay administration is frequently defined as a process of allocating pay systematically (Heisler, 2021; Serreqi, 2020). In the pay administration domain, the majority of researchers collectively acknowledge that pay administration consists of three important elements, namely information sharing, employees' engagement, and performance evaluation (Abugre & Nasere, 2020; Ismail et al., 2018). Information sharing commonly refers to the sharing of information about pay systems by an employer to the employees. The capability of the employer to disseminate accurate pay information may avoid misunderstanding among employees and may enhance the acceptability of pay systems implemented in the organisation. In turn, it may improve employees' trustworthiness towards the pay systems (Godard, 2020; Vincent et al., 2020).

Meanwhile, employees' engagement is commonly referred to as the involvement of employees in decision-making and problem-solving activities relating to the implementation of pay systems (Antonietti, Antonioli, & Pini, 2017; Turner & Cross, 2018). The willingness of an organisation's administrator to encourage employees' participation in organising pay systems and constructing pay decisions may motivate employees to contribute valuable suggestions to the employer. Subsequently, this situation may help to enhance the employer's credibility and provide a win-win situation between employee and employer (Cooke et al., 2019; Wagner & Westaby, 2020).

Additionally, performance evaluation is normally defined as a systematic and periodic process that is executed by the employer using verified evaluation strategies to measure an employee's actual performance based on the objectives and criteria set by the employer (Bayo-Moriones & de la Torre, 2021; Eriksson, Larsson, & Adolfsson, 2020). The results of the evaluation system will often be utilised by the organisation's administrator as a guiding principle to decide employee pay. The ability of an organisation's administrator to fairly allot pay in line with actual employee's performance may improve employee's support organisation's pay strategies and objectives (Abidin et al., 2020; Parker et al., 2019).

This fact is very interesting when contemporary research indicates that the ability of an organisation's administrator to efficiently share the information about pay systems, encourage employee participation in decision-making and problem-solving activities, and implement fair performance evaluation may strongly enhance employee's commitment toward the organisation (Daniel, 2019; Uzonwanne & Nwanzu, 2017). Based on the organisational behaviour viewpoint, an employee's commitment refers to the psychological attachment that creates a remarkable relationship between employee and employer (Benkarim & Imbeau, 2021; Kawiana et al., 2021). With this strong relationship, employees will be more motivated to increase their efforts to achieve the organisation's ultimate objectives. Hence, employees' commitment plays an important role in improving many desirable work-

related outcomes such as productivity, competitiveness, job performance, turnover, and absenteeism (Loan, 2020; Wombacher & Felfe, 2017).

Nevertheless, the importance and performance of each element in predictive variables (pay administration) have not been satisfactorily measured in the organisational pay administration research literature. The majority of scholars contend that the importance and performance of each element in pay administration were given less attention by previous literature. This is because they mostly focused on the relationship between elements of pay administration and several employees' outcomes, effects size of each element, and ignored the measure of the importance and performance of each element specifically. Therefore, these studies could not provide sufficient findings and were unable to assist the practitioners in understanding the complexity of the pay administration system to increase organisational competitiveness (Abd Razak & Ali, 2021; Abidin et al., 2020). Therefore, this situation significantly inspires the researchers to uncover the importance and performance of each element in pay administration.

LITERATURE REVIEW

The role of pay administration as a determinant of employee commitment aligns with the notion of organisational behaviour theory. First, Procedural Justice Theory by Folger and Cropanzano (1998) suggests that when an employee receives sufficient information about pay administration systems, it may strongly induce positive employee behaviour. Second, the Expectancy Theory by Vroom (1964) suggests that employees will be more motivated in performing their jobs when he/she receives adequate pay as expected. Third, Discrepancy Theory by Lawler (1971) suggests that the ability of an organisation to allocate fair pay based on employees' expectations such as their contribution, productivity, and effort may enhance employees' motivation to show positive behaviour. Overall, these theories propose that a high value of positive behaviour among employees may exist in the organisation when the organisation's administrator actively implements information sharing, encourages employees' participation in decision-making and problem-solving activity, and practices fair performance evaluation.

Previous organisational pay administration studies conducted using direct effects models to measure the relationship between pay administration and employee commitment on different samples strongly supported the principle of these theories. For example, the study that determine the perceptions of employees from the banking industry in Ghana (Coffie, Boateng & Coffie, 2021), and another study on 293 employees of Amazon's MTurk in the United State (Scheller & Harrison, 2018) supported these theories. Additionally, Torka and Goedegebure (2017) who surveyed 100 employees of three logistics companies in Dutch, and Jatmiko, Laras, and Rohmawati (2020) who studied 125 employees of 25 Regional Apparatus Organization (OPD) from Sleman Regency, Indonesia, further confirmed these theories. Besides, there were more studies on 39 intensive critical care nurses and nurse managers in Social Security Hospital in Iran (Sepahvand et al., 2020) and 259 non-executive staff members of the selected organisation Malaysia's oil and gas industry (Krishnan et al., 2018) that used similar theories.

Findings of these studies discovered that effective information sharing, encouraging employee participation, and fairly implemented performance evaluation could lead to enhanced employee commitment toward the organisations. Based on the theories and literature discussed above, it was hypothesised that:

- H₁: There is a significant and positive relationship between information sharing and employee commitment.
- H₂: There is a significant and positive relationship between employees' engagement and employees' commitment.
- H₃: There is a significant and positive relationship between performance evaluation and employee commitment.

RESEARCH METHOD

Research Design

This research used a cross-sectional research design to collect research data. This research design allows researchers to incorporate findings from previous pay administration literature and actual surveys in this research. Creswell and Creswell (2017) argued that this research design enables researchers to collect precise data, minimise bias and improve the quality of research data. This research was conducted at Pos Malaysia Berhad. At the initial stage, a survey questionnaire was developed based on the organisational pay system literature. After that, a back-to-back translation method was used to translate the survey questionnaires. Researchers used English and Malay versions of questionnaires for this research to obtain valid and reliable research findings (Creswell & Creswell, 2017).

Measures

The survey questionnaire used in this research comprises four main parts: first, information sharing has 14 items adapted from Azman et al. (2014) and Marasi (2014). Second, employees' engagement has ten items adapted from Azman et al. (2011). Third, performance evaluation has 13 items adapted from Azman et al. (2014). Finally, employees' commitment has 14 items adopted from organisational behaviour literature (Jaros, 2007). These items were measured using a 7-item Likert scale ranging from "strongly disagree" (1) to "strongly agree" (7).

Sample

This study collected 400 questionnaires from employees of Pos Malaysia Berhad using a convenient sampling technique. The convenient sampling technique was used because the researcher failed to gain consent from the management of Pos Malaysia Berhad to use their list of employees as the sampling frame. As a result, this circumstance has prevented the researchers from using a random sampling technique for sample selection. All the respondents gave their consent before answering the survey questions, and it was voluntary.

Data analysis

The Partial Least Square - Structural Equation Modeling (PLS-SEM) was used to evaluate the validity and reliability of the instrument and examine the research hypotheses. There are several advantages to using this method. For example, it can provide latent variable scores, evaluate complex research models with many latent and manifest variables, and handle both reflective and formative measurement models (Hair et al., 2017). The PLS-SEM path model was employed to measure the path coefficients for the structural model using the standardised

beta (β) and t statistics. Further, the value of R^2 was used as a guideline for the overall predictive strength of the model. An additional estimation of model fit in PLS-SEM analysis was conducted to test predictive relevance using Q^2 statistics (Hair et al., 2017).

RESULTS

Respondent Details

The majority respondents were males (85%), married employees (86%), working at branch office (72%), Malaysia Certificate of Education holders (75%), permanent staff (99%), aged between 25 to 34 years old (50%), non-executive staff (77%), have 5 to 14 years of working experiences (68%), and obtain less than Malaysian Ringgit 2000 of monthly salary (46%).

Instrument Validity and Reliability

Table 1 displays the results of factor loadings and composite reliability for all constructs. Factor loading for all constructs in the model is greater than 0.70. Additionally, all constructs had composite reliability values that exceeded 0.80. Overall, the measurement model has met the satisfactory standard of instrument validity and reliability (Hair et al., 2017).

Table 1: The results of factor loadings different constructs and composite reliability

| Constructs | Factor loading | | | | Composite Reliability |
|-----------------------------|---------------------|-----------------------|------------------------|-----------------------|-----------------------|
| | Information Sharing | Employees' Engagement | Performance Evaluation | Employees' Commitment | |
| Information Sharing (IS) | | | | | 0.954 |
| IS-1 | 0.813 | | | | |
| IS-2 | 0.841 | | | | |
| IS-3 | 0.828 | | | | |
| IS-4 | 0.767 | | | | |
| IS-5 | 0.828 | | | | |
| IS-6 | 0.798 | | | | |
| IS-7 | 0.717 | | | | |
| IS-8 | 0.721 | | | | |
| IS-9 | 0.735 | | | | |
| IS-10 | 0.730 | | | | |
| IS-11 | 0.786 | | | | |
| IS-12 | 0.771 | | | | |
| IS-13 | 0.759 | | | | |
| IS-14 | 0.724 | | | | |
| Employees' Engagement (EE) | | | | | 0.960 |
| EE-1 | | 0.809 | | | |
| EE-2 | | 0.836 | | | |
| EE-3 | | 0.813 | | | |
| EE-4 | | 0.849 | | | |
| EE-5 | | 0.826 | | | |
| EE-6 | | 0.869 | | | |
| EE-7 | | 0.837 | | | |
| EE-8 | | 0.869 | | | |
| EE-9 | | 0.876 | | | |
| EE-10 | | 0.806 | | | |
| Performance Evaluation (PE) | | | | | 0.965 |
| PE-1 | | | 0.799 | | |
| PE-2 | | | 0.811 | | |
| PE-3 | | | 0.857 | | |

| | | | |
|----------------------------|-------|-------|-------|
| PE-4 | 0.861 | | |
| PE-5 | 0.805 | | |
| PE-6 | 0.838 | | |
| PE-7 | 0.855 | | |
| PE-8 | 0.810 | | |
| PE-9 | 0.799 | | |
| PE-10 | 0.828 | | |
| PE-11 | 0.816 | | |
| PE-12 | 0.837 | | |
| PE-13 | 0.805 | | |
| Employees' Commitment (EC) | | | 0.968 |
| EC-1 | | 0.844 | |
| EC-2 | | 0.862 | |
| EC-3 | | 0.857 | |
| EC-4 | | 0.789 | |
| EC-5 | | 0.855 | |
| EC-6 | | 0.837 | |
| EC-7 | | 0.848 | |
| EC-8 | | 0.817 | |
| EC-9 | | 0.849 | |
| EC-10 | | 0.743 | |
| EC-11 | | 0.815 | |
| EC-12 | | 0.788 | |
| EC-13 | | 0.844 | |
| EC-14 | | 0.844 | |

Table 2 displays the results of convergent and discriminant validity analyses. All concepts had the values of AVE larger than 0.5, indicating that they met the acceptable standard of convergent validity (Hair et al., 2017). Besides that, all concepts' values of HTMT were less than 0.85, signifying that all concepts met the satisfactory standard of discriminant validity (Hair et al., 2017).

Table 2: Results of convergent and discriminant validity analyses

| Constructs | AVE | Information Sharing | Employees' Engagement | Performance Evaluation | Employees' Commitment |
|------------------------|-------|---------------------|-----------------------|------------------------|-----------------------|
| Information Sharing | 0.599 | | | | |
| Employees' Engagement | 0.704 | 0.756 | | | |
| Performance Evaluation | 0.681 | 0.742 | 0.761 | | |
| Employees' Commitment | 0.687 | 0.655 | 0.618 | 0.614 | |

Analysis of the Constructs

Table 3 displays the results of variance inflation factor and descriptive statistics. The mean value for all constructs fell between 5.2700 to 5.4927. These values indicated that the majority of respondents observed that the levels of information sharing, employees' engagement, performance evaluation, and employees' commitment ranged from high (4) to the highest level (7) in the organisations. On the other hand, the values of variance inflation factor for the relationship between the independent variable (i.e., information sharing, employees' engagement, and performance evaluation) and the dependent variable (i.e., employees' commitment) were less than 5.0, signifying that the data were not affected by serious collinearity problem (Hair et al., 2017). These results further confirmed that the instrument used in this research had met the satisfactory standards of validity and reliability analyses.

Table 3: Results of convergent and discriminant validity analyses

| Constructs | Mean | Standard Deviation | Variance Inflation Factor | |
|-----------------------------|--------|--------------------|---------------------------|------------------|
| | | | Inner VIF Values | Outer VIF Values |
| Information Sharing (IS) | 5.3218 | .61905 | 2.514 | |
| IS-1 | | | | 3.590 |
| IS-2 | | | | 3.313 |
| IS-3 | | | | 4.832 |
| IS-4 | | | | 2.892 |
| IS-5 | | | | 3.603 |
| IS-6 | | | | 3.148 |
| IS-7 | | | | 4.249 |
| IS-8 | | | | 4.554 |
| IS-9 | | | | 4.346 |
| IS-10 | | | | 3.677 |
| IS-11 | | | | 3.750 |
| IS-12 | | | | 4.014 |
| IS-13 | | | | 3.783 |
| IS-14 | | | | 3.053 |
| Employees' Engagement (EE) | 5.2700 | .70508 | 2.642 | |
| EE-1 | | | | 4.185 |
| EE-2 | | | | 3.041 |
| EE-3 | | | | 3.469 |
| EE-4 | | | | 4.215 |
| EE-5 | | | | 2.771 |
| EE-6 | | | | 4.158 |
| EE-7 | | | | 3.801 |
| EE-8 | | | | 4.174 |
| EE-9 | | | | 4.480 |
| EE-10 | | | | 2.880 |
| Performance Evaluation (PE) | 5.4927 | .67987 | 2.568 | |
| PE-1 | | | | 4.158 |
| PE-2 | | | | 3.801 |
| PE-3 | | | | 4.174 |
| PE-4 | | | | 4.480 |
| PE-5 | | | | 2.880 |
| PE-6 | | | | 4.550 |
| PE-7 | | | | 3.292 |
| PE-8 | | | | 4.120 |
| PE-9 | | | | 3.733 |
| PE-10 | | | | 3.208 |
| PE-11 | | | | 3.772 |
| PE-12 | | | | 3.683 |
| PE-13 | | | | 2.975 |
| Employees' Commitment (EC) | 5.4375 | .73575 | | |
| EC-1 | | | | 4.598 |
| EC-2 | | | | 3.392 |
| EC-3 | | | | 3.647 |
| EC-4 | | | | 3.770 |
| EC-5 | | | | 2.643 |
| EC-6 | | | | 3.582 |
| EC-7 | | | | 3.340 |
| EC-8 | | | | 4.331 |
| EC-9 | | | | 3.330 |
| EC-10 | | | | 4.782 |
| EC-11 | | | | 4.722 |
| EC-12 | | | | 3.530 |
| EC-13 | | | | 3.032 |
| EC-14 | | | | 3.516 |

Results of Testing Research’s Hypotheses (H₁, H₂, and H₃)

Table 4 displays the results of the research’s hypotheses (H₁, H₂, and H₃). The existence of information sharing, employees’ engagement, and performance evaluation in the analysis explained 45.9 per cent of the variance in the employees’ commitment. In particular, the research’s hypotheses analysis presented three important results. First, information sharing showed a significant positive relationship with employees’ commitment ($\beta=0.339$; $t=4.988$); thus, H₁ was accepted. Second, employees’ engagement was positively and significantly interrelated with employees’ commitment ($\beta=0.182$; $t=2.956$); thus, H₂ was accepted. Third, performance evaluation was positively and significantly interrelated with employees’ commitment ($\beta=0.225$; $t=3.296$); thus, H₃ was accepted. This result approves that information sharing, employees’ engagement, and performance evaluation are the important determining factor of employees’ commitment.

Table 4: Results of convergent and discriminant validity analyses

| Hypotheses | Beta Values | t Values | R² |
|--|--------------------|-----------------|----------------------|
| H1: Information Sharing → Employees’ Commitment | 0.339 | 4.988 | 0.459 |
| H2: Employees’ Engagement → Employees’ Commitment | 0.182 | 2.956 | |
| H3: Performance Evaluation → Employees’ Commitment | 0.225 | 3.296 | |

Note: significant at $t > 1.96$

DISCUSSION

The results of this research established that pay administration is a significant factor of employees’ commitment in the studied organisations. The majority of the respondents observed that the levels of information sharing, employees’ engagement, and performance evaluation, and employees’ commitment are high. This circumstance suggests that the ability of pay administrators to correctly design and practice effective information sharing, extremely inspire employees’ engagement in constructing pay decisions and conducting fair performance evaluations in defining employees’ pay may enhance employees’ commitment to the organisations.

This research offers three important contributions. First, contribution to theoretical. The results of this research provided a prospect in appreciating the effect of information sharing, employees’ engagement, and performance evaluation at improving employees’ commitment to the pay system models of the particular organisation. Second, contribution to robustness of research methodology. The survey questionnaire utilised in this research had acceptably met the quality of validity and reliability analyses. This circumstance may lead to producing correct and consistent research results. Third, contribution to practical. The results of this research potentially utilised as a strategy by pay administration practitioners to improve the efficiency of the organisational pay administration.

This goal can be achieved if the organisation’s administration team gives undivided consideration to these succeeding facets. First, the sufficiency of employee’s pay must be redefined consistent with the employee’s and organisation’s expectations. Improvement in this facet may inspire the employees to support organisational strategies and objectives endlessly. Second, the realignment of the training module to solidify the pay administration skills among the organisation’s pay administration team. These skills may help to improve

the efficiency of the pay administration team in performing their tasks. Further, it may eliminate or reduce employee dissatisfaction. Third, pay administrators should aggressively encourage employee engagement in the decision-making and problem-solving activity, particularly issues related to pay implementation. Thus, it may help to nurture a feeling of justice among employees. Fourth, utilise performance evaluation outcomes as the main instrument to enhance employees' potential and productivity. This approach may lead to a win-win situation between employees and the organisation. Consequently, the willingness of the organisation to consider these ideas may inspire employees to support the payment system implemented in the organisations strongly.

CONCLUSION

This research approves that effective information sharing, encouraging employee engagement, and conducting fair and systematic performance evaluation in administering pay system may strongly enhance employee's commitment toward the organisation. The results of this research have supported and extended organisational pay system research literature. Hence, existing research and practice regarding the organisational pay administration domain need to emphasise information sharing, employee engagement, and performance evaluation as important factors. This research further suggests that the ability of the pay administrators' team to plan and implement an organisational pay system appropriately will motivate employees to demonstrate positive attitudes in line with the organisation's strategies and objectives. Furthermore, these positive attitudes may help enhance an organisation's competitiveness, productivity, and reliability level in the borderless marketplace.

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