

Relationship between Performance Based Reward and Organizational Commitment in Banking Industry

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Abstract: This study aims at examining the relationship between performance based reward (communication, participation, performance appraisal) and organizational commitment. This study used a survey method to collect data of 101 bank employees in Peninsular Malaysia. This study employed the Pearson's correlation and linear regression methods to examine the relationships between communication, participation and performance appraisal, and organizational commitment. The finding of this study revealed that there is a positive relationship between communication and organizational commitment. Similarly, this study also discovered the same finding on the relationship between performance appraisal and organizational commitment. However, the impact is greater for the relationship between communication and organizational commitment.

Keywords: Communication; Participation; Performance Appraisal; Organizational Commitment

JEL Classification: M1

1. Introduction

Reward system of which its main purpose is to increase staff performance and productivity is one of organizational key policies nationwide (Ajila, 1997). Rewards play the role of developing employees' motivation in job performance. Firms should formulate their strategies together with reward as a motivator to enhance the work effort of employees. A good reward system is highly important at attracting good people and retaining skillful and knowledgeable employees. Importantly, decision making of rewards should involve administrators and top managers who are open minded and fair. The reward system must have the elements of transparency, good communication to all levels in the organization as

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well as fairness.

Bretz, Milkovich and Read (1992) mentioned that an organization is able to enhance its employees' performance and productivity through a well-developed performance appraisal, reward and bonus system. Importantly, the reward system itself should be able to inspire the employees to perform well in line with the organizational strategic mission (Milkovich & Newman, 2014).

The main purpose of this study is to examine employee perception toward performance based reward system using communication, participation and performance appraisal as independent variables, while the dependent variable is organizational commitment in banking industry.

The remainder of this paper is organized in the following manner. Section 2 outlines the objective of this study. Section 3 reviews past literature on the topic under study. Section 4 discusses the data and methodology employed in this study. Section 5 presents the findings; and lastly section 6 provides conclusion of this study.

2. Objective of the Study

This study has three objectives. First, is to examine the relationship between communication and organizational commitment. Second, is to examine the relationship between employee participation and organizational commitment. Third, is to examine the relationship between performance appraisal and organizational commitment.

3. Literature Review

Many theories have been proposed to explain of what involved in enhancing the performance based reward system. Although the literature covers a wide variety of such theories, the review will focus on three major independent variables and a dependent variable. Those are communication, participation and performance appraisal for independent variables, and organizational commitment for dependent variable.

3.1. Definition of Terms

3.1.1. Communication

Communication is the exchange transaction in which the participants send and receive messages by creating meaning through the exchange of messages (Barnlund, 2008; Fielding, 2006). Communication in performance based reward is generally defined as transforming information and involving the delivery of reward

messages from one person or group (the sender) to another (the receiver) through verbal, non-verbal and written communication (Fitzgerald, 2000; Nielson, 2002). Specifically, a communication process helps to achieve the desired outcomes of the employee, increase employees' understanding, appreciation and credibility of performance based reward practices in the organization (Kretzmann & McKnight, 2005). In this research, communication is one of the important elements that influence employee's commitment in order to be rewarded.

3.1.2. Participation

Employees' participation is an important reward management feature that may be used to enhance the goals and strategy of the compensation system (Milkovich & Newman, 2014). Furthermore, participation plays an important role as a creative management technique to support human resource management and increase work ownership of employee (Appelbaum, Bailey, Berg & Kalleberg, 2000). An employee is able to understand his/her work better and thus helps to enhance his/her work performance, efficiency and productivity. In this study, participation is an important element that influences organizational commitment in order to be rewarded.

3.1.3. Performance Appraisal

Performance appraisal can only be learned by training, practice and experience. Specifically, performance appraisal enables supervisor to identify, evaluate and develop employee performance (Scott & Einstein, 2001). Performance appraisal is an important element of performance management and as well as measurement tool to assess the employees' capability in carrying out their duties (Gerhart & Wright, 2014). The employees will ensure that they improve on their performance appraisals from time to time in order to get rewarded.

3.2. Relationship between Performance Based Rewards and Organizational Commitment

Communication creates the condition for commitment and permits a voice in the reward system. Hence, communication plays an important role in ensuring a successful and effective implementation of reward system (Foy, 1994; Katz & Kahn, 1972). Previous studies such as by Mathieu and Zajac (1990) documented a significant relationship between communication and organizational commitment. Past literature on the relationship between participation and organizational commitment also reported similar finding (Randall, 1990; Wallace, 1995). Similar to communication and participation, performance appraisal also plays an important role in shaping the employees' attitude and behaviors towards organizational commitment such as affective commitment (Morrow, 2011). Affective commitment is employees' views with regard to their emotional attachment to or identification with their organizations.

Past study such as by Tam (1996) showed that government employees were more committed to the federal government agencies that implement a fair and transparent assessment. Thus, it is expected that an employee will realize the value of outcome if the management is able to appropriately implement these 3 elements; i.e. communication, participation and performance appraisals in the administration of reward system (Zeeshan et al., 2010; Sharon & Garib, 2009).

Figure 1 illustrates the conceptual framework of this study and it is in line with past literature on the relationships between communication, participation and performance appraisal, and organizational commitment.

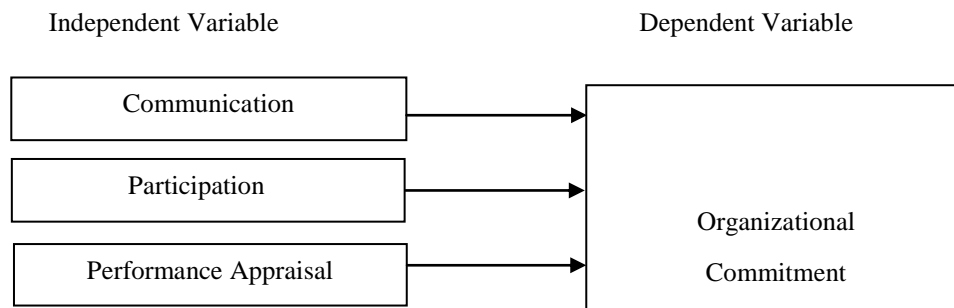


Figure 1. The Conceptual Framework

Based on the framework, this study hypothesizes that:

H1- There is positive relationship between communication and organizational commitment.

H2- There is positive relationship between participation and organizational commitment.

H3- There is positive relationship between performances appraisal and organizational commitment.

4. Methodology

This study employed a cross-sectional research design technique which involves a combination of performance based reward literature, semi-structured interview, pilot study and actual survey as a main procedure to gather data. This technique has advantages, such as it helps the researchers to collect accurate data, reduce bias data and enhance the data collection quality (Sekaran & Bougie, 2013).

The sample of this study involves employees of several banking institutions in the Klang Valley, Federal Territory of Malaysia. The participants of this study were

bank staff who held different positions. Based on Central Bank of Malaysia latest information, there are five types of Malaysia's licensed banking institutions; and these are shown in Table 1. Meanwhile, the distribution of respondents is presented in Table 2.

Table 1. Licensed Banking Institutions

	Licensed Banking Institutions	Foreign Ownership	Local Ownership
1.	Commercial Banks	19	8
2.	Islamic Banks	6	10
3.	International Islamic Banks	-	-
4.	Investment Banks	-	12
5.	Other Financial Institution	-	2

Table 2. Distribution of Respondents

	Name of the Bank	Quantity	Percentage
1.	BNP Paribas	12	11.88
2.	HSBC	15	14.85
3.	Bank Simpanan Nasional	9	8.91
4.	Bank Islam Malaysia Berhad	20	19.80
5.	Bank Muamalat Malaysia Berhad	5	4.95
6.	Malayan Banking Berhad	14	13.86
7.	Bank Rakyat	12	11.88
8.	CIMB	14	13.86
	Total	101	100

The survey questionnaires of this study has four sections; namely personal data, perception on the administration of reward system, perception on the determination of reward in organization and level of satisfaction, commitment and performance. Section 1 has ten (10) items that capture demographic variables of the respondents. For this purpose, nominal scale and ordinal scale were used as measurement. Section 2 has eight (8) items, while sections 3 and 4 have twenty (20) and thirty-four (34) items, respectively. For these sections, all items are in the form of Likert

5-point scale ranging from “1=strongly disagree/dissatisfied” to “5= strongly agree/satisfied”.

This study used the Social Package for Social Sciences (SPSS) software to examine the data extracted from the questionnaires. The analyses carried out include: First, descriptive analysis which is to measure the collected data distribution across the demographic. Second, validity and reliability analyses which are to measure the measurement scales consistency used in this study as to ensure that the instruments are reliable. Third, Pearson’s Correlation analysis is to examine the correlation between two variables. Finally, linear regression analysis is to investigate the relationships between the independent variables (communication, participation and performance appraisal), and dependent variable which is organizational commitment.

5. Findings

5.1. Respondent Profile

Table 3 presents the descriptive statistics of this study. Majority of the respondents were males (54.5 %), ages between 25 to 34 years old (41.6%), degree holders (34.7 %), clerical and support staff (45.5%), employees who have worked less than 5 years (38.6%), permanent staff (83.2%), monthly salary between RM2500 and RM3999 (43.6 %), monthly household expenses between RM1000 and RM2499 (50.5%), married (66.3%) and no dependent (39.6%).

Table 3. Sample Profile

Participant Characteristics	Sub-Profile	Frequency	Percentage (100%)
Gender	Male	55	54.5
	Female	46	45.4
Age	Less than 25 years old	18	17.8
	25 to 34 years old	42	41.6
	35 to 44 years old	28	27.7
	45 to 54 years old	13	12.9
	55 years old and above	-	0
Highest Education	SRP/LCE	1	1.0
	SPM/MCE	26	25.7
	STPM/HSC	11	10.9
	Diploma	26	25.7
	Degree	35	34.7
	Other	2	2.0
Position	Management	20	19.8

	Supervisory group	22	21.8
	Technical staff	3	3.0
	Clerical and support staff	46	45.5
	Others	10	9.9
Length of Service	Less than 5 years	39	38.6
	5 to 14 years	34	33.7
	15 to 24 years	12	11.9
	25 years and above	16	15.8
Type of Service	Permanent	84	83.2
	Contract basis	11	10.9
	Temporary basis	4	4.0
	Others	2	2.0
Gross Monthly Salary	Less than RM 1000	4	4
	RM 1000 to RM 2499	23	22.8
	RM 2500 to RM 3999	44	43.6
	RM 4000 to RM 5499	14	13.9
	RM 5500 to RM 6999	9	8.9
	RM 7000 and above	7	6.9
Monthly Household Expenses	Less than RM 1000	18	17.8
	RM 1000 to RM 2499	51	50.5
	RM 2500 to RM 3999	18	17.8
	RM 4000 to RM 5499	7	6.9
	RM 5500 to RM 6999	3	3.0
	RM 7000 and above	4	4.0
Marital Status	Single	34	33.7
	Married	67	66.3
Gross Monthly Salary	No children	40	39.6
	Less than 3 children	27	26.7
	3 to 6 children	31	30.7
	6 children and above	3	3.0

Note

LCE/SRP : Sijil Rendah Pelajaran/Lower Certificate Education

MCE/SPM : Sijil Pelajaran Malaysia/Malaysia Certificate of Education

HSC/STPM : Sijil Tinggi Pelajaran Malaysia/Higher School Certificate

5.2. Reliability Results of the Measurement Scale

This study employed the reliability (Cronbach’s alpha) method to measure the questionnaires’ reliability scales. Table 4 reports the results of reliability analysis for all instruments.

Table 4. Composite Reliability & Cronbach’s Alpha

Constructs	No. of Items	Composite Reliability
Participation	6	0.888
Performance Appraisal	6	0.918
Communication	18	0.974
Organizational Commitment	11	0.922

The reported statistical results revealed that the measurement scales in this study have met the acceptable standard of reliability analysis requirement. The range of all values is between 0.888 and 0.934; in which all are greater than 0.7. The values of Cronbach’s Alpha are greater than 0.7, indicating that this study’s instruments have high internal consistency (Henseler et al. 2009; Nunally & Bernstein, 1994).

5.3. Analysis of the Construct

Pearson Correlation explains that the higher the degree of the correlation, the stronger the linear relationship between them would be; and this shows the correlation between the independent variables (participation, performance appraisal and communication) and dependent variable (organizational commitment). Table 5 reports the descriptive statistics and Pearson Correlation analysis results.

The results in Table 5 show that the means for the variables are from 4.9010 to 5.4229, signifying that level of participation, performance appraisal and communication and organizational commitment is ranging from neutral (4.0) agree to strongly agree (7.0). The Pearson’s correlation helps in ascertaining the relationships of the variables; and the results shown in Table 5 confirmed that there is positive relationship between participation, performance appraisal and communication, and organizational commitment. The relationships are significant which helped in confirming the alternate hypothesis.

Table 5. Pearson Correlation Analysis and Descriptive Statistic

Variables	Mean	Standard Deviation	Pearson Correlation Analysis (r)			
			1	2	3	4
Participation	4.9010	1.01062	1			
Performance Appraisal	5.0223	1.06601	.656**	1		
Communication	4.9505	1.05469	.684**	.575**	1	
Organizational Commitment	5.4229	0.85378	.435**	.480**	.622**	1

Note: Symbol ** denotes significant at 1 percent level.

5.4. Analysis of Regression

Regression analysis is a powerful and flexible technique in examining the association between a metric-dependent variable and one or more independent variables (Malhotra et. al., 2006). This study utilized linear regression method to examine whether to accept or reject the null hypotheses. Besides, R square (R^2) explains the percentage of independent variables (participation, communication and performance appraisal) that support dependent variable (organizational commitment)

Table 6. Relationship between participation, performance appraisal, and communication, and organizational commitment

Factors	B	T	Sig	Result
Constant		7.280	.000	
Participation	-.091	-.765	.446	Rejected
Performance Appraisal	.219	2.065	.042**	Approved
Communication	.559	5.100	.000*	Approved
F-value			22.771**	
R^2			0.413	
Adjusted R^2			0.395	

Note: Symbols ** and * denote significant at 1 and 5 percent levels.

Results of Multiple Regressions:

$$Y = B + PRx + PAx + CMx$$

$$Y = 2.6801 - 0.91x + 2.19x + 0.559x$$

Y: Organizational commitment.

PR: Participation

PA: Performance Appraisal

CM: Communication

The results of regression analysis confirmed that there is a positive and significant relationship for performance appraisal at 1 percent level, and communication at 5 percent level with organizational commitment. The value of R square (0.413) signified that independent variables are responsible for 41.3 percent change in the dependent variable. The value of F statistic confirmed the model fitness for the said relationship.

In sum, the result demonstrates that communication does act as an important predictor of organizational commitment in the hypothesized model. This result is consistent with studies by Mathieu and Zajac, (1990); Foy, (1994); Katz & Kahn, (1972) which showed strong positive relationship between communication and commitment in organization.

6. Conclusion

This study examines the linkages between organizational commitment and 3 elements of performance based reward; i.e. communication, participation and performance appraisal. The finding of this study reveals that there is positive relationship between communication and organizational commitment. This study also reports similar finding for the relationship between performance appraisal and organizational commitment. However, communication has a bigger impact on organizational commitment compared to performance appraisal. Thus, the findings of this study suggest that organizational performance based reward program model needs to consider communication and performance appraisal as critical success factors of the performance based reward system.

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