

# Impact of Compensation on Employee Engagement: (Evidence from Telecom Sector of Pakistan)

Asma Inayat

*Bahauddin Zakariya University, Multan, Pakistan*

## **Abstract:-**

**Purpose** – Employees are getting disengaged with their work that is causing the waste of human capital as well as a great loss of cost and low performance; hence there is a need to engage them in work by changing work environment and their perception about work. The current study has focused on the importance of compensation in changing employee perception about their work.

**Design/methodology/approach** – Descriptive study was conducted to check the impact of compensation on employee engagement. A survey questionnaire was adopted and validated through pilot data ( $\alpha = .821$ ). Convenience sampling was used to select the employees from middle and upper managerial levels of telecom sector of South Punjab, Pakistan. Overall 300 questionnaires were distributed, out of which 234 return back with 78% response rate. A simple regression analysis was done to predict the relationship between the concerned variables.

**Findings** – After the analysis has been done it was found that compensation is the determinant of employee engagement ( $r^2 = .087$ ), thus having a significant positive impact on employee engagement.

**Practical implications** – Special attention and effort is required to improve the policies about remuneration system. In addition, the reward and compensation system of the organization should be organized in such a way that the employees working under the same rank and performing the same work duties should get the same remuneration and promotional opportunities.

**Originality/value** – The research highlights the increasing importance of compensation in engaging employees and the need for creating such reward system which make employees fully devoted, engaged and efficient.

**Keywords:** - Employee engagement, Compensation, Telecom Sector, Regression Analysis

## I. INTRODUCTION

Human capital is what differentiates every organization as in this competitive world where money is no more a constraint for many organizations. Therefore all the competition relies on the capabilities and productivity of employees so the development of human capital and getting the optimum results from employees is the ultimate goals of all organizations. Employee engagement is considered as one of the fundamental factor that helps to survive in such a competitive world (Anitha, 2014). In today's competitive environment, employee engagement has become a key driver

of organizational success (Anitha, 2014), that's why employee engagement is getting a lot of attention of researchers and practitioners day by day due to intense competition. In this modern era, every organization is trying to generate a competitive edge and fabricate a well known reputation that facilitates it to attain its planned goals.

Engagement is that condition in which employees are intellectually and psychologically committed towards their organizations as employees are the integral part of any organization; hence their interest helps in achieving the organizational objectives (Ravikumar, 2013), it is the degree to which employees believe in the values, mission, and vision of the organization by showing their concern from actions they perform and attitude towards their customer and employer is known as employee engagement (Ravikumar, 2013). According to Pemberton & (Herriot & Pemberton, 1995) a new approach has arisen at work where employees are expected to own a greater number of responsibilities, be more tolerant and flexible towards continual changes occurring in the organization, and to work for longer hours, while in return employees expects to get performance-linked recognition and rewards, and higher levels of pay. Besides, the US professional body for HR management society, investigated that engagement is a functions of key human resource activities together with staffing and selection, training, promotions, compensation and rewards, and performance management (Vance, 2006).

Engagement is a complex phenomenon and hence influenced by a number of factors, this paper suggests that in this highly competitive work environment compensation has become a key to success. The survey instrument was used to check the impact of compensation on employee engagement and the data was collected from 234 employees working at different level of telecom sector. Simple regression analysis was done to check the nature and strength of the relationship between the concerned variables.

## II. LITERATURE REVIEW

### 2.1 Compensation

Compensation is an important element of employee engagement that motivates employees to put an extra effort towards their personal and organizational development which includes monetary and non-monetary rewards. A study conducted by (Men, 2012) finds that rewards and recognition

are the major contributors of engagement. Compensation is an essential element of employee engagement that induces workers to attain more and therefore focus more on personal development and work (Anitha, 2014). Likewise, high job demands tends to reduce level of engagement among employees where professional resources are meager. Explicitly ineffective training programs, inadequate remuneration system, job insecurity, family-work conflicts, poor performance management criteria, and inadequate economic and non-economic rewards are the common factors causing disengagement (Cleveland et al., 2007; Deery, 2008; Karatepe, 2013; Kong, Cheung, & Qiu Zhang, 2010; Kuslivan, Kuslivan, Ilhan, & Buyruk, 2010; Poulston, 2008; Watson, 2008).

Compensation is the set of benefits which are offered to the employees of an organization in the form of salary, wages, incentives, job opportunities, good working conditions, bonuses, retirement plans and life insurance plans, granted to them on the basis of their performances (Bhatnagar, 2007). Absenteeism and high turnover rate are the major problems, faced by most of the organizations. But if the motivation and engagement level of employees increases at workplace by offering them different facilities like handsome basic salary, good working condition etc, then these factors can be reduced up to a minimum level (Sharma & Sharma, 2014). Most of the employees working in different organizations, expect from their organizations that compensation plan should be equitable and fair to all of the staff. Today, the compensation has become the major consideration for HR practices in every organization. Most of the employees have considered compensation only in the form of monetary benefits, paid to them against their performance, but the other benefits are not considered by them (Ghazanfar, Chuanmin, Khan, & Bashir, 2011).

However compensation and benefits, for employees are essential as they are the means for meeting the basic needs of life. These are important for employers as well: compensation and benefits are one of the most important rewards in recruitment process (Milkovich & Newman, 2005); are the means of engaging and retaining talented employees (Vandenberghe & Tremblay, 2008); are the means of employee motivation in skills development (Milkovich & Newman, 2005); and finally they are exchanged for performance (Vandenberghe & Tremblay, 2008). Yet, engagement level varies from employee to employee as their perception about compensation they receive from work role, changes. Therefore, employees with high level of perceived work-role benefits shows a greater amount of engagement (Kahn, 1990).

Similarly the financial and non-financial rewards contain a number of facets associated with employee engagement and is divided into five major areas: Compensation; Career including training, job security and advancement; Affiliation which includes organizational commitment, trust and work environment; Benefits; and Work Content. All of these factors

have a significant impact on employee outcomes like employee engagement, performance and retention.

The challenge today is just not to create a culture of engagement and retention based on conventional compensation and benefits but also to create such a work environment which allows them to develop and grow, therefore organizations has to develop those strategies which deals with engagement, job satisfaction, retention, and compensation (Jamrog, 2004). The organizations with high-performance work activities not only use financial rewards although total rewards made up of both financial and non-financial rewards to facilitate employee engagement (Campion et al., 2011). When workers are rewarded by their employers, sense of indebtedness develops, which in turn promotes loyalty and engagement (Sanneh & Taj, 2015).

## *2.2 Employee Engagement*

In recent years, there has been a great deal of interest in employee engagement. In present times, employee engagement has gathered a lot of attention in both theory and practice (Bakker & Demerouti, 2008; Robertson, Jansen Birch, & Cooper, 2012). Engagement is a concept which is characterized by the theory of exchange: personnel seem to be engaged with those firms that appear dedicated to them and fulfill their desired needs (Schaufeli, Bakker, & Salanova, 2006). Employee engagement can only be recognized when: employee's job expectations are met; employees have a good job fit; when employees experience firm wide support and last but not least when employees experience organizational justice (Eisenberger, Huntington, Hutchison, & Sowa, 1986). The concept of engagement has gathered a lot of concentration and is used in business and organizational literature from last two decades (Gustomo, 2015; Shuck & Wollard, 2010).

Business consultants and renowned articles evidenced that only engaged employees help organizations to achieve competitive advantage (Kompaso & Sridevi, 2010), as engage employees perform their work well, are loyal, and have a good perception about their organization (Gubman, 2004; Vincent-Höper, Muser, & Janneck, 2012). In addition engage employees get easily motivated and put their extraordinary level of efforts in their role performances (Bakker, 2011). Employee engagement has the potential to affect business's overall achievements that's why it has been acknowledged as a vital business driver. Moreover, engagement when assessed and understood gives organizations marvelous power to optimistically affect number of areas of the organization (Karsnia, 2009).

On the basis of various studies conducted by Tower Perrin, Gallup, The Corporate Leadership Council and Blessing White, The Conference Board in 2016 published an article in which it has been identified that pay and benefits is the key determinant of employee engagement (Anitha, 2014). Moreover, the importance of feeling valued and concerned has also been emphasized by Robinson et al., (2014) as an

essential element of employee engagement. Under the umbrella of this aspect, there exist a number of elements like job satisfaction, pay and benefits, health and safety and performance appraisal which make the employees feel valued and concerned and ultimately engaged them (Yasin Ghadi, Fernando, & Caputi, 2013). The same underlying concept has been highlighted by (Kahn, 1990), the only study in which Kahn presented an empirical test model, describing that engagement is positively related to safety, meaningfulness, and availability. In that study Kahn described that compensation and rewards, supportive supervisor and co-worker relationships are positive predictors of employee engagement while role-fit and availability of adequate resources are positive predictors of meaningfulness and psychological availability as well. On the basis of above literature the following hypotheses were developed (May, Gilson, & Harter, 2004).

*H0.* There is no significant impact of compensation on employee engagement.

*H1.* There is a statistically substantial affect of compensation on employee engagement.

### III. METHODOLOGY

#### 3.1 Instrument development and validation

A survey questionnaire was adopted to study the impact of compensation on employee engagement. All the respondents were asked to rate every item consisting of different statements that measured the variables on a five-point likert scale, ranging from 5= Strongly Agree to 1= Strongly Disagree. The instrument was tested through pilot study of 30 respondents and the reliability of the variables through the instruments was found statistically significant. According to (Gerbing & Anderson, 1988), refinement of the scale needs the computation of coefficients of reliability (Cronbach's alpha). The Cronbach's alpha value for all the statements must be above 0.60, because it represents that all the questions belongs to the same underlying construct (Spector, 1992). The Cronbach's alpha was computed for each of the variables in order to know that either the variables or their dimensions had common features or not? The Cronbach's alpha value was 0.821 as in Table I. The final instrument containing 13 items is given in appendix A.

Table I. Reliability analysis

1	Compensation	.831
2	Employee Engagement	.875
3	Overall reliability	.821

#### 3.2 Sampling and data collection

As the coefficient of reliability was proved to be statistically significant, the questionnaire was used for the main collection

of data. According to the nature of the topic, it was decided to choose the telecomm sector as this sector was remained untouched in relation to the chosen topic. Therefore the current study was conducted in telecomm sector and the target population was employees and managers of telecommunication sector of South Punjab, Pakistan. The sample was selected using non-probability sampling technique and those units of telecomm sector were chosen which were conveniently available. In convenience sampling the information is collected from elements of the population who are conveniently available to provide it. After the collection of data, the next step comes to analyze the data in order to arrive at a solution. In order to collect data for final analysis 300 questionnaires were distributed, from which 234 return back. So, the response rate was 78%. The data was analyzed using regression technique in order to know the impact level of compensation on employee engagement.

### IV. RESULTS AND DISCUSSION

#### Respondent's Profile

##### Statistics- Age

		Frequency	Percent
Valid	Less than 21 year	28	12.0
	21-30 years	144	61.5
	31-40 years	53	22.6
	41-50 years	7	3.0
	51-60 years	2	0.9
	<b>Total</b>	234	100.0

Little over 0.9% of respondents was between the age group of 51 and 60. Of the respondents, only 3% were from 41 and 50 years of age, 12% were of age less than 21 years, 22.6% answers were between the ages of 31 and 40 years, and rest of them (61.5%) were aged between 21 and 30 years.

##### Statics- Work Experience

		Frequency	Percent
Valid	Less than 1 year	51	21.8
	1-4 years	110	47.0
	4-10 years	50	21.4
	10 years and above	23	9.8
	<b>Total</b>	234	100.0

Of the answerers, 21.8% had the work tenure of less than 1 year, 47% the largest work experience tenure was 1 to 4 years. Conversely 21.4% answerers had 4 to 10 years of work experience and remaining respondents had work experience of more than 10 years.

Statistics- Gender

Valid		Frequency	Percent
	Male	200	85.5
	Female	34	14.5
	Total	234	100.0

The gender demographics have shown that 85.5% were male respondents while 14.5% were female participants.

Model Results

In accordance with the domino effects reported in this paper, all theorized relations are supported. Compensation was used as an independent variable while employee engagement as the dependent variable. After the completion of regression analysis it was found that there is a significant positive impact of compensation on employee engagement with an adjusted  $r^2$  value of 87% presented in table II. According to Heiman (1998) proportion of variation above 25% is considered significant. The value or  $r^2$  explains that 87% of the variations are happening in employee engagement due to compensation. The ANOVA Table III, generated by regression analysis also shows significant P value of 0.000. The  $t$  value (4.830) in Table IV implies that there is a strong bonding between compensation and employee engagement. The coefficient table indicates that compensation under the unstandardized coefficient is 0.226 provides the value that if compensation is zero then the engagement level of employees will increase by 3.327. On the other hand, if employee's compensation goes up by 1, then employee engagement is projected to increase by 0.226: therefore, showing a significant relationship and H1 is accepted. Consistent with the study conducted by (Saks, 2007), rewards and recognition are the major contributors of employee engagement. According to (Heneman, Ledford Jr, & Gresham, 2002; Ledford Jr, 2014),

The following regression equation is derived from Table IV.

$$\text{Employee Engagement} = 3.327 + 0.226 * \text{compensation}$$

The equation shows that the unstandardized coefficient for compensation is 0.226. The coefficient indicates that for every additional change in compensation, it is expected employee engagement to increase by an average of 0.226.

Table II. Regression model summary – Compensation

Model	$r$	$r^2$	Adjusted $r^2$	Std. Error of the Estimate
1	.302 <sup>a</sup>	.091	.087	.51580

a. Predictors: (Constant), Compensation

Table III. Results of ANOVA– Compensation

Model	Sum of squares	df	Mean square	F	Sig.
Regression	6.207	1	6.207	23.329	.000 <sup>b</sup>
Residual	61.724	232	.266		

Total	67.931	233			
a. Dependent Variable: Employee Engagement					

Table IV. :-Regression coefficients<sup>a</sup>– Compensation

Model	Unstandardized Coefficients		Standardized Coefficients	$t$	Sig.
	$B$	SE	$\beta$		
(Constant)	3.327	.175		18.983	.000
CP1	.226	.047	.302	4.830	.000
a. Dependent Variable: Employee Engagement					

Employees show a greater deal of interest in the reward and compensation system of an organization because it acts as the more influential factor to make them engage (Sanneh & Taj, 2015). The higher level management should take those steps which promote a sense of exchange among employees by providing them appropriate rewards and resources, so that in return when workers feels the quest to give the organization back, they become more probable to continue to be engage into their work roles (Heilbrunn & Itzkovich, 2015). Moreover, the state of engagement develops all the way through exchange principle: employees feels more engaged within those enterprises that appears to be more committed towards expected outcomes, so the engagement level becomes apparent when employees have a good job fit; employee's job expectations in terms of compensation are met; they have perceived firm-wide justice and organizational support (Eisenberger, et al., 1986).

V. CONCLUSION

At present, employee engagement is getting an immense attention of researchers as it has become mandatory for organizations to have such a competent, energetic and devoted workforce as a competitive edge. This study has highlighted the importance of compensation to make employees engage; hence prove that there is a significant positive relationship between compensation and employee engagement. Compensation is an important factor which might help the management to make the employees engage; therefore organizations should have to establish those policies which prove the justice of rewards among them. The implication of the results is beneficial for the management of the telecomm sector as it emphasizes the importance of those polices which make the reward system better and equitable and in return it make employees engage and their performance goes better than before. Further, the study has opened a new door for researchers to further explore the impact of engagement along with its various dimensions like work environment, teams and co-worker relationship, organizational polices on firm performance by using more authentic analysis techniques.

## REFERENCES

- [1]. Anitha, J. (2014). Determinants of employee engagement and their impact on employee performance. *International journal of productivity and performance management*, 63(3), 308.
- [2]. Bakker, A. B. (2011). An evidence-based model of work engagement. *Current Directions in Psychological Science*, 20(4), 265-269.
- [3]. Bakker, A. B., & Demerouti, E. (2008). Towards a model of work engagement. *Career development international*, 13(3), 209-223.
- [4]. Bhatnagar, J. (2007). Talent management strategy of employee engagement in Indian ITES employees: key to retention. *Employee relations*, 29(6), 640-663.
- [5]. Campion, M. A., Fink, A. A., Ruggeberg, B. J., Carr, L., Phillips, G. M., & Odman, R. B. (2011). Doing competencies well: Best practices in competency modeling. *Personnel psychology*, 64(1), 225-262.
- [6]. Cleveland, J. N., O'Neill, J. W., Himelright, J. L., Harrison, M. M., Crouter, A. C., & Drago, R. (2007). Work and family issues in the hospitality industry: Perspectives of entrants, managers, and spouses. *Journal of Hospitality & Tourism Research*, 31(3), 275-298.
- [7]. Deery, M. (2008). Talent management, work-life balance and retention strategies. *International Journal of Contemporary Hospitality Management*, 20(7), 792-806.
- [8]. Eisenberger, R., Huntington, R., Hutchison, S., & Sowa, D. (1986). Perceived organizational support. *Journal of Applied psychology*, 71(3), 500.
- [9]. Gerbing, D. W., & Anderson, J. C. (1988). An updated paradigm for scale development incorporating unidimensionality and its assessment. *Journal of marketing research*, 186-192.
- [10]. Ghazanfar, F., Chuanmin, S., Khan, M. M., & Bashir, M. (2011). A study of relationship between satisfaction with compensation and work motivation. *International Journal of Business and Social Science*, 2(1).
- [11]. Gubman, E. (2004). From Engagement to Passion for Work: The Search for the Missing Person. *Human Resource Planning*, 27(3).
- [12]. Gustomo, A. (2015). Proposal to Improve Employee Engagement in PT Maju Sentosa by AON Hewitt Model and Mercer Model. *Procedia-social and behavioral sciences*, 169, 363-370.
- [13]. Heilbrunn, S., & Itzkovich, Y. (2015). *Impact of work-place incivility on horizontal solidarity and perceptions of job-insecurity*. Paper presented at the 8th Annual Conference of the EuroMed Academy of Business.
- [14]. Heneman, R. L., Ledford Jr, G. E., & Gresham, M. T. (2002). The changing nature of work and its effects on compensation design and delivery. *Strategic reward management: Design, implementation, and evaluation*, 35-73.
- [15]. Herriot, P., & Pemberton, C. (1995). *New deals: The revolution in managerial careers*: John Wiley & Son Ltd.
- [16]. Jamrog, J. (2004). The perfect storm: The future of retention and engagement. *People and Strategy*, 27(3), 26.
- [17]. Kahn, W. A. (1990). Psychological conditions of personal engagement and disengagement at work. *Academy of management journal*, 33(4), 692-724.
- [18]. Karatepe, O. M. (2013). Perceptions of organizational politics and hotel employee outcomes: The mediating role of work engagement. *International Journal of Contemporary Hospitality Management*, 25(1), 82-104.
- [19]. Karsnia, E. J. (2009). *APprOV- Ujest- Credits*. University of Wisconsin-Stout.
- [20]. Kompasso, S. M., & Sridevi, M. S. (2010). Employee engagement: The key to improving performance. *International journal of business and management*, 5(12), 89.
- [21]. Kong, H., Cheung, C., & Qiu Zhang, H. (2010). Career management systems: what are China's state-owned hotels practising? *International Journal of Contemporary Hospitality Management*, 22(4), 467-482.
- [22]. Kusluvan, S., Kusluvan, Z., Ilhan, I., & Buyruk, L. (2010). The human dimension: A review of human resources management issues in the tourism and hospitality industry. *Cornell Hospitality Quarterly*, 51(2), 171-214.
- [23]. Ledford Jr, G. E. (2014). The changing landscape of employee rewards: Observations and prescriptions. *Organizational Dynamics*, 43(3), 168-179.
- [24]. May, D. R., Gilson, R. L., & Harter, L. M. (2004). The psychological conditions of meaningfulness, safety and availability and the engagement of the human spirit at work. *Journal of occupational and organizational psychology*, 77(1), 11-37.
- [25]. Men, L. R. (2012). CEO credibility, perceived organizational reputation, and employee engagement. *Public Relations Review*, 38(1), 171-173.
- [26]. Milkovich, G. T., & Newman, J. M. (2005). *Compensation* (8th). New York: MacGraw-Hill.
- [27]. Poulston, J. (2008). Hospitality workplace problems and poor training: a close relationship. *International Journal of Contemporary Hospitality Management*, 20(4), 412-427.
- [28]. Ravikumar, T. (2013). A study on impact of team work, work culture, leadership and compensation on engagement level of employees in MSMEs in India. *International Journal of Advance Research in Management and Social Sciences*, 2(8), 175-185.
- [29]. Robertson, I. T., Jansen Birch, A., & Cooper, C. L. (2012). Job and work attitudes, engagement and employee performance: Where does psychological well-being fit in? *Leadership & Organization Development Journal*, 33(3), 224-232.
- [30]. Saks, A. M. (2007). *Employee Engagement and Corporate Culture for Psychological Health: Report*, Joseph L. Rotman School of Management, University of Toronto, Canada.
- [31]. Sanneh, L., & Taj, S. A. (2015). Employee engagement in the public sector: A case study of Western Africa. *International Journal of Human Resource Studies*, 5(3), 70-101.
- [32]. Schaufeli, W. B., Bakker, A. B., & Salanova, M. (2006). The measurement of work engagement with a short questionnaire: A cross-national study. *Educational and psychological measurement*, 66(4), 701-716.
- [33]. Sharma, M. R., & Sharma, A. (2014). Employee Engagement: An Indian Perspective for Flexi Festival Holidays as a Tool to Enhance Productivity. *Journal of Human Resources*, 2(2), 171-185.
- [34]. Shuck, B., & Wollard, K. (2010). Employee engagement and HRD: A seminal review of the foundations. *Human Resource Development Review*, 9(1), 89-110.
- [35]. Spector, P. E. (1992). *Summated rating scale construction: An introduction*: Sage.
- [36]. Vance, R. J. (2006). Employee engagement and commitment. *SHRM Foundation*.
- [37]. Vandenberghe, C., & Tremblay, M. (2008). The role of pay satisfaction and organizational commitment in turnover intentions: A two-sample study. *Journal of Business and Psychology*, 22(3), 275-286.
- [38]. Vincent-Höper, S., Muser, C., & Janneck, M. (2012). Transformational leadership, work engagement, and occupational success. *Career development international*, 17(7), 663-682.
- [39]. Watson, S. (2008). Where are we now? A review of management development issues in the hospitality and tourism sector: Implications for talent management. *International Journal of Contemporary Hospitality Management*, 20(7), 758-780.
- [40]. Yasin Ghadi, M., Fernando, M., & Caputi, P. (2013). Transformational leadership and work engagement: The mediating effect of meaning in work. *Leadership & Organization Development Journal*, 34(6), 532-550.

## Appendix

---

### Items

---

#### *Employee Engagement*

1. I am willing to really push myself to reach challenging work goals
2. I am ready to put my heart and soul into my work
3. I am prepared to fully devote myself to performing my job duties
4. I get excited thinking about new ways to do my job more effectively
5. I am enthusiastic about providing a high quality product or service
6. I am willing to “go the extra mile” in order to do my job well
7. Trying to constantly improve my job performance is very important to me
8. I am determined to be complete and thorough in all my job duties

**(Schaufeli et al. (2006) items)**

#### *Compensation*

1. I trust that if I do good work, my company may increase my pay
2. I trust that if I do good work, my company may consider me for a promotion
3. My achievements are recognized and awarded in the organization
4. I am rewarded for serving the organization better
5. How would you rate the MORALE in your company?

**(Lamin Sanneh (2015) items)**