The Effect of Compensation on Organisational Commitment and Employee Performance with the Labour Union as the Moderating Variable

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Abstract

The aim of this research is to analyse the effect of compensation on employees' performance, the effect of organisational commitment on employees' performance, the effect of compensation on organisational commitment and the moderation role of a labour union on compensation and employees' performance. This research used sampling from cellular provider company in Bali by simple random sampling of 97 employees. The data was collected using questionnaire and was analysed with descriptive analysis and Partial Least Square. The result shows that compensation has a positive and significant effect on performance; organisational commitment has a positive non-significant effect on performance; compensation has a positive and significant on organisational commitment, and labour union has a negative and significant moderating on compensation and employees performance.

Keywords: compensation, organisational commitment, employees' performance and labour union

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1. Introduction

In the 21\textsuperscript{st} century, competition in information technology forces companies to increase their effectiveness and competitiveness, and to attain optimum productivity of their resources. As noted by Noe et al. [1], performance management has to be able to link employees’ activities with the organisation’s target. Porter et al. [2] mentioned that performance is closely related to the compensation system, while Suwanto [3] pointed out that compensation variance is affecting employees’ performance. Ivancevich and Hoon [4] mentioned that compensation has to be able to create employees’ satisfaction so that it brings positive implication on performance. Compensation policy has to be consistent with the overall organisation’s strategy [5]. Moreover, Mathis and Jackson [6] suggested that one of the main purposes of compensation arrangement is to minimise labour union influence so that the employees will concentrate on their job.

A Labour union is legal and protected by the constitution as is written in Republic of Indonesia's Constitution no. 13 the year 2003. Labour union is an organisation created by and for the employees, can be within the company or industry wide, which are free, independent, democratic and responsible to strive and defend the rights and interest of the employees and continuously strive for their welfare. Simamora [7] mentioned that labour union can negotiate for better compensation when the company is financially stronger and competitive.

Apart from compensation, companies also need to pay attention to their employee’s commitment. Moncreif et al. [8] stated that high commitment will affect their performance. Organisational commitment related to one's attitude towards their workplace; it is related to a perception of organisational vision and their involvement in undertaking their job. Anthony et al. [5] pointed out that committed employees will be more likely to work towards achieving an organisational competitive advantage by showing higher productivity, better customer relations and lower employee’s turnover (higher retention). Wijayanti [9] also revealed that organisational commitment is related to improvement in productivity and lower workforce turnover.

Commitment means for the employees to not only stay in the organisation for a longer time, but also to give their best efforts and be loyal to the organisation. If employees' satisfaction is reflected in their response to the job and several aspects in their job, it may affect their satisfaction, redundancy and then organisational commitment may cover wider value, including the reflection of the employees' affective responses to their organisation as a whole [10]. According to Robbins [11], employees with high organisational commitment will show better performance, lower turnover intentions, and higher attendance records. Hasibuan [12] interpreted performance as an achievement...
within their organisation, in line with their duties and job description, and legally and ethically achieving the organisational goals. PT. Telkomsel Indonesia Tbk. is the largest cellular communication operator in Indonesia that was launched on 26 May 1995. In the period, the ownership was acquired by PT. Telkom (51%) and PT. Indosat (49%). In 1997, Telkomsel became the first cellular operator company in Asia to offer prepaid Global System for Mobile Communication (GSM) products.

2. Literature Review

2.1 Performance

Every company expects their employee to possess some skills and knowledge to achieve good performance. Hariandja [13] define performance as an accomplishment which involves the process within the organisation to evaluate their employee’s performance. Simamora [7] define performance as the outcome of employee’s given job description and duties; it is also mentioned that performance is affected by 3 factors; 1) Individual factors, which include skill, knowledge, background and demographic factors; 2) Physiological factors, which include perception, attitude, personality, learning and motivation, and; 3) Organisational factors, which include resources, leadership, reward, structure, and job design.

Performance evaluation is a way to compare the achievement of every employee with the indicator set upon them [5]. Performance evaluation is not only limited to physical matters but also covers ability, initiative, discipline, work relation, and other specific areas of the job. Hasibuan [12] mentioned that performance measurement is a way to plan and control task management so that it can continuously achieve the target set by the organisation. Employee performance is measured over a period of time, based on agreed target and goal, with consideration given to a specific situation that may affect the performance itself. Hasibuan [12] stated that performance evaluation can be measured in 3 criteria; 1) Result based evaluation in which there are a target and specific indicators to be measured; 2) Behavioural evaluation in which behavioural indicators related to the job are measured, and; 3). Judgment evaluation in which work quality, quantity, coordination, knowledge, skill, creativity, attitude, personality, sociability, integrity, awareness and their reliability at work are measured.

2.2 Compensation

One of the significant ways that company management can do to improve work achievement, motivation, and performance is the use of compensation [6]; the compensation can be both financial and non-financial [5]. For the organisation, compensation reflects the effort to retain and improve their employee welfare. Compensation management helps the organisation to achieve its goals and to guarantee fair and equitable conditions internally and externally. Rivai et al. [14] mentioned that compensation can be used: a) To attract good talents to join the organisation; b) To retain good talents; c) To achieve competitive advantages; d) To motivate employees to achieve high-performance results; e) To compensate employees based on legal requirements; f) To help companies in their strategic goals, and; g) To create a solid organisational structure and its function. Hasibuan [12] mentioned that the aims of compensation are: to strengthen work relations; to improve employee satisfaction, effective employee procurement, motivation, stability; to improve employee discipline; to strengthen labour union relation and regulation compliance. Anthony et al. [5] found that there are 4 factors used to determine compensation system: organisational factor, employee, labour market, and the job itself.

2.3 Organisational Commitment

Organisational commitment is defined as the situation where an employee stands over one organisation with its goals to retain affiliation [11]. Luthans [15] mentioned that organisational commitment is an attitude, which includes: strong desire to be part of the organisation, strong desire to act in the best interest of organisation, strong belief in the organisation and can accept the value and goals of the organisation. Organisational commitment reflects loyalty of employees and the continuous process where employees express their interest, continuous success, and improvement to the organisation.

Research by Hackett et al. [16] categorizes multidimensional organisational commitment into 3 model components: 1) Affective commitment is an emotional approach of individuals in involvement with the organisation, so that they will have a sense of affiliation; 2). affective commitment relates to emotional, identification, and employee involvement; 3). Continuance commitment is the desire of an individual to stay with the organisation, so that they will need to be affiliated with the organisation. Luthans [15] mentioned that continuance commitment is based on detriment related to employee exit from the organisation; 3) normative commitment is the sense of obligation of an individual to stay with the organisation. Normative relates the sense of obligation of what they have to give, to the organisation as it is seen as the right thing to do.

2.4 Labour Union

According to Moncrief [8], a labour union is the expression of rights for employees to unite and associate; labour union is very important for the continuance of industrial relation. Labour union is expected to perform its function to improve industrial relation at the company level [18]. With the existence of labour union within a company, it is expected that employee aspiration can be
accommodated, so that improvement in their welfare and rights can be made continuously. The aims of labour union include: to protect the rights of employee, to improve their welfare, to improve working conditions and provisions through agreement with the employer, to negotiate compensation in the occurrence of health and personal issues, and to represent employees in order for the company to consider their employee's opinion in decision-making process [19].

Budiarti [20] mentioned that the roles of labour union are: protection for its members, improvement in working conditions, negotiation regarding working agreement and compensation, complains accommodation, dispute mediation, employee’s welfare improvement, communication medium, maintaining solidarity among employees, maintaining industrial relationship, and creation of good working relationship between employees and employer.

3. Methodology

3.1 Population and Sample

The population involved this research were all full-time employees of PT, Telkomsel Indonesia Tbk in the region of Bali and Nusa Tenggara. The total population was 164 employees from some divisions such as Network Operation, Sales and Customer Service and other support divisions. Kashefi et al. [21] Mentioned that the application of partial least square (PLS) does not always require large samples, so mentioned that minimum criterion to use the PLS is to have between 30 - 50 samples. The minimum sample requirement also can be based on 5 times the number of indicators [22]. Based on this criterion, the minimum number of sample for this research was 95 (5 times 19), thus, the samples collected from Network Operation were 50 samples, while from Sales and Customer Service were 47 samples, bringing the total of 97 respondents.

3.2 Research Hypotheses

Research by Budd [23] found that compensation in the form of bonuses and incentives can improve employee’s performance; it is also mentioned that compensation combined with the right performance evaluation can give a great effect on performance improvement. Company’s policy on compensation should not only focus on the labour market but also on internal factors such as company’s profitability, so the compensation can be based on employee’s performance and achievement. Hameed et al. [24] mentioned that compensation has an effect on performance. Sopiah [25] found that compensation has a positive significant effect on employee’s performance. Moreover, Sopiah [25] mentioned that employee's performance would be better if their compensation is based on agreed contract. Organisational commitment is a better predictor than employee's satisfaction because of global responses and can be attributed directly to the organisation [2]. A study by Mathieu and Zajac [26] concludes that there is a positive effect between organisational commitment and various variables such as better performance, lower employee turnover, and lower sick day.

Meyer and Allen [27] tested the effect of affective and continuance commitment on a higher level manager in food service companies. The result shows that affective commitment has a positive correlation with performance, while continuance commitment shows a negative correlation. Research by Ramayah and Nasrudin [28] found that commitment affects the outcome of the organisation; employees who have higher involvement and no intention to work elsewhere become the main driver for higher productivity. This finding is supported by Moncrief et al. [8] who mentioned that higher employee commitment will affect performance positively. Mowday and Steers [29] mentioned that commitment is fundamental in an organisation due to 1) Employee turnover impact, 2) Performance relation which assumes individuals with commitment tend to give more efforts in their work. Kreitner and Konicky [30] Suggested that organisational commitment plays an important role in performance improvement thus ignoring commitment will result in losses. Organisational commitment provides consistency to attest the form of employee's attachment to their organisation. With the right commitment, employees will have higher motivation and there will be a positive impact on performance.

Research by Kashefi et al. [31] shows that high organisational commitment is related with a significant and positive effect on performance, and Mathis and Jackson [6] also revealed the same findings. Employees with high commitment and a positive attitude to the organisational goal will tend to have a stronger desire to come to work and to contribute to achieving the organisational goals. Ramayah and Nasrudin [28] in their research found that employee satisfaction can be measured by compensation satisfaction, promotion, supervision and working relationship between employees, that define the employee commitment to the organisation. Shawa et al. [33] Concludes that compensation affects organisational commitment, as also mentioned by Ziauddin and Farooq [34] that compensation significantly affects organizational commitment. Hence, the right compensation can improve employee’s organisational commitment.

Hypothesis 2. Organizational commitment positively affects employee’s performance.
Hypothesis 3. Compensation positively affects organizational commitment.

Gani [35] mentioned that the external influence in compensation program is labour union; their existence in the private sector was predicted to increase wages by 10 –
15% and increase allowance by 20 – 30%. The wage differences amongst company with and without labour union appear substantial during the period of recession and narrower during the period of inflation. There is a reasonable factor that makes labour union become the determinant of compensation level, although this tends to occur more in organised industries. Hence, when a company operates in strong union presence, their compensation system will be affected. The effect of labour union on productivity is still highly debatable; union involvement is believed to reduce productivity because 1) Union advantages over wages trigger companies to use less labour and more on capital per labour, resulting in less efficiency in the market; 2) Union contract limits the scope of work done by employees, even though it is perfectly legal, resulting in the use of more unnecessary labour to perform work not in the contract; 3) Strike, working to rule, will result in great financial damage for the company.

The existence of labour union arguably can improve the negotiating power over the existing wages regulation. Budd [23] mentioned that the role and demand of union have to be met, if not, actions causing disturbance to company can occur, such as production process slow down, high employee turnover, and even strike. Lu et al. [36] figured out a positive and significant relationship between a labour union and productivity and between labour union and compensation. Labour union provides the strength of collective representation for the employees to receive information on better wages, to provide support and moral strength among employee and negotiate on better working conditions, safety and welfare [37]. An employee who joined the union also can have negotiating power over compensation arrangement and implementation [38]. Labour union is the symbol of strength for an employee to demand better welfare, and their existence largely needs to be taken into consideration by company's management [39].

Hypothesis 4. Labour union has a moderate effect of compensation on employee’s performance

3.3 Data Analysis Technique

Data analysis technique used in this research was Structural Equation Modelling (SEM) with component based approach using Partial Least Square (PLS). Kashefi et al. [21] stated that PLS is an analysis method which can be applied to all data scales. Besides, variance or component based SEM (PLS) can avoid two serious problems, which are an inadmissible solution and factor indeterminacy [22]. This research also used descriptive analysis technique using SPSS in addition to PLS.

Figure 1. The Conceptual Model

3.4 Research Instrument and Model Measurement Evaluation

In this study, compensation was measured using three indicators, organisational commitment using three indicators, employee’s performance using seven indicators, and labour union using six indicators. Respondent’s perception was measured using Likert scale, with five scales. All the questions were designed (1. Strongly Disagree, 2. Disagree, 3. Neutral, 4. Agree, 5. Strongly Agree). Validity test shows that all research instruments have product moment correlation above 0.3, thus, it can be considered valid. Reliability construct shows that the values of cronbach alpha above 0.6, thus it can be considered reliable. Then the results of the validity test and reliability with PLS for each variable are given as follows:

1). Composite reliability aims to test the reliability of the block indicator from its construct and to test instrument validity of the research model exclusively for the reflective indicator. The result of composite reliability test is considered to be reliable when it is above 0.7. Table 1, below indicates the composite reliability test of the variables. All variables show the results of more than 0.7 except for labour union (M) at 0.5395 < 0.7.

Table 1. Composite Reliability

<table>
<thead>
<tr>
<th>Variables</th>
<th>Composite Reliability</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensation</td>
<td>0.8471</td>
<td>Reliable</td>
</tr>
<tr>
<td>Organisational Commitment</td>
<td>0.8606</td>
<td>Reliable</td>
</tr>
<tr>
<td>Labour Union</td>
<td>0.5395</td>
<td>Reliable</td>
</tr>
<tr>
<td>Employee’s Performance</td>
<td>0.7217</td>
<td>Reliable</td>
</tr>
<tr>
<td>Compensation*Labour Union</td>
<td>0.7629</td>
<td>Reliable</td>
</tr>
</tbody>
</table>

2). Convergent validity aims to discover items which create the indicator of the latent variable. Convergent validity is measured based on the value of loading factor indicator construct. The result of convergent validity test shown in Table 2 below indicates that all indicators rate of loading factor above 0.50, except for labour union (from 6 to 4 indicators), so two indicators have been excluded from the model.

Table 2.

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3). Discriminant validity aims to evaluate the reliability discriminant of every variable. This can be measured using the Average Variance Extracted (AVE) value of every latent variable. The test result shown in Table 3 indicates that the AVE values of all variables are above 0.50, thus, it can be concluded that the variables have met the criteria of discriminates validity.

Table 3. Discriminant Validity

<table>
<thead>
<tr>
<th>Variable</th>
<th>Average variance extracted (AVE)</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensation (X1)</td>
<td>0.8471</td>
<td>Valid</td>
</tr>
<tr>
<td>Organisational Commitment (X2)</td>
<td>0.8606</td>
<td>Valid</td>
</tr>
<tr>
<td>Labour Union (M)</td>
<td>0.5395</td>
<td>Valid</td>
</tr>
<tr>
<td>Employee’s Performance (Y)</td>
<td>0.7212</td>
<td>Valid</td>
</tr>
<tr>
<td>Compensation<em>Labour Union (X1</em>M)</td>
<td>0.7629</td>
<td>Valid</td>
</tr>
</tbody>
</table>

4). The Goodness of a fit model (GoF) is a structural inner model using the value of Q^2 predictive relevance to test the variables used in the model.

The calculation shows the Q2 predictive-relevance value is 0.9726 (>0). It indicates that 97.26% variation in the dependent variable can be explained by variables used in the model and the rest 2.74% is to be explained by variables not used in the model.

4. Data Analysis and Result

The test result on the effect between independent and dependent variables in this research is shown in Table 5 below.

Table 5. Hypotheses Test Result

<table>
<thead>
<tr>
<th>Relationship among Variables</th>
<th>Original Sample Estimate (β)</th>
<th>T-Statistic Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensation -&gt; Performance</td>
<td>0.7526</td>
<td>10.0625 Significant</td>
</tr>
<tr>
<td>Commitment -&gt; Performance</td>
<td>0.0284</td>
<td>1.5636 Non significant</td>
</tr>
<tr>
<td>Commitment -&gt; Performance</td>
<td>0.6433</td>
<td>22.0934 Significant</td>
</tr>
<tr>
<td>Union -&gt; Performance</td>
<td>0.6421</td>
<td>16.8646 Significant</td>
</tr>
<tr>
<td>Union*Compensation-&gt; Performance</td>
<td>-0.3678</td>
<td>3.5946 Significant</td>
</tr>
</tbody>
</table>

The analysis using partial least square in Table 5 with a level of significance 0.05 indicates the effect of compensation on employee's performance (β = 0.7526 and t-statistic = 10.062) is significant and the hypothesis is accepted. The effect of organisational commitment on employee's performance (β = 0.0284 and t-statistic = 1.5636) is not significant and the hypothesis is rejected. The effect of compensation on organisational commitment (β = 0.6433 and t-statistic = 22.093) is significant and the hypothesis is accepted. The effect of compensation on employee's performance with labour union as the moderating variable (β = -0.3678 and t-statistic = 3.5946) is significant and thus labour influence weakens the effect of compensation on employee's performance. Lastly, the effect of labour union on employee's performance (β = 0.6421 and t-statistic = 16.8646) is significant and the hypothesis is accepted.

5. Conclusion and Implication

The study indicates that the most important factor of employee assumption for compensation is direct financial compensation (loading factor 0.95). The most important organisational commitment factor is normative
commitment (loading factor 0.96) and the highest contribution by labour union perceived by employees is their role in protecting the employees when there is a dispute with management (loading factor 0.892). This study also found that from four hypotheses are tested, three hypotheses are verified and one hypothesis is rejected. The analysis shows that labour union is the predictor of employee’s performance ($\beta = 0.6421$ and t-statistic = 16.8646) thus it can be concluded that the existence of labour union can improve employee’s performance [22]. The result concurs finding by Fairbrother [37] that labour union can create strength on collective representation to improve working rights and conditions, safety and welfare. Employees who are part of labour union can influence the compensation policy and arrangement [38]. Nonetheless, this study finding that if labour union involved in compensation improvement, it will weaken the effect of compensation on employee’s performance significantly ($\beta = -0.3678$ and t-statistic = 3.5946). It indicates that the role of a labour union is not always as expected, as of their purposes.

The implication of this research is the role of a labour union is less strategic in bridging the interest of employee and management in compensation policy; even labour union weakens the effect of compensation and employee’s performance. Therefore, the management can make some improvements on non-financial compensation policies, including; annual leave policy, housing assistance, relocation assistance, and employee insurance.

REFERENCES