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Mediating effect of work performance and organizational commitment in relationship between reward system to employees' work satisfaction

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## **Mediating Effect of Work Performance and Organizational Commitment in Relationship between Reward System and Employees' Work Satisfaction in South Sulawesi, Indonesia**

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### **Abstract**

**Purpose-** The purpose of this study was to investigate the mediating effect of work performance and organizational commitment on the relation between reward system and employees' work satisfaction.

**Design/Methodology/Approach-** population in this study was all employees/permanent employees (Civil Servants and Non-Civil Servants) at BNI, BRI, Bank of Mandiri and South Sulawesi BPD on leadership level. The analytical method used to test the hypothesis of the research was Structural Equation Modeling (SEM).

**Findings-** Extrinsic Reward System and Intrinsic Reward System had direct significant effect on Work Performance and Organizational Commitment, and Work Performance and Organizational Commitment had direct significant effect on Work Satisfaction. On the other hand, Extrinsic Reward System and Intrinsic Reward System had no direct effect on Work Performance, but Work Performance and Organizational Commitment were mediating variables to bridge the relation of Extrinsic Reward System and Intrinsic Reward System with Work Satisfaction.

**Originality/Value-** The originality of this study shows (1) the mediating effects (using sobel test) of Work Performance and Organizational Commitment on the relation between Reward System and Work Satisfaction, (2) location of study (no previous research on this relationship): Bank in South Sulawesi, Indonesia.

*Keywords: Work Performance, Organizational Commitment, Reward System, Work Satisfaction*

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### **A. Introduction**

There are two strategies to increase company's strategic capabilities by Industrial Organization models (model I / O). One is a resource-based model stating that the company's internal capabilities and resources reflect the basis for the development strategy of value creation. Resources and capabilities that are a source of competitive advantage are called core competencies (core competence) (Boyd & Wraight, 1992; Grant, 1991; Hitt & Ireland, 1986).

Because humans are extremely important in competition and survival strategies in short term and long term for an organization, especially business organizations, it is important that an organization manage their human resources effectively or not in the face of domestic and global competition (J. Pfeffer, 1994). The pressure of globalization requires Human Resource (HR) to be able to become reliable workers and ready to provide services that satisfy customers, develop new skills, to create new innovative products, be committed, and be able to manage change through teamwork. They are required to think globally and have a vision of the future. Thus attention and guidance to human resources are factors that must be improved. One of the clearest symptoms of declining conditions in an organization is the lack of work satisfaction.

National banking in Indonesia is facing increasingly tight economic, monetary and trade situation such as strengthening of protectionism, increasingly limited international financial fund, fulfillment of CAR requirement (8%), economic and monetary globalization and structural weaknesses of national banking management system (Artawan, 2011). Based on the current national banking conditions, there are at least five areas that require strengthening in the face of global challenges and free market competition. First, the improvement of organization and management. Market demand requires fast and responsive bank organization and participatory management system to prepare or establish itself as Universal Banking, which is a multi service bank. Second, the improvement of human resources through the process of meeting the needs

of the organization (based on existing structure) by HR planning, recruitment of a variety of skills and skill qualifications. Employee selection programs based on skills tailored to job description are very important in relation to the preparation of the division of work, including the ability to improve through the development of employees in the form of training and development on the job or off the job or improvement by self-improvement. The banking industry is basically a labor-intensive industry, not capital-intensive. Thus, attention to the development of human resources coupled with the improvement of welfare through a fair reward system to encourage optimal work will lead to employee job satisfaction which is expected to be more permanent. Third, the improvement of management information system (MIS) which is a support to the corporate strategic of the corporation. There are two kinds of information needed by banking, i.e. information for organization and information for customer. Fourth, the use of cutting-edge technology. Banking is an industry which is filled with modern technology, especially technology related to information and communication system to improve services to customer.

Approach to HR management seems to play an important role in creating a desire to serve customer. For example, in financial services / banking, the desire to serve will be very high if employees are selected for service orientation, trained extensively, receiving lots of feedback, and earning appropriate salaries (Schneider & Bowen, 1992). Effective payment program for achievement motivates employees because most people appreciate money value. Employees don't like it when everyone receives the same raise which is automatically given whatever the achievement. Payment based on the achievements provides an opportunity for employees to get more by doing so. An effective program also gives employees a clear achievement target. It allows an employee to monitor his/her performance compared with the target any time. Based on psychological research, a simple way to monitor self-achievements is encouraging individuals to compete with themselves and be better than their previous achievement level (Gibson *et al.*, 1997: 277). Furthermore, it is said that reward system may play a role in increasing employees' motivation to work more effectively, improve productivity within the company, compensate for the lack of commitment, if reward is related to employee's performance. Better performance typically raises economic, sociological, and psychological rewards. If the reward is considered proper and fair, then greater satisfaction will be because employees feel that they receive rewards in accordance with their performance (Davis, 1981: 99).

One of the clearest symptoms of declining condition in an organization is the lack of work satisfaction. In its most cynical form, the symptoms are hidden behind layoff, work deceleration, failure and turnover. The symptoms may also be complaints, poor performance, poor product quality, disciplinary problems and other difficulties. On the contrary, high work satisfaction is desirable by managers because it can be associated with a positive result that they expect. High work satisfaction is a sign of a well-run organization and is basically an outcome of effective behavior management. A study of workers in the US showed that 70-80 percent of US workers stated that they are satisfied with their works. Older workers reported the highest satisfaction (92%) for over 65 years old. Even young people under 25 years old reported a fairly high level of satisfaction (73%) It is linearly proportional to the achievement of business organizations in the US that achieve long term competitive advantages in general. Work satisfaction is a measure of the sustainable human climate development process in an organization (Davis, 1981:96). From the above explanation, the purpose of this study

was to examine the effect of performance and reward system on employees' work satisfaction: a study of banking company in South Sulawesi.

Employee dissatisfaction is usually expressed in the following four possibilities: exit, voice, loyalty, and neglect. Therefore, high work satisfaction has a very important meaning for both the employee and the organization, particularly as it creates a positive situation in the work environment of the organization. By understanding the determinant variables, intervention can be done to affect patterns of behavior of individuals in the organization towards the desired objectives of the organization. The employees need a system of pay and promotion policies that they perceive as fair, unambiguous, and in line with their expectations. Reward systems are important to attract candidates to join the organization, keep them working, and motivate them to work hard. If used effectively, reward can affect the individual's behavior such as turnover, absenteeism, achievement and commitment. One of the factors that make an employee to work in a fun and satisfying way is their commitment to the organization or company where they work.

Transformation of a bureaucratic public company into a business entity oriented toward customer satisfaction obviously requires changes in strategies. Moreover, the strategy will only be successful if the human resources prepared by the company are able to support the implementation of the strategies. Thus employees are required to improve their performance in increasingly heavy and varied tasks. Improved performance is closely related to the level of an employee's organizational commitment a system of rewards that can meet employee's intrinsic and extrinsic needs.

The purpose of this study was to investigate the mediating effect of work performance and organizational commitment on the relation between reward system and employees' work satisfaction. The originality of this study shows (1) the mediating effects (using sobel test) of Work Performance and Organizational Commitment on the relation between Reward System and Work Satisfaction, (2) location of study (no previous research on this relationship): Bank in South Sulawesi, Indonesia.

Several previous studies have found partial relationship between variables as follow: (1) Reward to Performance by Tornikoski (2011), Rowland & Hall (2014), Shortland & Perkins (2016), de Castro, *et al.*, (2016), (2) Reward to Commitment by Tornikoski (2011), Newman & Sheikh (2012), Seijaaka & Kaawaase (2014), Perez & Cruz (2015), Nazir, *et al.*, (2016), de Castro, *et al.*, (2016), (3) Reward to Satisfaction by Seijaaka & Kaawaase (2014), Lardner (2015), Naser & Sajad (2016), (4) Performance to Satisfaction by Yiing & Ahmad (2009), Westover, *et al.*, (2010), Rowland & Hall (2014), de Castro, *et al.*, (2016), and (5) Commitment to satisfaction by Yiing & Ahmad (2009), Westover, *et al.*, (2010), Anari (2012), Seijaaka & Kaawaase (2014), Perez & Cruz (2015), Pathardikar, *et al.*, (2016), Naser & Sajad (2016). No previous study has comprehensively studied the Mediating Effects of Performance and Commitment on the relation between Extrinsic and Intrinsic Reward and Employee Satisfaction, especially in Indonesia.

## B. Literature Review

Organizational commitment, according to Meyer and Herscovitch (2001), can take many forms and influence organizational capacity and welfare of employees. Thus, by having different forms, or psychological configurations, commitment allows various individual behaviors. One of the strategies is making employee motivation relevant to

organizational management, which is an important driver of organizational performance (Alonso and Lewis, 2001; Saeid Aarabi *et al.*, 2013).

In this sense, the idea of reward seeks to satisfy the needs that generate motivation to work. However, we cannot ignore individual values that guide and direct actions, behavior and assessment of people. The values are characterized by what an individual considers desirable for certain aspects of life, which direct their behaviors, enable assessment of people and events, and can also justify their actions and evaluations. In this scenario, this research chose to analyze the association between construct values, motivation, commitment, performance and rewards (de Castro, *et al.*, 2016).

This concept represents the material and tangible gains earned by employees by performing their tasks, and may take fixed or variable values. Base salary demonstrates the recognition of the employee's value to the organization, also reflecting the individual's potential and their importance to the organization. The variable remuneration is the variable portion of remuneration linked to the achievement of performance targets and results obtained in a given period (Jensen *et al.*, 2007). In organization, management remuneration consists of three dimensions: functional compensation, which uses the position to consolidate the plans for jobs and wages; variable remuneration, which has as its central principle the recognition of the contribution of employees (individual) as a factor to be paid; and finally benefits represented by medical and dental plans, life insurance, transportation, food basket, accident insurance or study grants (Rodrigues, 2006; Gheno and Berlitz, 2011; Marras, 2012).

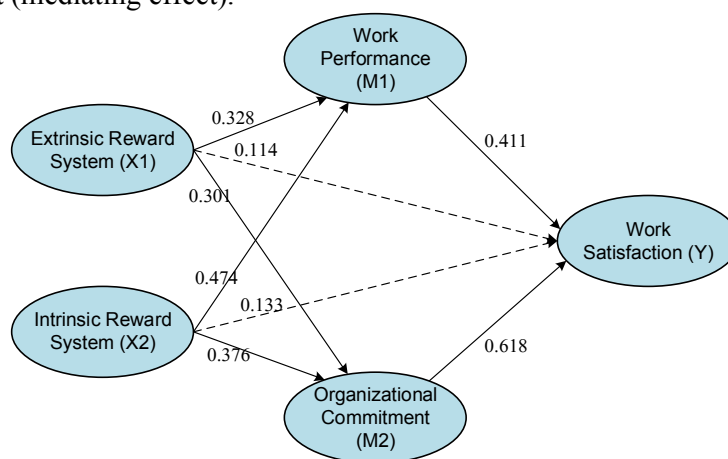
The performance is presented in its complex form of measurement (Lyster and Arthur, 2007) due to the presence of subjective factors such as the nature of the organization support availability or regulatory restrictions, in which individuals have little to no influence. Cognitive limitation would be another aspect to be considered, identifying the small probability of an individual enhancing his performance. Dayaran (2010) states that the influence an individual carries to third party performance in the context of organization must be taken into account.

### **C. Material and Method**

This study was conducted with the aim of analyzing the effect of reward system and work performance on work satisfaction by using work performance as a mediating variable. In accordance with the purpose of the study, the population in this study was all employees/permanent employees (Civil Servants and Non-Civil Servants) at BNI, BRI, Bank of Mandiri and South Sulawesi BPD on leadership level. The target population was all employees at the four operational areas of the banks in South Sulawesi. Total target population was 350 people, while sampling population of 245 people. Questionnaires were distributed to the companies in two ways: (1) the researcher directly handed them over to the companies, Regional Offices, Makassar main branch offices, and District/City branch offices. Then appointments were made to determine the time of when the questionnaires were returned. (2) The researcher submitted questionnaires to the Personnel/Human Resources section in the Regional Office to be distributed to employees in the Regional Offices, Makassar main branch office, and branch offices in the District/City. The analytical method used to test the hypothesis of the research was Structural Equation Modeling (SEM).

### C. Analysis Result

In the main part of SEM analysis is the interpretation of structural model or structural model. Structural model presents the relationship between study variables Coefficient structural model shows the magnitude relationship between the variable and another variable. There is significant effect between variables one and another, if the value of P-value  $< 0.05$ . In SEM, there are two effects, i.e. direct effect and indirect effect. The results of the analysis are summarized in Figure 1 for a direct effect and indirect effect (mediating effect).



**Figure 1. Structural Model Test: Direct Effect**

The straight line expresses significant effect and dotted lines expresses insignificant effect

The results show that from 8 hypotheses of direct effect, 2 hypotheses (H5 and H6) were rejected in direct effect, but accepted in mediating (indirect) effect. Extrinsic Reward System and Intrinsic Reward System had directly significant effect on the Work Performance and Organizational Commitment, and Work Performance and Organizational Commitment had directly significant effect on Work Satisfaction. On the other hand, Extrinsic Reward System and Intrinsic Reward System had no direct effect on Work Performance. Two rejected hypotheses (in direct effect) were accepted in mediation effect, with Work Performance and Organizational Commitment as mediating variables to bridge the relation of Extrinsic Reward System and Intrinsic Reward System with Work Satisfaction.

### D. Discussion

#### D1. Mediation Effect of Work Performance on the Relation between Reward System and Work Satisfaction

Either extrinsic or intrinsic reward system didn't necessarily affect performance. For employees, giving reward was an obligation to the employee as a manifestation of "contracts". The reward system affected work performance. This was in line with the findings of Richard Steel that benefit must be of high value to effect one's work motivation. High motivation will affect work performance. But, in addition, work performance is also affected by the ability, acceptance of roles and organizational environment. Thus, these findings weren't consistent with the study of Richard Steel, and differed in terms of the mediating variables, which in this study were work

performance and organizational commitment. Other studies which were consistent with these findings were Jensen and Murphy (1990), Kerr and Bettis (1987).

Jensen and Murphy (1990) in supporting the theory of seminal agency express disappointment at the low pay sensitivity of the CEOs and shock at similar results on subordinates. Furthermore, the authors suggest researchers to assess factors outside the agency's framework to explain the CEO's pay sensitivity to performance. Garen (1994) in his empirical study find that ... the overall explanatory power of the empirical model for the sensitivity of payments to performance is quite low. This is still unknown in the analysis of executive compensation (p.1198). Even Tosi, Werner, Katz and Gomez-Meija (1998) find that less than 5 percent of CEO salaries can be explained by performance factors. In conclusion, Taussig and Baker's (1925) failure to identify strong relation between top management compensation and company performance has confounded scholars.

The theory of labor supply is based on the idea that leisure is useful for any individual or family. Leisure is normal goods which will be consumed more if real income earned increased and it's favored by the individual. On the other hand, work is less preferred by the individual whether good or bad. Therefore leisure consumption is largely determined by the price and individual income, while individual income earned from work (wages) means that the amount of income is determined by the number of units of time allocated for work. Therefore, an individual / consumer optimizes the amount of time spent on work. This is derived from the theory of maximization of satisfaction.

The time for work and time for consumption are interchangeable. Total work hours multiplied by hourly wage is produces the received income. Rational consumer always wants to purchase a combination of work time and consumption time which can give maximum satisfaction level for them. With suitable reward system, an employee will seek to increase their appreciation for work because of the motivation and expectations of obtaining the reward will increase. The greater the expectation, the higher their achievement. Due to increasingly inadequate reward system, employee may consume more. But when the reward system increasingly provides additional rewards for achievement, the employee will earn more income. At a certain point employee will have excess income. The excess income, it will trigger a normal desire to purchase goods (leisure). The desire to buy pleasure; vacation with family, relax, etc. which are defined as "not working". Because buying leisure means no income, there are some time not used for "work" to further improve their performance. This is the logical reasons of the negative effect of reward system on work performance.

A research conducted by Murphy shows that incentive brings good result. Furthermore, it is said that the CEO with a higher level of sensitivity on incentive crave ownership. Meanwhile, the research conducted by Crystal finds that the focus is not how much the CEO is paid, but how they are paid. Further stated that there is no significant relationship between the level of achievement perceived by shareholders and total wealth of the CEO (Budiman, 1997). The relation between work performance and work satisfaction is found by many studies to be reciprocal or reciprocal (Miner, 1988; Luthans, 1998), therefore it's often difficult to determine which variable is affected and which variable that affects it. It's interpreted that the performance achieved in banking is a measure of the ability and motivation of an employee in their work. The amount of capability is reflected in high levels of intellectual ability or intelligence and physical recognition of the organization, co-workers, and society in general. Work performance

may be an individual or group achievement. Achievement is relatively more measured, e.g. profit, number of customers, the level of bad loans. Realistic measure is very easy to gain the praise and recognition from the environment around work. This in turn will affect employee satisfaction.

There are several of initial studies conducted since the 1950s that try to study the relations between performance and performance satisfaction (Konhauser & Shrap, 1932; Mayo, 1933; Brayfield & Crockett, 1955; Herzberg, Mausner, Peterson, Capwell, 1957; Emery and Trist, 1960; McGregor, 1960; Likert, 1961; Argyris, 1964; Etzioni, 1964; Vroom, 1964; Fournet, Distefano, Pryer, 1966; Vroom, 1985; Gross & Etzioni, 1985). Most of the studies seem to have assumed implicitly that there is a positive and significant relationship. Yet few researches show why work satisfaction leads to higher performance. Researches in the early 50s find a significant failure in the relation between satisfaction and performance (Kornhausner & Sharp, 1932). The statement that "a satisfied employee is an employee who productive" is quite popular at the time. But in the 1990s, various studies show that, the thesis about "happy" employees is widely regarded as a "fantasy". Research evidence shows that if there is a positive relationship between work satisfaction and work performance, then the correlation is consistently relatively low (Vroom, 1985). But when several studies insert mediating variables, the results somewhat improve the strength of the relationship (Herman, 1973; Petty, McGee, Cavender, 1984). For example, the relationship was stronger if the employee's behavior is not constrained or controlled by outside factors. Achievement of an employee at a job is determined by the engine speed, for example, will be much more affected by the speed of the engine rather than the level of satisfaction. Another example is the performance of a stock broker which is largely determined by the general movement of the stock market. When market turnover increases and transaction volume is high, satisfied and dissatisfied brokers will reap high commissions. Conversely, if the market condition is sluggish, the satisfaction of brokers doesn't mean much. Vroom concludes that in addition to external factors, the level of employment is also an important mediating variable. Satisfaction-performance correlation is stronger for higher-level employees; like professionals, supervisors, and managers.

A study conducted C.N. Greene (1972) in Robbins (2001: 150) actually find that performance will lead toward work satisfaction, not vice versa. This is proposed to give a theoretical comparison for the findings Luthans and Miner. If one does a good work, they will intrinsically feel happy about it. Plus, organization gives reward to recognize high productivity by giving a salary increase and promotion, increasing employee satisfaction.

## **D2. Mediating Effect of Organizational Commitment on the Relation between Reward System and Work Satisfaction**

Intrinsic rewards in the form of completion of work in accordance with the work plan shows it was perceived as a form of intrinsic rewards. A difficult work brought a sense of pride for employees, the sense of pride associated with high self-esteem. Achievement was related to the achievement of organizational goals which are difficult and challenging. Works which are relatively difficult to do turned out to provide motivation for employees. Difficult goal setting also had the same effect. This was in line with the theory of P.S. Goodman (1972) which states that the achievement of the objectives that are relatively difficult will give a boost motivation more powerful than a simple goal setting.



Intrinsic rewards are categorized as motivational factors (job content) such as achievement of achievement, occupation, recognition, probability of development, and responsibility. These factors are described by Herzberg (1967) as factors which, if they don't exist in organization, don't necessarily lead to dissatisfaction, but if these factors exist, they will form strong motivation and produce good performance. Good achievement achieved by the motivational factors will affect employee job satisfaction. The company's intrinsic rewards include job completion, promotion, achievement, personal growth, although previous reviews only show moderate to good levels. However, they have moderate effect on employee job satisfaction which includes job satisfaction, salary, coworkers, leadership, and organizational environment.

Intrinsic personal growth reward shows the extent of an organization provides opportunity for employee to contribute their ability. The employees have strong confidence in their ability to grow. However, ability to grow isn't addressed well in the organization. However, there is a pressure to continue to develop the ability, although very weak. Although the ability is considered important for work, commitment to continuously being developed is weak. Autonomy in work indicates the existence of an employee's access to decision-making at the work. There is pressure in the possibility of obtaining a broad discretion in the work. This illustrates that the higher the authority, the more work acknowledge an employee as an important part of the organization.

The indicators of extrinsic and intrinsic reward system showed a strong relationship and directly it affected the growth of employees' organizational commitment. According Luthans (1987), not many studies have tried to connect the system rewards the commitment of the organization. Buchanan (1975) finds a positive effect extrinsic rewards system through structure, salaries, benefits and bonuses, significantly affecting the organization's commitment to sustainability, while the effects on affective and normative commitments aren't significant.

Work satisfaction is affected by organizational factors such as employee commitment to the organization, and employees often become very committed to the organization before they develop positive work habits (Boxx, Odom, & Dunn, 1991; Glisson & Durick, 1988; Mowday, Porter, and steers, 1982; Posner, 1992; Romzek, 1990; Salancik & Pfeffer, 1978). Researchers generally agree about the cause and effect relation between work satisfaction and organizational commitment (Bateman & Strasser, 1984; Curry, Wakefield, Price, & Muller, 1986; Williams and Hazer, 1986).

A study was conducted by Yuan Ting (1996) from California State University-Fullerton on the Analysis of Work satisfaction of the Federal White-Collar Work Force: Findings from the survey of Federal employees. The purpose of this study is to expand preexisting researches on work satisfaction to identify the main factors of work and organization as individual characteristics that affect employee satisfaction, particularly among white collar federal employees. The study also only specifies the connection / association (not causality) between them on the basis of cross-sectional nature of the survey of Federal employees.

The dominant organizational commitment to the company in the previous reviews is normative commitment. Normative commitment is related to relative values cultivated by elderly people who have worked in the company, especially in banking. The principles of loyalty, sacrifice, and compliance by no means reflect a strong decision for commitment. Possibly, these norms are weaker than external factors. Indeed, the average employee education is diploma/master degree with a percentage of 50.9%. That is, they have a chance of finding a work, if leaving the company. However,

it must be remembered that these demands in banking skill is quite high, so the level of competition is also quite high. In addition, the external conditions of our economy, especially the labor supply remains weak, so employees may only obey the company but they are not necessarily satisfied.

Previous studies have some differences with the present study. Past studies (Vandenberg & Lance, 1992; Gregson, 1992; Poznanski & Blinc, 1997; Iverson & Roy, 1994, and Yuanting, 1999) have succeeded in proving the effect of organizational commitment on employee satisfaction and adverse effects (Gregson, 1992; Poznanski & Blinc, 1997; Iverson & Roy, 1994). This differs from the findings of this study, namely that organizational commitment is not directly related with work satisfaction, but the association is not direct and positive (indirect). These findings are consistent with the findings Haerani (2004), who also finds that the two are not related, unidirectional or reciprocal.

### **E. Conclusions and Recommendations**

The conclusion of this study is that Extrinsic Reward System and Intrinsic Reward System had direct significant effect on Work Performance and Organizational Commitment, and Work Performance and Organizational Commitment had direct significant effect on Work Satisfaction. On the other hand, Extrinsic Reward System and Intrinsic Reward System had no direct effect on Work Performance, but Work Performance and Organizational Commitment were mediating variables to bridge the relation of Extrinsic Reward System and Intrinsic Reward System with Work Satisfaction.

Findings indicated that extrinsic and intrinsic reward system had no direct effect on work satisfaction, leading to the need to evaluate companies' reward systems. Specifically, it concerned intrinsic reward system which seemed to not be perceived as a reward. Reward system was heavily laden with external influences, internal affairs of organizations and the psychology of employees, especially those involving the perception of fairness. Extrinsic rewards were relatively easy measure in a way which could be accepted as fair. But there was no such intrinsic rewards, because the benefits are more abstract, such as autonomy and the completion of the work. Employees at the leadership level, categorized by Vroom as high level employees, which is a relative terms, received extrinsic rewards in the form of financial rewards, interpersonal rewards, promotion, which were seen as the companies' obligations to give to them. But there was no intrinsic reward. This was seen as a company policy to increase motivation, so that the employees could perform optimally. Intrinsic rewards should be developed in accordance with the variations of characteristics associated with work performance.

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