



UNIVERSITI PUTRA MALAYSIA

**ATTITUDE OF MIDDLE MANAGEMENT EXECUTIVES OF
RESORTS WORLD BHD TOWARDS THEIR
COMPENSATION SYSTEM**

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**By
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Abstract of the project paper submitted to the senate of Universiti Putra Malaysia in partial fulfilment of the requirement for the degree of Master of Science

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**By
CELIA CHANG YOKE CHING**

October 1998

**Supervisor : Prof. Madya Dr. Hjh. Maimunah Ismail
Faculty : Educational Studies**

The general objective of the study is to examine the attitude of the middle management executives towards their compensation system based on Hay's Point System. While the specific objectives of the study are to investigate : (1) the perceived fairness of compensation system based on Hay's Point System, (2) the level of motivation and retention achieved by the compensation system based on Hay's Point System, (3) the degree of awareness of the compensation policy based on Hay's Point System, (4) the most desired changes of the compensation system based on Hay's Point System and, (5) the relationship of the respondents' social-demography with their attitudes toward compensation system based on Hay's Point System.

The study was conducted at amongst 143 randomly selected middle management executives from various departments of the Resorts World Bhd of Genting Highlands Resort. A

modified Michigan Organizational Assessment Questionnaire was used to measure the attitude of these middle management executives toward the compensation system based on Hay's Point System. Statistical procedures such as frequencies, cross tabulation with chi-square, t-test, ANOVA and Pearson Product Moment Correlation were used to analyze the data.

Findings of the study revealed that : (1) the perceived fairness of the compensation system based on Hay's Point System was moderate, (2) the level of motivation and retention achieved by compensation based on Hay's Point System was moderate, (3) the degree of awareness of the compensation policy based on Hay's Point System was moderate, (4) the most desired changes of the compensation system based on Hay's Point System are bonus should be paid according to company's performance and the company housing loan should be granted without any pre-condition and, (5) the middle management executives' attitude toward the compensation system based on Hay's Point System was positively related to their age and the number of dependents they have.

The overall results show that the middle management executives have a neutral attitude towards the compensation system based on Hay's Point System. The study suggests that the top management of the organization should provide information on the company pay policy to the middle management executives, so that they can fully understand the fairness of the company pay and what types of behaviors are valued and rewarded by the company.

**Abstrak kertas projek yang dikemukakan kepada Senat Universiti Putra Malaysia
Sebagai memenuhi keperluan Ijazah Sarjana Sains**

**SIKAP PENGURUS PERINGKAT PERTENGAHAN
RESORTS WORLD BHD TERHADAP SISTEM GANJARAN MEREKA**

Oleh :

CELIA CHANG YOKE CHING

Penyelia : Prof. Madya Dr.Hjh. Maimunah Ismail
Fakulti : Pengajian Pendidikan

Objektif utama kajian ini ialah untuk menilai sikap pengurus peringkat pertengahan terhadap sistem ganjaran yang berdasarkan sistem “Hay’s Point”. Manakala objektif khusus kajian adalah untuk mengenalpasti : (1) persepsi pengurus peringkat pertengahan terhadap equiti sistem ganjaran yang berlandaskan sistem “Hay’s Point”, (2) sejauhmana sistem ganjaran yang berlandaskan sistem “Hay’s Point” berjaya memotivasi dan mengekalkan pengurus peringkat pertengahan di Resorts World Bhd, (3) tahap pemahaman terhadap polisi sistem ganjaran berasaskan sistem “Hay’s Point”, (4) perubahan yang sangat diinginkan ke atas sistem ganjaran yang berdasarkan sistem “Hay’s Point” dan, (5) bentuk perhubungan antara ciri sosial-demografi pengurus peringkat pertengahan dengan sikap mereka terhadap sistem ganjaran yang berasaskan sistem “Hay’s Point”.

Kajian ini telah dijalankan di kalangan 143 orang pengurus peringkat pertengahan Resorts World Bhd di Genting Highlands melalui persampelan rawak berlapis. Soal-selidik

“Penilaian Organisasi Michigan” yang telah diubahsuai digunakan untuk menilai sikap pengurus peringkat pertengahan Resorts World Bhd terhadap sistem ganjaran yang berasaskan sistem “Hay’s Point”. Di samping itu, statistik seperti frekuensi, ujian chi-square, t-test, ANOVA dan Korelasi Pearson telah digunakan untuk menganalisis data yang dikumpulkan.

Hasil kajian ini menunjukkan bahawa : (1) persepsi equiti pengurus peringkat pertengahan Resorts World Bhd terhadap sistem ganjaran yang berasaskan sistem “Hay’s Point” adalah sederhana, (2) sistem ganjaran berasaskan sistem “Hay’s Point” hanya mampu memotivasi serta mengekalkan pengurus peringkat pertengahan secara sederhana sahaja, (3) tahap pemahaman pengurus peringkat pertengahan terhadap sistem ganjaran berasaskan sistem “Hay’s Point” juga adalah sederhana, (4) perubahan utama yang sangat diinginkan ke atas sistem ganjaran berasaskan sistem “Hay’s Point” adalah pembayaran bonus mengikut pencapaian keuntungan syarikat serta pinjaman faedah perumahan tanpa pra-syarat, (4) sikap pengurus peringkat pertengahan terhadap sistem ganjaran berasaskan sistem “Hay’s Point” berkaitan secara positif dengan umur and bilangan tanggungan mereka.

Secara keseluruhan, pengurus peringkat pertengahan Resorts World Bhd mempunyai sikap yang neutral terhadap sistem ganjaran berasaskan sistem “ Hay’s Point”. Justeru itu, kajian ini mencadangkan pengurus atasan Resorts World Bhd membekalkan informasi yang cukup kepada pengurus peringkat pertengahan agar mereka dapat memahami equiti ganjaran serta tingkah-laku yang dihargai oleh institusi tersebut.

CHAPTER 1

INTRODUCTION

Background and Its Context

An employee must, over time, is somehow affected by the compensation of the job he holds at that time. He may be concerned with the amount of pay he received by comparing with market rates; or he is excited by the increment and bonus he banks in as compared to his colleagues; occasionally, in conversation with his friend on benefits such as company car loans, pensions, subsidies that he entitled. Therefore, it is safe to assume that people would probably not come to work or perform at any reliable level without any kind of reward (Wilson, 1994; Hartle, 1995).

To employees, compensation (or pay) is the most important determinant of their standard of living as well as their social status in the community (Gomez & Balkin, 1992). Proper pay management obviously will promote the spirit and working attitude of the employee. Whereas, inappropriately designed pay management system will yield employees' dissatisfaction which consequently results in high turnover, tardiness, absenteeism and grievances that will eventually affect the overall organization's performance (Lawler, 1971; Locke, 1979). This is why the Malaysian government considers and continues to reward good and hardworking civil servants despite the economic slowdown as announced by Tan Sri Abdul Halim Ali, Chief Secretary to the government recently in newspaper (New Straits Time, 6 June, 1998).

To an organization, compensation policies create, define, and reflect on organizational culture. They communicate and reinforce what are valued in the organization (what will be rewarded), who shares in organizational wealth (financial success or failure), and employees' needs will be met both now and future (Schiemann, 1991). Because of its important role, the compensation should be a leading function in developing a culture that is aligned with strategic direction.

In many organizations, compensation cost exceeds 50 percent of the total operating expenses (Balkin & Gomez-Mejia, 1987; Lawler, 1984, 1990), and it receives considerable attention, but, often given the wrong emphasis. Too much attention is focused on reducing costs and too little is focused on increasing the benefits of the compensation. For instance, to compete effectively in the global economy, organization must attract, retain, motivate and utilize effectively the most talented people they can find. However, organizations do not want to invest their talents without feeling that they are getting something in return. What the organization does is establishing or revising their reward system by simply benchmarking what their competitors are doing. As a result, the reward system is either overly complex, poorly understood, or only partially effective in achieving the major organization's objectives.

This phenomenon has attracted the famous comedian Mark Russell to put it on his act as he satires how the executive pay is determined without an apparent justice or reason as follows:

**“ The country’s in a bind, but I’m cheerful and I’m chipper,
As I slash employee wages like a fiscal Jack the Ripper,
And I take away their health care and never mind their hollers,
And pay myself a bonus of a couple of million dollars.”**

(Cited in Milkovich & Newman, 1993)

To ensure compensation is one of the main determinants of social stratification and is intimately tied to such pivotal values as fairness, equity, and success, Malaysian government protects employees’ compensation and benefits through part iii, iv, ix, xii and xii (a) of the Employment Act 1955 (Rajkumar, 1985).

Compensation system is admittedly a very broad field. Different researchers and authors have used different terms and words to define a compensation system, for instance: remunerations, pay, reward etc. Yet, there is no general consented terminology adopted so far. However, for the purpose of this study, the terms of compensation established by the prominent reward expert Henderson is the guide for the interpretation of compensation throughout this project. According to Henderson (1994), a reward system may be broadly divided into compensation (monetary reward) and non-compensation (non monetary reward such as recognition). Compensation can be further subdivided into: (a) fixed base pay that is determined by job evaluation (b) variable pay such as merit increment and bonus that depend on performance review (c) non-cash benefits (also known as fringe benefit) such as subsidies, pension and company car.

For the purpose of this research study, Resorts World Bhd.'s (RWB) reward system with the above compensation components have been selected for the research. As mentioned by Morris & O,Creedy (1996), the advantage of studying in a single organization is that they are all subject to the same corporate policy on remuneration and all working under the same corporate's strategic goals, culture and value. Furthermore, Kessler and Purcell (1994) have also commented that for organization-level research, the tradition and culture, play an important role in the selection and success of a compensation system.

RWB is a subsidiary company of Genting Berhad that manages the premier family integrated resort located at the Genting Highlands. It offers a range of activities from theme park to entertainment and leisure to gaming. On weekdays, nearly 30,000 visitors visit Genting Highlands resort, and during holidays or peak seasons, the number may swell to about 100,000 visitors! Serving such a huge number of customers and managing about 7,000 employees, an effective and a fair reward system for its employees is crucial for its undisturbed business operations.

RWB introduced its compensation system based on the Hay's Guide Chart-Profile Methodology (or Hay's Point system) in 1990's for her executive level employees. The aims of this system are to improve the fairness of the pay system in line with the management efforts to attract and retain the most talented people needed by the company. Furthermore, it is also another mode to improve employee performance at

work; to promote organizational cultural and facilitate organizational policies change in order to tighten the financial control.

The Statement of Problem

According to Lawler (1990), the world of business has changed dramatically in the last several decades, yet the pay practices of most organization have not much differ from the practices of the 1950's. Employees are still paid according to the worth of the job they hold, they are still given a fixed set of fringe benefits, they are still eligible for a small merit increase, and they are still told little about how their company's pay systems works.

Flannery *et al.* (1996) contended that, even though many things had changed since Ned Hay developed the traditional compensation system Hay's Point in the early 1950's, Hay' Point continues to be the workhorse of pay for many organizations around the world until now. In addition, the Hay's Point System has been criticized by Peter Block (1993) in his book entitled "Stewardship". He terms the Hay's Point System as "pay for empire" and he sums up his conclusion as follows:

" for what it was asked to accomplish, this system has done an elegant and durable job. But, we must question exactly what it was we asked the Hay's system to do - to pay people bases on the size of their territory, number of subordinates, budget size, level of authority... So often, it if you like, but these are measure of empire, not contribution to the organization."

(Cited in Flannery *et al.*, 1996, P:3)

As RWB is isolated and far away from the city center, it is not easy to recruit people especially the middle management executives to work at the hill resort. The company needs to pay higher than market rates as well as provide attractive benefit such as free accommodation to attract people to work up there. Furthermore, RWB is a service-based company, the labor cost is more than 60% of the total expense (RWB annual report 1997). As such, it is crucial for RWB to find out the effectiveness of its compensation system in motivating and retaining its employees.

Notwithstanding RWB has implemented the compensation based on Hay's Point for almost a decade, RWB so far has not adequately evaluated the effectiveness of this compensation system. Furthermore, there is very little information on how the middle management executives who are closely involved in implementing the company strategies perceived this system.

With this in mind, the research seeks some answers to following research questions:

- a) How fair is RWB compensation package based on Hay's Point as perceived by the middle management? If compared to the effort put in by the middle management (personal equity)? If compared among same ranking employees in the company (internal equity)? If compare to the people doing similar jobs in other companies (external equity)?
- b) Does the RWB compensation program motivate the middle management

executive and retain them in the organization? If yes, what is the level achieved so far?

- c) How well the objectives and outcomes of the compensation policy are communicated to the middle management executives? What is the degree achieved?
- d) What are the desired changes in the current RWB compensation system from the middle management executives perspective?
- e) Are the respondents' background and demographic identity, current life style and job situations related to their attitude on the RWB compensation based on Hay's point?

Answers of these five questions enable us to understand how the middle management executives perceive the compensation system and to what extend they are aware of the RWB compensation system based on Hay's Point.

Objectives of the study

General objective

The general objective of the study is to examine the attitude of the middle management executive of RWB towards their compensation system derived from Hay's Point system. The compensation components that will be examined are (1) fixed-based pay (2) annual increment (3) year-end-bonus and (4) non-cash benefit (fringe benefit).