

Impact of bonus payments as part of reward system: A study in Malaysian manufacturing industry

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ABSTRACT: This paper will focus on the change of behavior among the employees in the manufacturing industry in Malaysia due to non-payment of cash bonuses at the end of the year or at the beginning of the new calendar year. We examine why the bonus payments are so important to the employees and failure to pay out bonuses in terms of cash handout causes the change in the attitude of the employees and repercussion of this behavior to the organization. This paper has provided an insight on the important of bonus payments to the manufacturing industry in Malaysia particularly.

KEY WORD: Bonus payments, reward system, employee benefits, change of behavior

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I. INTRODUCTION

The reward system and performance is an essential part of any organizations. In case of Malaysia, there are some types of employee benefits that are mandated by law, including minimum wage, overtime, entitlement of annual leave, sick leave, etc. as specified under Malaysia Employment Act 1955. There are other types of employee benefits that companies are not required to offer, but choose to provide to their employee. In short, there are mandatory benefits and fringe benefits. Employee benefits are defined as any form of payment by an organization other than wages or salaries and can be both monetary and non-monetary reward.

Bonus payments are one of the hand out which companies choose to offer although it is not required by law. In Malaysia context especially in the medium and large scale organizations, the bonus payments are expected by the employees at the end of the year or beginning of the next calendar year. Companies vary on the base amount for bonus pay and based on certain criteria set by the top managements such as achieving specific goals i.e. meeting or surpassing revenue targets, growth sales, and employee retention program. Bonus payments could be due to individual performances of the employees or companies achieving their desired goals. An employee may have an outstanding year while the company did not meet its financial goals, the employee may not be eligible for a bonus payment.

The bonus payments for the supervisory level and general workers (generally known as factory workers or operators in Malaysia) are not well-structured. If unions are allowed in the companies, the bonus payments may be spelled out by a union contract. There are companies that specified the base amount of the bonus in the employee offer letter and some companies choose neither of the above.

This paper will examine the effect of the non-payment of bonuses to the lower rank in the organization from supervisor level to down below to general workers.

II. LITERATURE REVIEW

Armstrong (2000), defines that reward strategy provides an organization a specific directions in order to develop and design programs which ensure its rewards the performance outcomes supporting the achievement of its business goals. Reward system that is well-organized will motivate and energize employees as it recognizes the achievements of employees (Purwanti, Pasaribu, & Lumbantobing, 2010, p. 449). "Reward system implemented by organization will influence employees' behavior and attitude towards their job if the rewards satisfy their needs and help them to reach their personal goals. When employees desire to get the rewards, they will change their behavior in order to achieve the minimum level of performance required by organization" (Lawler, E.E., & Worley, 2006, p. 3).

Reward system especially bonus is essential for employees in the manufacturing industry. Although, the bonus payments are not mandatory to the employers but there are expected by the employees. In normal circumstances, companies achieve their specific goals will pay bonuses to employees as part of reward system. The realistic base amount of bonus for those workforce below the executive level is one month salary and to be dished out at the end of the year or in the first month of the next calendar year. There are companies which pay more than one month salaries to their employees and of course these bonuses are based on performance of the companies financially. Finding by Ju, Kong, HjHussin and Jusoff, (2008) in their journal suggested that

mandatory and fringe benefits had significant and positive relationship with organizational commitment. In their finding, the fringe benefits have a greater relationship with organizational commitment compared to that of mandatory benefits.

This finding relates to bonus payments in a way that employees feel valued and appreciated by their companies they work for if they receive those bonuses. As a general worker in the manufacturing industry, there is no other income gain except for monthly salaries. As the salaries for the general workforce just touching minimum salaries set by government which is MYR 1,100 (approximately US\$ 263) with the increased cost of living, it is welcome note to receive a bonus one-month salary from the employers. These bonuses influence employees' behavior and attitude towards their job. The employees will feel more motivated and will feel sense of belonging to their companies.

However, if ever those bonuses are nothing more than a gimmick, they can have detrimental effect to the companies and worst of all, employees will wonder if they are really getting anything at all in reward for their hard work and constant efforts.

Edward and Christopher (2006) mentioned that in their journal, employees do not come to work, continue to work, or work hard for their companies. Employees need motivation to share and fulfil companies' vision and reward strategy and system are the mechanisms that make this happen. When companies take away those reward from the employees, the employees will revolt in unprecedented manner. Employees will feel demotivated, less focus in the job and detached themselves from the job. It becomes 'could not care less' syndrome. As the manufacturing plants in Malaysia still not fully automation and need human intervention in certain area, the element of sabotage to the assembly line(s) is high especially in the early part of the year once bonus payment exercises have been carried out.

Although there are many researches done on employee sabotaging but mostly on western cultures. There are not many researches done on this topic involving Asian cultures and in particular Malaysia. However, the research done by Chan Wei Suet, Lee PohHuiey, Lee Syueh Lin and Lew Meei Ling (2012) touched on sabotage that took place in service industry in Malaysia. They highlighted the point that this deviant behavior occurs when employees who perceive they receive unfairness treatment from the employers/organizations. Dissatisfied employees are more likely to engage in deviant behavior of sabotaging in the workplace as a way to avenge the unfairness of the employers. Another reason cited by Chan Wei Suet et al., (2012) is related to employee's job satisfaction. If an employee is more satisfied with his or her job, he or she is less likely to engage in deviant workplace behavior. Those act of sabotaging is only detected at the near end of the process and it is very costly to the companies. Employee job satisfaction has been constantly dropping over the last 20 years, with compensation and benefits among the top factors for the downward trend. As employers look to save money and cut costs, benefits are often the first thing to go even when they don't intrinsically offer any mutual benefit to the employee/employer relationship.

III. CONCLUSION

The reward system is an essential part of any organizations. Bonus payments constitute part of the fringe benefits or employee benefits that companies choose to provide to their employees in order to achieve companies' specific goals. Although bonus payments aren't required by law, they have become the norm in the manufacturing industry and expected by the employees. Failure to reward bonuses to the employees especially for lower rank (supervisory level to general workers) will have an adverse effect on the organizations. Not only people would feel demotivated, employees will develop a deviant workplace behavior and an unfavorable attitude. This deviant behavior may lead to sabotage the assembly line(s). In normal scenario, those act of sabotaging the assembly line(s) is only detected at the near end of the process and can be very costly to the organizations. There are many things that a company would tend to lose when bonus payments did not materialized. It will affect the productivity, its competitiveness in the industry, job turnover, job satisfaction, recruitment, etc.

It is therefore the organizations must know that the adoption of reward system will help retain the best workers and to ensure that the organizations can positioned themselves at the very best for future success. As long as an organization subscribes to the idea of Maslow's hierarchy of needs theory, the employees will feel part of the organization.

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