



An Analytical Study of Employees' Payment System Preferences and its Impact on Organizational Commitment: Evidence from Bahrain

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(Received 09 June 2020, Revised 11 July 2020, Accepted 31 July 2020)

(Published by Research Trend, Website: www.researchtrend.net)

ABSTRACT: This study aims to investigate employees' payment system preferences and its impact on organizational commitment in the context of organizations in Bahrain. This study also compares performance-based pay and seniority-based pay as a method of payment in training and educational organizations in the kingdom of Bahrain and the impact it has on employee's organizational commitment. A quantitative analysis was conducted. The main research instrument was a structured questionnaire. The data for the study was collected from 91 employees working in training and educational organizations operating in Bahrain. IBM SPSS Software was used to analyze data. The hypotheses were tested using principal component analysis, One-Sample t-test analysis, and bivariate correlation analysis. Post analysis, three employee's perceptions emerged regarding the payment system. Theoretical support to two proposed hypotheses suggests that first, performance-based pay system leads to strong employee perception, second, performance-based pay is perceived as a fair compensation system. Whereas the third hypothesis indicated that, employees' payment system preferences does not significantly impact employee's organizational commitment. The theoretical study results verified the assumptions of previous researches on the Performance-based pay system and its positive quality. The emergent results can serve as a basis for reformation strategies and restructuring of the payment system and provides a new perspective on how employees perceive the current payment system.

Keywords: Compensation, Performance-based pay, Seniority-based pay, motivation, productivity.

I. INTRODUCTION

Compensation system has been regarded as one of the important motivational tools for employees, therefore, organizations place great emphasis on developing a proper compensation policy that reflects the relative importance of the different jobs performed in the organization, nevertheless, acts as a mean of attraction to the sought talents.

One of the methods that compose the compensation package usually offered to employees is incentives. There are two main types of incentives, explicit and implicit incentives [1], focusing on the explicit incentives, particularly the wage contract, In the Kingdom of Bahrain, organizations are heavily relying on seniority-based payment system; employees being awarded the same increase at regularly scheduled intervals without consideration of how well they perform a job [11], even when appraisals, incentives, and promotions are considered, the process is guided by the seniority factor. For several years now, Seniority-based pay has been under criticism, as being too costly, ill-suited to motivate employees, never a method to retain the talents and mostly a payment system that fails to recognize the performance element; hence, adding an extra burden to human resource department in terms of assessing compensation and performance management.

The fluctuation in economy and the induction of technology in everyday work are among several factors that affect how organizations perform and imposed numerous challenges that call for immediate wise reaction, one of these challenges is the high cost of

labor, as some would classify it as a fairly small problem, the implications are hardly noticeable, as it involves reducing the number of jobs offered, the hours each person works, elimination of overtime pays, hiring subsidies, considering outsourcing options and re-constructing the current payment system; mostly wages-related practices. Again, human resources are presented with another hurdle to solve; the effect of these implications on employees.

As a strategic partner, human resources strive to build a competitive advantage and maintain a significant level of innovative performance. Among many necessary resources to achieve competitive advantage, employees are considered the most valuable assets of an organization. They create ideas, implement strategy and achieve the corporation's goals. Therefore, in this research we focus on re-examining the current payment system that depends heavily on Seniority-based pay and investigate the possibility of introducing Performance-based pay as one solution to the inflation in labor cost.

Performance-based pay can dramatically reduce costs by paying the employees based on their level of performance. Offering an hourly wage increase based on criteria that distinguish the high performers, also it will motivate employees to continually work at a higher level, eliminating the need to hire additional workers.

However, before a change in the current payment system, there is another important consideration; what payment system the employees prefer? As mentioned above, the most valuable assets in any organization is its workforce, therefore, it is important to gather

analytical information on employees' preference of Seniority-based pay or performance-based pay first. Also, we propose another research question; does the payment system, in general, affect employees' sense of organizational commitment? These are the questions that we aim to answer in this research.

The measuring of employee's perception regarding the current payment system, provides a new perspective on the importance of developing an accurate measuring tool. A questionnaire was developed, that was able to precisely explore employee experience with the current payment system and provide us with relevant information. The measurement tool in its two parts referred to non-comparative scales methods. This allowed the generated data to be analytically processed and produce accurate, reliable, and easy to comprehend results. This method will enable organizations to further investigate the established payment system and improve it in accordance with their vision without jeopardizing the employees' sense of organizational commitment.

II. LITERATURE REVIEW

Seniority-based pay: It is a pay system that rewards employees according to their years of service and experience in the organization, which the primary basis of the pay increases as the employee's tenure increases. On one hand, seniority-based pay might be unfair because this system does not measure employees' productivity and performance. On the other hand, this type of reward system retains employees by increasing their loyalty and commitment to the organization [17]. Wages grow with seniority; organizations often pay senior employees more than junior employees to avoid turnover of expertise. Following seniority-based pay system does not mean that employees are productive; it just means that these employees have spent more time in this job; hence, they are better at it [1].

Performance-based pay: It is a pay system that compensate employees and reward them based on their job performance, whether on a group or individual basis. The purpose of this system is to create a competitive environment and motivate employees to be productive, creative and to perform better in work [9]. Performance-based pay can create a competitive advantage to organizations through obtaining a strong human force, by attracting ambitious and hardworking employees that can add value to the organization and maximize its performance [2]. Performance-based pay is a system that observes and evaluates individuals or groups work and pay employees based on their performance and productivity. This kind of pay system have replaced the seniority-based pay system years ago, because experiments have shown that performance-based pay increases pay equality and wage variance [10].

Perspectives: The private sector is the one that often follows performance-based pay because it focuses mainly on the organization's profitability and productivity. Therefore, the private sector always seeks to motivate employees based on their performance so they can perform better, be innovative and creative [12]. Whereas public sector organizations always follow seniority-based pay because of convenience and traditional practice. Therefore, the public sector pays senior employees more than junior employees because they

have more experiences in the field and they are familiar with the problems that can occur [4]. Seniority-based pay is better for one key reason, employees are trained to be productive and to perform better, therefore the value of employees' increases over time as their skills and experiences develop too [7]. Hence, pay rise with seniority is better because performance and productivity rise with seniority. Performance-based pay may increase gender earning differences and inequality against women [6].

Previous studies: Most previous studies did not carry out a comparative study of both performance and seniority based payment system, but rather separated both systems apart for the purpose of the investigation. Which means that researchers preferred to focus on one of the systems only, however, this study focused on a comparative analysis of both the payment systems prevalent in the Kingdom of Bahrain.

Research Gap: There are plenty of studies related to various forms of payment system. However there are very few comparative analysis of seniority based pay and performance based pay with reference to organizational commitment. Moreover it was found that very few studies pertaining to a comparative analysis of payment systems were carried out in the context of the Middle East Region and more specifically in the Kingdom of Bahrain. This research attempts to close the gap found in the existing scholarly literature.

III. METHODOLOGY

A. Introduction

Two main variables; employees' perception on payment system and employees' organizational commitment construct the theoretical framework, with the employees' perception on payment system variable explain employees' payment system preference; seniority-based pay or performance-based pay. The sample of this study was randomly selected from training and education organizations in the kingdom of Bahrain. An online structured survey consisted of eight questions that measure two constructs (employees' perception on payment system and organizational commitment) was used to gather primary data using convenience sampling method to investigate the impact of employees' preferences of payment system as a facilitator for organizational commitment.

B. Research objectives

— To investigate employees' perceptions on payment system fairness and employees' payment system preferences.

— To identify the relationship between the employees' payment system preferences (Seniority-based pay or Performance-based pay) and organizational commitment.

C. Independent variable

— **Employees' perception on payment system fairness; employees' payment system preference (Seniority-based pay or Performance-based pay):**

The recent skyrocketing cost of labor has led us to think of re-constructing the current payment system. Organizations rely heavily on seniority-based pay, a payment system that may not address the higher cost of labor effectively. Therefore, this study examines performance-based pay in organizations. Competitive appraisals and reward practices can help in managing

high labor cost and enhance employee productivity as many researchers proved. To critically analyze this assumption, we approached employees in different organizations to collect data on the payment system they mostly prefer, after all, they are the ones who will be affected greatly when a payment system change is issued. This argument forms the basis of two hypotheses:

H1: Employees perceive Performance-based pay as appropriate incentive to encourage performance.

H2: Employees perceive Performance-based pay as a fair method of payment.

D. Dependent variable

— **Employee’s Organizational commitment:**

Organizational commitment is known as the individual’s psychological attachment to an organization. In other words, organizational commitment focuses on organizational values and goals that are reflected in employee everyday work. Every employer aspires to have highly committed employees, who exert committed attitudes and engage in behaviors that help the organization to achieve the overall strategy. Therefore, any threat to this strong bond would have negative implications and introducing a new payment system, even if it is going to solve the labor cost problem, should not have a negative influence on employee’s strong desire to maintain organizational membership. As a result, we decided to identify the relationship between employees preferred payment system and their organizational commitment. This argument forms the basis of the third hypothesis:

H3: Employees’ payment system preferences significantly impact their sense of organizational commitment.

E. Research instrument

The questionnaire developed by Marsden and Richardson [9] was adopted, and appropriately modified for this study. Employee payment system preference was measured with five items designed to capture the extent to which employees prefer seniority-based pay or performance-based pay. Respondents were asked to rate their preference on 5-point Likert-type bipolar scale ranging from (1: Seniority-based pay) to (5: Performance-based pay). The mid-point of the scale is (3: Neither).

Employee organizational commitment was measured with 4 items, originally developed by Cook and Wall [9], these items were added to the questionnaire to capture the extent to which employees are committed to their employing organizations. Respondents were given 5-point Likert-type scale ranging from (1: Strongly Agree) to (5: Strongly Disagree). The mid-point of the scale is (3: Neutral).

F. Sample size

This research targeted employees working in different organizations in the Kingdom of Bahrain, as currently the predominant payment system is largely seniority-based, even with appraisals, compensations and promotions, they are all governed by seniority-based. A sample of 91 employees participated in this study from different organizations in the Kingdom of Bahrain.

G. Data collection

Data was collected using a structured questionnaire, designed using Google Forms and distributed via different social media. The questionnaire included a written segment explaining the purpose of the study and the direction for answering the different questions. The questionnaire was to be filled out anonymously and without indicating the name of the organization they are employed in, thus, to increase the reliability of responses. Sample characterization was generated from the demographic section in the questionnaire.

H. Data Analysis

For analyzing the generated data from the questionnaire and testing the hypothesis we used the SPSS Statistics software. A descriptive and cross-tabulation analysis was used to explain sample characterization. Whereas the different variables were discussed and explained in terms of principle components analysis, one-sample test analysis, and correlation were conducted to test the hypotheses of this research.

IV. RESULTS AND FINDINGS

In order to test the research hypotheses, structural equations performed with Statistical Package for the Social Sciences analysis was an adequate statistical method to study the relationship between the variables. A principle component analysis test examined the factor loadings in each variable. A one sample t-test assessed in stating the employees’ perception on payment system; employees’ payment system preference. And the significance of one hypothesis was assessed using a bivariate correlation.

A. Principle component analysis

Table 1 shows the principle component method for the independent variable: the employees’ perception on payment system; employees’ payment system preference. Results indicates that item number one, and in this case the statement “The payment system which leads me to work harder”, is the most reflective item among the five items that form the construct that measure employees’ payment system preference. The below **bar chart** indicates that (45.1%) of the respondents have chosen “strongly Performance-based pay” as the suitable stimulator for working hard.

Table 1: Extraction method: Principle component analysis for employees’ payment system preference.

Component	Total Variance Explained					
	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.130	62.597	62.597	3.130	62.597	62.597
2	.728	14.567	77.164			
3	.487	9.748	86.912			
4	.357	7.150	94.062			
5	.297	5.938	100.000			

1. The payment system which leads me to work harder
91 responses

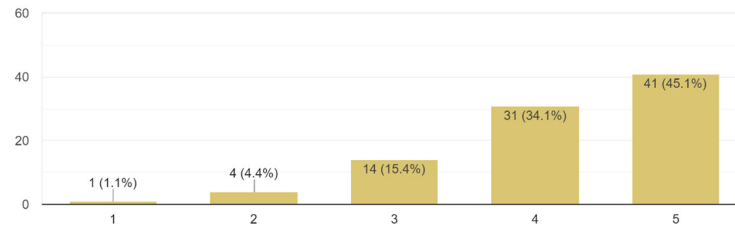


Fig. 1. Bar chart for responses on item number one in employees' payment system preference.

Scree Plot

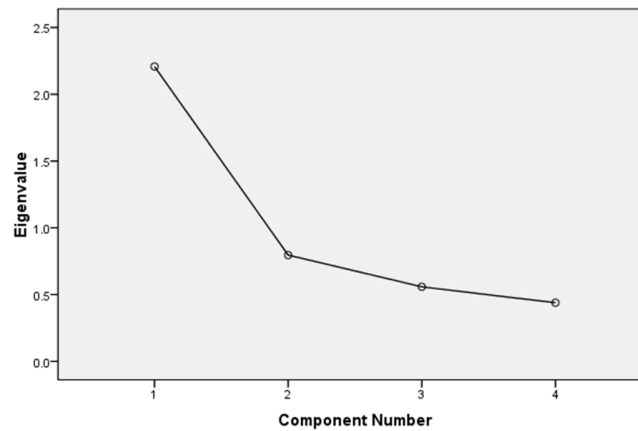


Fig. 2. Scree plot for principle component analysis for employee's organizational commitment.

Moving on to the dependent variable: employee's organizational commitment. As showed in the **scree plot**, results indicate that item number one, and in this case the statement "I feel myself to be a part of this organization", is the most reflective item among the four items that form the construct that measure employee's organizational commitment.

B. One Sample t-test analysis

Item number 3 in the construct of the independent variable employees' perception on payment system; employees' payment system preference; the payment system which increases my job performance more is, acts as a measure for H1: Employees perceive Performance-based pay as appropriate incentive to encourage performance. Table 2 below shows a one sample t-test analysis were the sample who have been surveyed had a significant preference payment system regarding encouraging performance, and that is the Performance-based pay, $t(90) = 9.453, P = 0.000$. Therefore, results show that hypotheses 1 is accepted. People perceive Performance-based pay as an appropriate method for encouraging performance rather

than Seniority-based pay. This result proves the claims of [10], as discussed previously in the literature review section, that performance-based pay has been replacing the seniority-based pay as employees start perceiving performance-based pay as a suitable compensation practice for their level of performance and productivity. It is within the adaptation of performance-based pay, that organizations will be able to support the notion of pay equality and be allowed to establish the wage variance among employees and solve the recent dilemma of high labor cost.

Item number 2 in the construct of the independent variable employees' perception on payment system fairness; employees' payment system preference; the payment system which reflects my contribution to work more fairly, acts as a measure for H2: Employees perceive Performance-based pay as a fair method of payment. Table 3 below shows a one sample t-test analysis were the sample who has been surveyed had a significant reference payment system, and that is the Performance-based pay, $t(90) = 10.191, P = 0.000$.

Table 2: Descriptive Statistics for employees' perception on payment system; employees' payment system preference (item 3).

One-Sample Test						
	Test Value = 3					
	t	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
The payment system which increases my job performance more is	9.453	90	.000	1.110	.88	1.34

Table 3: Descriptive Statistics for employees' perception on payment system; employees' payment system preference (item 2)

	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
The payment system which reflects my contribution to work more fairly is	10.191	90	.000	1.066	.86	1.27

Therefore, results show that hypotheses 2 is accepted. People perceive Performance-based pay as a fair method of payment rather than Seniority-based pay. This result acts against the claims of Heywood & Parent, as discussed previously in the literature review section that performance-based pay may lead to a gender earning gap.

Table 4: The Mean for employees' perception on payment system fairness; employees' payment system preference (item 5)

The payment system which I prefer is			
Gender	N	Mean	Std. Deviation
Female	53	4.06	1.200
Male	38	4.13	1.143
Total	91	4.09	1.170

Table 4 shows that the majority of the females have chosen performance-based pay as a method that fairly reflect their level of performance and productivity (*Mean: 4.06*), regardless of women's nature and responsibilities compared to men.

The adaptation of performance-based pay won't ensue any additional dilemma to organizations in term of gender equality, in contrary, it will strength the notion of

pay equality and wage variance as it focuses mainly on evaluating the performance of the employee regardless of other factors. This result is in line with the findings of [13], that performance-based pay is perceived as a fair rewarding system.

C. Bivariate correlation analysis

Referring to the results of the Principle Component analysis, and to indicate the significance of the third hypothesis; employees' payment system preferences significantly impact their sense of organizational commitment, a correlation test was used to identify the interrelationship between the variables.

Table 5 shows that the P-Value > 0.01. This means that Employees payment system preference does not significantly impact employee's organizational commitment. Although, it is in every human resource theory; employees have to be compensated for the efforts they exert in their working environment, this research findings are against some theories discussed by [15] in the literature review section, as they claimed that performance-based pay acts as a motivational tool for employees and thereby they are willing to preform greatly to achieve the organization goal as they feel more loyal and committed to their workplace.

Table 5: The correlation test between the variables

Correlations			
		The payment system which leads me to work harder	I feel myself to be a part of this organization
The payment system which leads me to work harder	Pearson Correlation	1	-.059
	Sig. (2-tailed)		.579
	N	91	91
I feel myself to be a part of this organization	Pearson Correlation	-.059	1
	Sig. (2-tailed)	.579	
	N	91	91

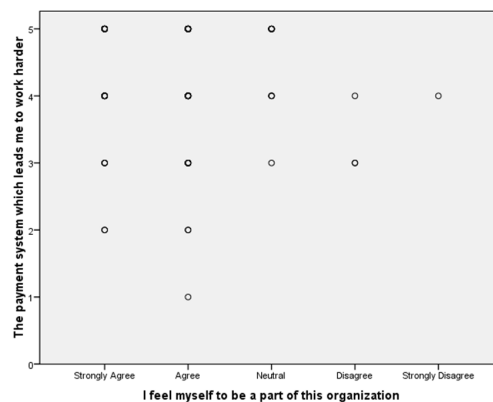


Fig. 3. The scatter chart of the correlation test between the variables.

The scatter chart clearly shows the weak relationship between the two variables, as this study findings present a different perspective from the work of other researchers. Results shows the payment system that employees mostly prefer may not necessarily play a major role in influencing their commitment, as any incentive, whether it is Seniority-based pay or Performance-based pay, can increase employees' sense of commitment.

V. CONCLUSION

This research has sought to investigate the importance of adopting performance-based pay in organizations in the kingdom of Bahrain as it relies mostly on seniority-based pay. Findings support the view that employees prefer to be compensated by evaluating their performance in order to achieve higher incentives through increased performance. Sufficiently high rewards may be required to foster perceptions of fairness and to offset the loss of intrinsic motivation so that workers positively respond to performance pay. This study also highlights that if, over time, organizations use performance-based pay, it will lead to a strong employee perception of fairness of compensation system, because workers would be paid on the basis of their performance and productivity levels, rather than having everyone paid a similar rate for the same job. In situations where technological change and globalization create rising demand for skilled workers, firms may find it advantageous to use performance-based pay to distinguish highly productive workers from less productive ones, leading to higher performance and organizational effectiveness.

The literature review examined for this research supports the findings of the study. Results indicates that most employees prefer to be evaluated and paid compensation based on their performance in the workplace, because they believe that performance-based pay is a motivation that leads to higher productivity. However, payment system preferences do not significantly impact employee's organizational commitment.

The research findings are strongly supported by Scott [14], arguing that productive employees who put a lot of effort in their job performance would like to be compensated upon their efforts, which is a critical evaluation, rather than being compensated according to their number of service years within the company.

In addition, study [15] has found that performance-based pay has direct effect on employees' performance, which contributes to the overall organizational performance and productivity. The study supports this research results, which proves that employees' good performance comes from motivation which is created by compensating employees based on their performance, this further indicates that employees are willing to contribute more for the sake of their organization because they feel that they belong to this organization and they are loyal toward it.

Another previous study [13] has supported this research results, stating that among all compensation systems, despite of employees' race, gender, nationality and religions, performance-based pay is the most effective and fair system of rewards to use in assessing and rewarding employees.

Limitations: The main limitation of the study was a smaller sample. This limitation was aggravated due to COVID 19 situation. The scope of future studies can be extended beyond focusing on combining performance-based pay and seniority-based pay to come up with a system that will be fair.

Recommendations: Since all organizations follow different systems, we recommend that all organizations must continuously monitor and review their compensation systems. Organizations must come up with a system that gives more weightage and emphasis to performance-based pay leading to higher performance and organizational effectiveness. An innovative combined system of compensation can also be considered, which could provide the benefits of both seniority-based pay and performance-based pay.

ACKNOWLEDGEMENTS

The researchers would like to thank University of Bahrain and the respondents of survey for the support provided for this research.

Conflict of Interest. There is no conflict of interest and no financial support was received from any organization for this study.

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How to cite this article: George, S., Alalawi, B. and Bajbair, S. (2020). An Analytical Study of Employees' Payment System Preferences and its Impact on Organizational Commitment: Evidence from Bahrain. *International Journal on Emerging Technologies*, 11(5): 114–120.