

Role of Employee Engagement on Compensation System and Employee Performance Relationship among Telecommunication Service Providers in Bangladesh

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Abstract

Past studies endorsed that there is a quite number of factors have been considered as the influencing factors of employee performance in an organization. Some of these are selection, training and development, performance appraisal, promotion, job design, security, and

satisfaction, compensation system, employee commitment, personality, emotional intelligence, organizational citizenship behavior among others. While several studies considered investigating the influence of human resource management practices on employee performance in different context such as America, Africa and Europe, but very little attention have given in South-Asian countries like Bangladesh. Hence, this manuscript attempted to investigate the impact of compensation system on employee performance using quantitative analysis. To do so, survey was conducted as well as perceptions of 200 employees working in telecommunication service providers in Bangladesh were obtained to analyze the relationships. The data is analyzed and hypotheses were tested by using IBM-SPSS-AMOS package 25.0. The study found that employee engagement partially mediates the relationship between compensation system and employee performance by the data of this study. This research indorsed that there is a candid need to implement better compensation system by the entrepreneurs which will ensure better employee performance in line with consistent growth of firms as well as Bangladeshi GDP.

Keywords: employee performance, compensation system, employee engagement

1. Introduction

Generally, performance is an important aspect of development for both employees and the organization or firm (Hoque, Awang, and Salam, 2017a; Hoque & Awang, 2016a). Hence, there is a need to understand the basic concept of performance in the discussion of employee performance concept. Performance can simply be explained as the aptitude to produce results, in relation to an objective (Laitinen, 2009). Similarly, Andersen (2010) argued from the economic perspectives that performance focus on efficiency and effectiveness of the firm in handling their cost and outcomes, while process perspective performance emphasizes on transformation from inputs to outputs in order to achieve definite results (Abu Jarad, Yusof, & Wira Mohd Shafiei, 2010; Chen Lee, Hou, Chen, Hsu, and Jin, 2004).

Whereas, Muchinsky (2003), employee performance (EP) can be seen as a set of employee's behaviors that can be observed, assess and measure success at the individual level. EP should be regarded as actions and behaviors of employees rather than outcomes yielded by the employees (Cardy & Selvarajan, 2004; Muchinsky, 2003). However, scholars like Viswesvaran & Ones (2000) mentioned that separating between behaviors and outcomes might be very difficult, henceforth, the need to include the result in conceptualizing EP. As a whole, EP has been seen as mountable behavior, activities and results that engage workers in relation to gain organizational goals and objectives (Viswesvaran & Ones, 2000).

According to Chen, Eberly, Chiang, Farh, & Cheng, (2014); Tsui, Lin, & Yu, (2013); Cekmecelioglu & Günsel, (2011), Arshadi, (2010); Abbas & Yaqoob, (2009), numerous factors have been studied as influencing factors of EP in organization. However, Azhdar, Samira, & Sarani (2015); Obi-Anike & Ekwe (2014); Trehan, & Setia (2014), mentioned that among the influencing factors, compensation system (CS) has significant influence on EP. According to Islam & Siengthai (2010) CS is known as all economic payments to employee which linked with organizational outcomes. However, compensation system varies pointedly

across employing organizations and to some degree, across jobs. The compensation system brings out job satisfaction, from the side of employees, the will fill motivate, low absenteeism, low turnover, do to reward in exchange of their services (Quartey & Attiogbe, 2013).

In the academic literature, several definitions have been provided regarding employee engagement (EE) and literature has shown that EE is linked with several important organizational outcomes, such as performance for both individual and firm (Scullion, & Collings, 2010). Similarly, EE is a strong predictor of positive performance of employees in the firm (Kompaso & Sridevi, 2010). Furthermore, the literature on CS of HRM practices and employee performance has unheeded and specifically evidence linking the influence of EE on CS and EP relationship (Rich, Lepine, & Crawford, 2010).

Moreover, literature indicated that less attention has been given to CS and EP more specifically in Bangladeshi telecommunication sector. Despite this, studies attempted to consider the influence of CS on EP have reported mixed findings (Hameed, Ramzan, & Zubair, 2014; Munjuri, 2011; Rizal, Idrus, & Djumahir, 2014b; Tabiu & Nura, 2013; Tiwari, 2011). Therefore, a mediating variable is suggested as well as recommended by Baron, & Kenny (1986). This paper proposes EE as a potential mediator in the connection between CS and EP to stimulate the relationship. Consequently, the aim of this paper to examine the direct connection between compensation system and employee performance as well as mediating role of EE on the relationship between CS and EP.

2. Literature Review

Previous studies were conducted with different factors of HRM practices on EP. For example, Suan & Nasurdin (2014) conducted a study in Asian context specifically in Malaysia 34 upscale hotels investigating the relationship among information sharing, service reward, training, performance appraisal and EP, result revealed that all the factors significantly related to service-oriented contextual performance. Muchhal (2014) investigated the relationship between (3) three factors (i.e. promotion, compensation, performance appraisal) and job performance in Asian context specifically in Indian power and steel company located in Chhattisgarh using 517 samples in quantitative techniques. Result shown that all the factors are correlated to job performance.

Ahmad & Shahzad (2011) conducted study on the impact of compensation, and promotion on EP in Asian context in Pakistan with 113 samples considering Azad Jammu and Kashmir universities as the study population, findings show that only compensation found significantly related to EP, while promotion was not significantly related to EP. In addition, Bowra, Sharif, Saeed, & Niazi (2012) conducted a study on the effect of compensation, performance evaluation, and promotion practice on EP in Pakistan banking industry using 235 samples and quantitative analysis, findings revealed promotion practice and performance evaluation were found positive and significantly linked with EP. While compensation found not significant.

Another study by Khalid, Rehman, & Ilyas (2014) in Pakistan public sector organization investigating the influence of performance evaluation, compensation, career development,

training, and employee relation on EP using 120 samples in quantitative techniques, result revealed that performance evaluation, compensation, and training are all positive and significantly associated with EP, while employee participation and career development are found not significantly related to EP.

In general, the reviewed studies (Khalid *et al.*, 2014; Muchhal, 2014; Alfes, Truss, Soane, Rees, & Gateby, 2013; Bowra *et al.*, 2012; Ahmad & Shahzad, 2011) help us to understand the relationship between CS and EP in different context and countries. However, some studies reported mixed findings between CS and EP (Suan & Nasurdin, 2014; Bowra *et al.*, 2012; Ahmad & Shahzad, 2011). In this regard, Baron and Kenny (1986) recommended for using mediating variables where there are inconsistency findings in the literature. Consequently, this study used EE as a mediator on the relationship between CS and EP as well as this study selects to study CS as one of the internal factors of a firm that has great influence on employee behavior as well as employee performance.

2.1 Relationship between Compensation System and Employee Performance

For the purpose of this study, the compensation system will be used as an independent variable as compensation system is one of the essential HRM Practices. CS can be described as pay given to employee's by organization resulting from their performance (Wood & De-Menezes, 1998). It can also be conceptualized as an adequate and equitable remuneration for personnel due to their contributions in achieving organizational goals and objectives (Armstrong & Brown, 2001). In other words, compensation can be seen as an integral portion of HRM which helps in motivating employees and improving organizational efficiency and effectiveness (Quartey & Attiogbe, 2013). Similarly, compensation package involves, bonuses, merit pay, leaves, retirement, housing allowances, base pay, commissions, profit sharing and insurance, it can be divided into financial and non-financial rewards (Ghebregiorgis & Karsten, 2006; Quartey & Attiogbe, 2013).

Previous studies revealed that compensation system has a relationship with EP. A study conducted by Oluigbo & Anyiam (2014) in African context specifically in Information Technology (IT) organization Nigeria using 92 samples in chi-square statistics techniques, the result shows that compensation system is positively related to EP. Again, Khalid *et al.* (2014) carried out a study on the relationship between compensation system and EP in Asian context Pakistan, findings explained compensation has a direct and positive relationship with EP. Similarly, a study conducted by Fisher, Maines, Pfeffer, & Sprinkle (2005) investigated the relationship between compensation system and EP, findings revealed compensation system significantly related to EP.

However, some studies contradict the findings of the above-reviewed studies. For instance, Quartey & Attiogbe (2013) conducted a study in African context specifically in Ghana police sector using 200 samples, the result shows that compensation found moderately significant to EP. Furthermore, a study by Rizal, Idrus, & Djumahir (2014a) in Asian context Indonesia in particular, with 126 sample of employees using Partial Least Square Modelling (PLS-SEM). It was found that compensation system is significantly related to motivation and organization commitment but not significantly related to EP. Moreover, Tabiu & Nura (2013)

investigated the influence of compensation system on EP in Nigerian context with 285 samples, result shown the insignificant relationship between compensation and EP. Moreover, Cheah *et al.* (2014) carried out a study on compensation and EP, the result shown the insignificant relationship between compensation system and EP. Despite all the evidence from studies in Asian, Western and African countries, there is still lack on the relationship between CS and EP in South-Asian countries particularly in Bangladeshi telecommunication sector. Therefore, the following hypothesis is developed:

H1: There will be a significant positive relationship between compensation system and employee performance of telecommunication service provires in Bangladesh.

2.2 Relationship between Compensation System and Employee Engagement

Compensation system denotes to a system that indicates all sorts of financial returns and tangible benefits or services employees gain or receive as a result of an employment relationship (Milkovich & Newman, 2005). Indriyani & Heruwasto, (2017); Anitha (2014); and Milkovich & Newman, (2005) mentioned compensation as one of the factor facilitating the existence of employee engagement and Indriyani & Heruwasto, (2017) as well as Abel (2013) mentioned in their study that employee engagement increases profit and more success if employee is satisfied. So employee engagement came from the feeling that they got proper compensation about what they already did (Indriyani & Heruwasto, 2017; Abel, 2013). Hence, the researchers want to say compensation matters and it impacts employee performance. Based on this, we propose another hypothesis that is:

H2: There will be a significant positive relationship between compensation system and employee engagement of telecommunication service provires in Bangladesh.

2.3 Employee Engagement as a Mediator of the Relationship between CS and EP

EE predicts, employee outcomes, performance and organizational success (Richman, 2006; Baumruk, 2004; Bates, 2004; Harter, Schmidt, & Hayes, 2002). EE is explained by Shuck & Wollard (2010) as an individual employee's cognitive, behavioral and emotional state directed toward anticipated firm results. According to May, Gilson, & Harter (2004), also pointed that EE might be considered as an ancestor to job involvement in that employee who encounter profound engagement in their parts ought to come to relate to their works. Moreover, EE is distinct from quite a few number of related constructs, most particularly organizational citizenship behavior, organizational commitment, and job involvement. Furthermore, EE is now becoming a performance indicator for several organizations in both the private and public sectors (Rees, Alfes, & Gatenby, 2013) as well as there is scarcity of research on EE in the academic literature (Robinson, Perryman, & Hayday, 2004).

Previous Studies has shown that EE is correlated towards the commitment of employees and how hard they work as well as EE is associated with results like achievement, better performance of a firm or company (Ghafoor, Qureshi, Khan, & Hijazi, 2011; Harter, Schmidt, Asplund, Killham, & Agrawal, 2010). Empirical studies conducted established the relationship between EE and individual performance. Hence, study conducted by Andrew & Sofian (2012) in Asian context specifically in Malaysian Revenue Board, investigating the

relationship between individual factors and work outcomes of EE using 104 human resource officers, and found that co-employee support is a main factor that effects both measures of engagement and the employee performance.

Christian *et al.* (2011) investigated the relationship between EE and task and contextual performance, result revealed that EE influence employee behavior in an organization and the study suggest more investigation need to be done on the EE as a construct. Additionally, Crawford, LePine, & Rich (2010), examine the connection between EE, resources and job demands, a result explained positive relationship between the study variables. Similarly, Salanova, Agut, & Peiro (2005) investigated the relationship between EE and EP, the study reported the positive significant relationship between EE and EP. The available literature reviewed established that EE has a significant impact on employee performance. Despite all the evidence from studies in Asian, Western and African countries, there is still lack on the relationship between EE and EP in South-Asian countries particularly in Bangladeshi telecommunication sector. Therefore, the following hypothesis is developed:

H3: There will be significant positive relationship between employee engagement and employee performance of telecommunication service provires in Bangladesh.

Moreover, several studies conveyed mixed results about CS effects on EP (Suan & Nasuridin, 2014; Bowra *et al.*, 2012; Ahmad & Shahzad, 2011) as well as the mediating role of EE has been neglected in the academic literature (Shantz, Alfes, Truss, & Soane, 2013). In this regard, Baron & Kenny (1986) recommended for using mediating variables where there are inconsistence findings in the literature. In this regard, the present study used EE to mediate the relationship between CS and EP, specifically in Bangladeshi telecommunication sector. Therefore, the following hypothesis is developed:

H4: Employee engagement mediates the relationship between compensation system and employee performance of telecommunication service provires in Bangladesh.

2.4 Conceptual Framework and Underpinning Theory of this Study

The research framework is framed to explore the direct connection between compensation system and employee performance as well as mediating role of EE on the relationship between CS and EP. Particularly in this study, EP of telecommunication service provider in Bangladesh to be tested. In this regard, Social Exchange (SE) theory is considered as underpinning theory of this study. SE theory explains how interactions develop over time and personnel are expected to share their engagement for resources and benefits provided by their organization. This is in line with explanation of engagement as a both way connection among the employee and employer (Robinson *et al.*, 2004). Hence, based on the above argument the present study has used social exchange theory to explain the research framework which is shown in Figure 1.

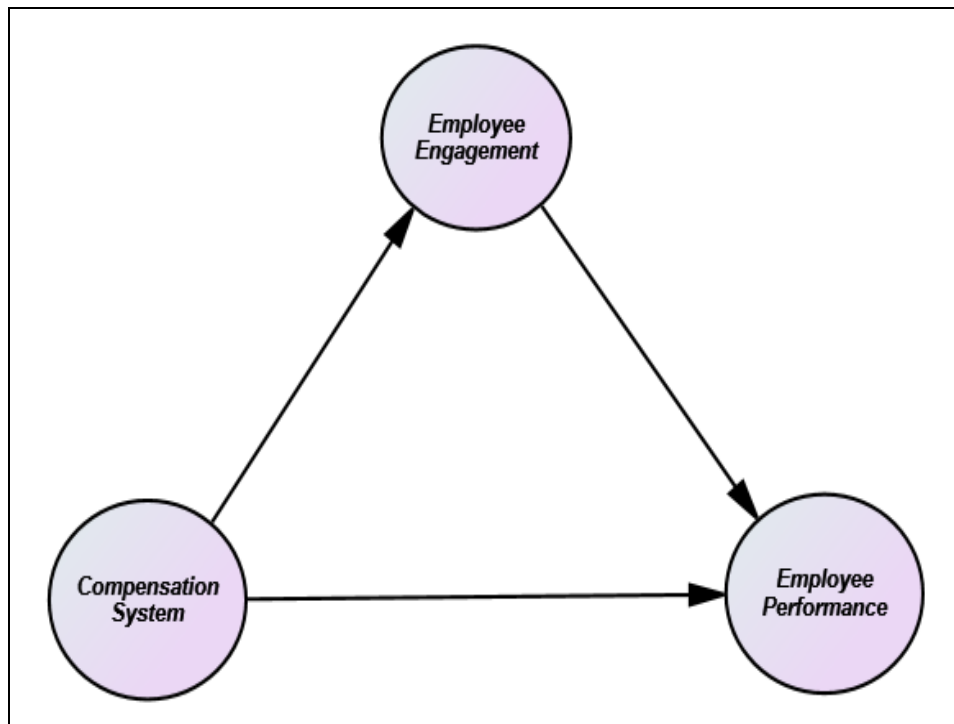


Figure 1. Research Framework

3. Research Methodology

The determination of this study is to investigate the relationship of CS and EP with EE as a mediator. Therein, survey was conducted as well as perceptions of employees working in three major telecommunication service providers (i.e. Robi Axiata Limited, Grameenphone Limited, and Banglalink Digital Communications Limited) in senior positions in the service branches were obtained to analyze the relationships. The branches of the companies were in Dhaka, Chittagong, Rajshahi, and Sylhate from the Bangladeshi Peninsula were targeted. A self-administered questionnaire was distributed to the randomly selected employees. A total of 200 usable questionnaires were received back. Grounded on gender, male constituted 58% while female represented 42% of the sample population.

The survey consisted of measures to obtain data pertaining to employee performance, compensation system, and employee engagement. The measures for compensation system was assessed through an instrument developed by Isabel & Ma-Pilar, (2014) having four (4) items. Employee engagement was assessed through an instrument developed by Hoque, Gwadabe, & Rahman, (2017d) and Schaufeli, Salanova, Gonzalez-Roma, & Bakker (2002) having six (6) items in their studies. This scale has been deployed in a variety of different occupational and geographical settings including Asia, Europe, Africa and North America (Seppala, Mauno, Feldt, Hakanen, Kinnunen, Tolvanen, & Schaufeli, 2009; Xanthopoulou, Bakker, Demerouti, & Schaufeli, 2009). EP has been categorized into two dimensions by Borman & Motowidlo (1993), task performance and contextual performance. Similarly, Allworth & Hesketh (1999) classified EP into three dimensions includes; contextual performance, task performance, and adaptive performance. For the purpose of this study the

measures for employee performance was assessed through an instrument developed by Borman & Motowidlo (1993) having ten items divided into two dimensions of employee performance (i.e. task performance and contextual performance) and respondents were made to respond and rate using 7-point interval scale with 1 denoting strongly disagree and 7 as strongly agree with the items statement.

Hoque, Awang, Muda, & Salleh (2018); Awang, Ahmed, Hoque, Siddiqui, Dahri, & Muda, (2017a); Awang, Hoque, Muda, & Salleh, (2017b); Hoque et al. (2017a); Hoque, Awang, & Siddiqui, (2017b); Awang, Jusoff, Salleh, & Muda, (2017c); Hoque, Gwadabe, & Rahman, (2017d); Hoque, & Awang, (2016b); Kashif, Samsi, Awang, & Mohamad (2016); Awang, Afthanorhan, Mohamad, & Asri (2015a); and Awang (2014) mentioned that second generation method of multivariate analysis technique is SEM, and which is developed to cater limitations in the traditional Ordinary Least Squares (OLS) and the analysis for latent constructs is no longer appropriate with traditional OLS. Thus the researchers employed SEM so as to keep pace with the advancement in research methodology. Not only that, using IBM-SPSS-AMOS software, the researchers converted their theoretical framework directly into the Amos Graphics for analysis. The researcher validated the measurement model of the latent constructs in SEM using Confirmatory Factor Analysis (CFA) procedure. Once validated, the researcher assembled the constructs into the structural model and execute the Structural Equation Modeling (SEM) procedure. Consequently, analyzing and testing the theory using IBM-SPSS-AMOS software is fast, efficient and robust (Hoque *et. al.*, 2017a; Awang, 2015). Hence, this study employed IBM-SEM-AMOS software for analysis and testing the hypotheses

4. Results

4.1 Measurement Model

Before modelling the structural model and executing SEM, the study needs to validate the measurement model of latent constructs for unidimensionality, validity, and reliability (Hoque *et al.*, 2018; Hoque & Awang, 2016a; Hoque & Awang, 2016b; Hoque *et. al.*, 2017a; Hoque *et. al.*, 2017b; Awang, 2015; Awang et al.2015a). Unidimensionality is achieved as the factor loading for all items are positive with a minimum value of 0.6. The Construct validity is achieved as the fitness indexes for the measurement model meet three model fit categories. The Discriminant validity is achieved as all the constructs are not highly correlated. The Convergent validity is also achieved as the value of Average Variance Extracted (AVE) meet the minimum value of 0.5 (Hair et al., 2014). The Construct reliability is achieved as the values of Composite Reliability (CR) and Average Variance Extracted (AVE) reached the minimum value of 0.6 and 0.5 respectively recommended by Hoque *et al.* (2018), Hoque *et. al.* (2017a), Hoque *et al.* (2017b), Hoque *et al.* (2017c), Hoque *et al.* (2017d), Awang (2015), Awang *et al.* (2015a), and Hair *et al.* (2014). The Internal reliability among the items is achieved as the value of Cronbach Alpha reach the minimum value of 0.7 (Fornell & Larcker, 1981; Nunnally, 1978). The fitness indexes shown in Figure 2 indicate the measurement model of the three latent constructs (CS, EE, and EP) have met the requirement for Construct validity.

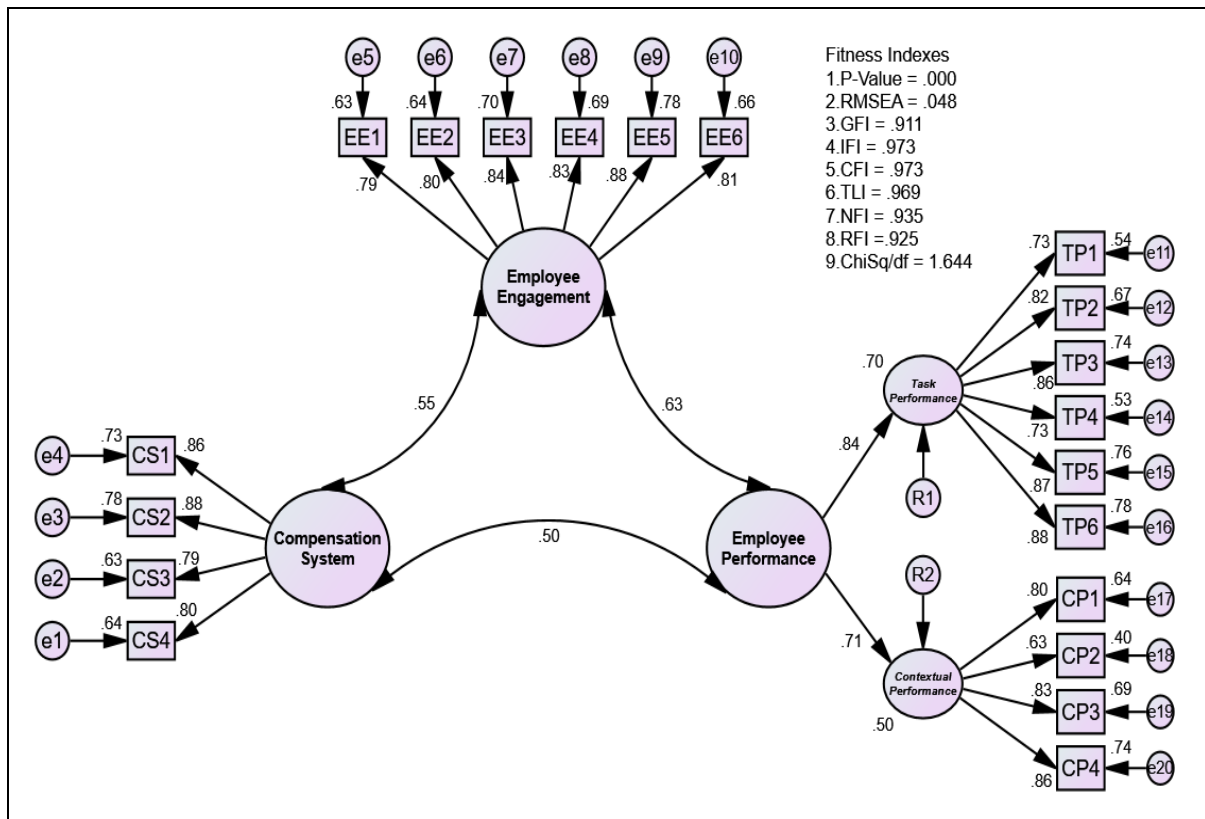


Figure 2. The Pooled CFA Results and the Output Showed All Fitness Indexes Achieved

The values of factor loading for every item together with the Cronbach Alpha, CR and AVE for every construct as shown in Table 1 indicates all latent constructs (CS, EE, and EP) have achieved Convergent Validity, Construct Reliability and Internal Reliability.

Table 1. The Composite Reliability and Average Variance Extracted

Construct	Item	Factor Loading	Cronbach's Alpha	Composite Reliability (CR) (above 0.6)	Average Variance Extracted (AVE) (above 0.5)
Compensation System (CS)	CS1	.86	0.900	0.901	0.695
	CS 2	.88			
	CS 3	.79			
	CS 4	.80			
Employee Engagement (EE)	EE 1	.79	0.928	0.928	0.682
	EE 2	.80			
	EE 3	.84			
	EE 4	.83			
	EE 5	.88			
	EE 6	.81			
Employee Performance (EP)	TP	.84	0.914	0.752	0.605
	CP	.71			

	EP 1	.73			
	EP 2	.82			
Task	EP 3	.86	0.921	0.923	0.668
Performance (TP)	EP 4	.73			
	EP 5	.87			
	EP 6	.88			
	CP 1	.80			
Contextual	CP 2	.63	0.856	0.864	0.616
Performance (CP)	CP 3	.83			
	CP 4	.86			

The Discriminant validity is assessed through correlation and also through Discriminant validity index summary. According to Hoque *et al.* (2018), Hoque *et al.* (2017a), Hoque *et al.* (2017c), Awang (2015), and Awang *et al.* (2015a), one of the criteria for Discriminant validity is the correlation between exogenous constructs must not exceed 0.85. Table 2 which indicated the Discriminant Validity Index Summary as well as the diagonal value in Table 2 is square-root of AVE for the respective constructs, while other values are the correlation between constructs. The Discriminant validity of the constructs is achieved when the diagonal values (i.e. the square-root of AVE for the respective constructs) are greater than any values in their rows, and columns respectively (Hoque *et al.*, 2018; Hoque *et al.*, 2017a; Hoque *et al.*, 2017b; Hoque *et al.*, 2017d; Awang, 2015a; Hair *et al.*, 2014).

Table 2. Discriminant Validity Index Summary

Construct	Compensation System (CS)	Employee Engagement (EE)	Employee Performance (EP)
Compensation System (CS)	0.833		
Employee Engagement (EE)	0.546	0.825	
Employee Performance (EP)	0.502	0.633	0.7770

The correlation value of latent constructs CS and EE is 0.546, the correlation value of latent constructs CS and EP is 0.502 and correlation value of EE and EP is 0.633. As the value in diagonal is greater than any values in its row and column, this study accomplishes that the discriminant validity is achieved for the model (Hoque *et al.*, 2018; Hoque *et al.*, 2017a; Hoque *et al.*, 2017b; Hoque *et al.*, 2017c; Hoque *et al.*, 2017d; Kashif *et al.*, 2016; Awang *et al.*, 2015a; Fornell & Larcker, 1981).

4.2 Structural Model

As shown in Figure 3, three hypotheses (H_1 , H_2 , & H_3) are supported. In H_1 , compensation system has a significant positive direct effect on employee performance of a firm ($\beta=0.151$, $P=.005$). In H_2 , compensation system has a significant positive direct effect on employee engagement ($\beta=0.468$, $P=.000$), in H_3 , where employee engagement also has a significant

positive direct effect on employee performance ($\beta=0.403$, $P=.000$). The structural model explains 44% variance in employee performance.

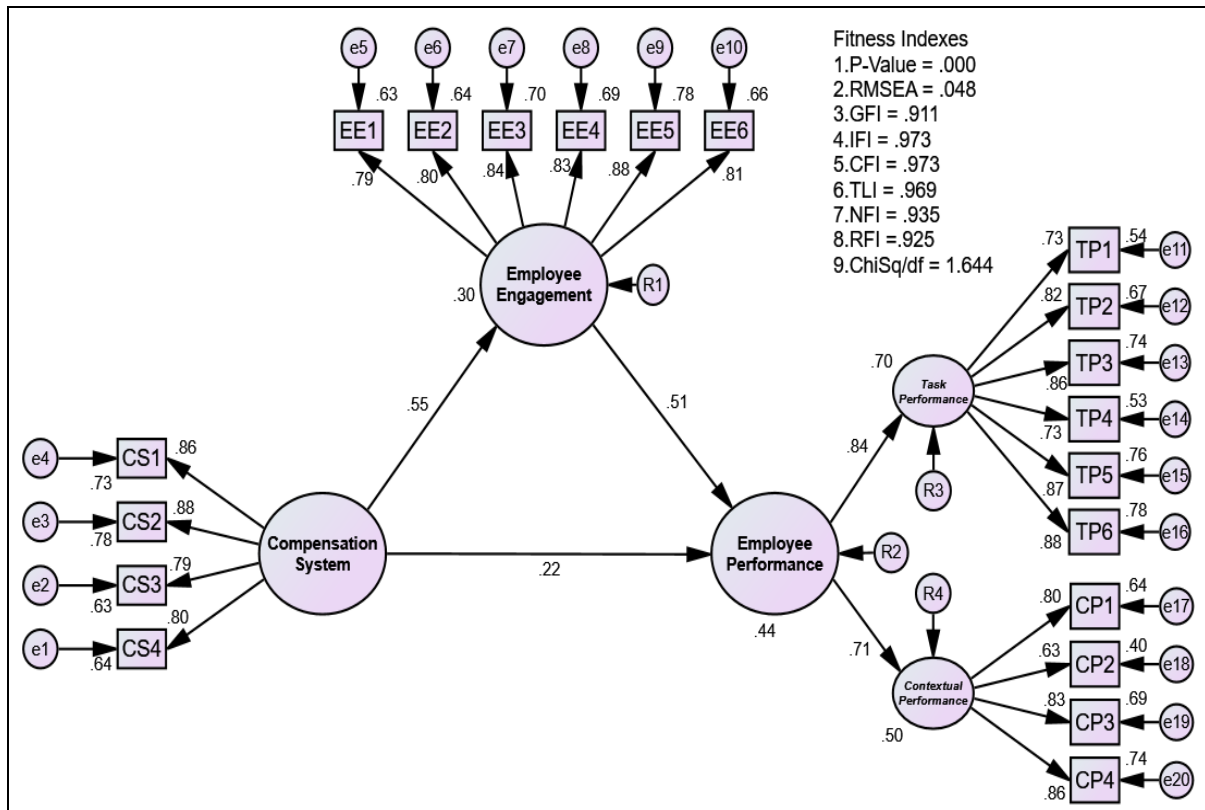


Figure 3. The Standardized Regression Weights for Every Path in the Model

4.3 Test of Mediation

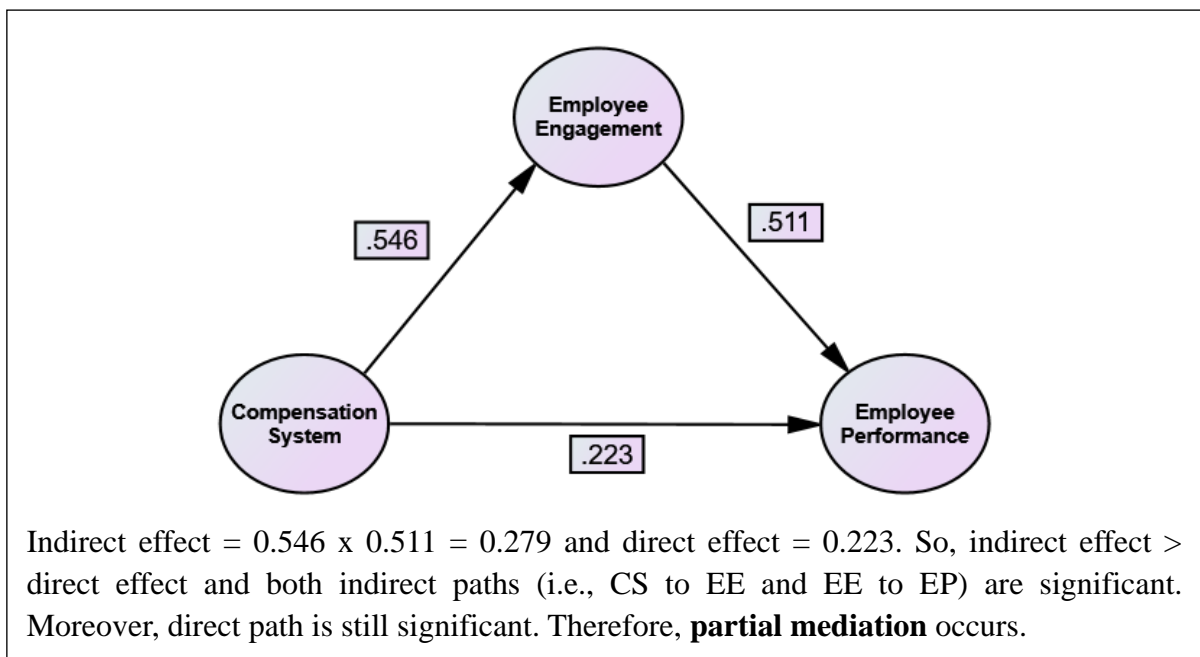


Figure 4. The Standardized Regression Weights for the Model

As a result, employee engagement partially mediates the relationship between compensation system and employee performance since both indirect paths (CS to EE and EE to EP) are significant and the indirect effect is higher than the direct effect as well as the direct effect is still significant after mediator enters the model.

4.4 Confirming the Mediation Result through Bootstrapping

It is imperative to reconfirm the result of the mediation test using the re-sampling procedure known as bootstrapping to reconfirm the hypothesis testing result of indirect effect (Hoque *et al.*, 2017b; Hoque *et al.*, 2017c; Hoque *et al.*, 2017d; Kashif *et al.*, 2016; Awang *et al.*, 2015a; Awang *et al.*, 2015; Hair *et al.*, 2014). The process allows for sampling with replacement between 500-5000 samples from the existing dataset. The study could compare the bootstrapping results with the results using normal modeling procedure. If there is any difference between the two, then the bootstrapping result will be admitted. The bootstrapping result with $n = 5000$ and bias-corrected confidence 0.95 is shown in Table 3.

Table 3. Summary of Bootstrapping Result

	Indirect Effect	Direct Effect
Bootstrapping Results	0.279	0.223
Does mediation occur?	The mediation occurs since the indirect effect is greater than direct effect.	
Bootstrapping p-value	0.001	0.012
Results	Significant	Significant
Type of Mediation	Partial Mediation since the direct is still significant.	

Table 3 shows the beta estimate of both the indirect effect and direct effects of compensation system on employee performance (β) = 0.279 and 0.223 respectively. Furthermore, it shows the P-value of indirect and direct effects for the compensation system on employee performance (P-value = 0.001 and 0.012 respectively). Based on the bootstrapping results in Table 3, it is evident that employee engagement partially mediates the relationship between compensation system on employee performance. Consequently, the H_4 of this study which posited that employee engagement mediates the relationship between compensation system on employee performance is also supported by the data of this study.

5. Conclusion

The paper highlights key ingredients that could notably enhance employee performance and how employee engagement could contribute towards it. Employee engagement harvests vital competitive factors in a firm which ultimately lead towards satisfaction as well as competitive advantage and achievement of employee performance target. In this paper, we have tried to underscore how employee engagement can interact in the relationship between corporate entrepreneurship and employee performance. The paper argues and found that compensation system has a significant positive effect on employee performance. Accordingly, the paper also emphasizes that the compensation system can especially enhance employees`

work wellbeing hence resulting in employee engagement. However, with some robust empirical evidence by the data of this study, the manuscript also recommends that employee engagement mediates the relationship between compensation system and employee performance. Hence, future researchers might focus on job design as an another independent variable as well as job satisfaction as a mediating variable to see whether good HR management practice helps to get better employee performance or not.

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