

# The indirect financial compensation business essay

Business



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## Introduction

Compensation has played an important role in our workplace. It is one of the human resource functions because it contains many elements and has an extent impact on an organization's strategic goals. It provides the rewards to employees in return for their services. The compensation program has three components. The first one is direct financial compensation. It pays the employees by monetary reward which is wages, salaries, bonuses, and commissions. Next is indirect financial compensation which is non-monetary reward or additional benefits such as paid vacations, sick leave, holidays, and medical insurance. Lastly is nonfinancial compensation. It is the satisfaction that the person receives from their own job. For example, the employees satisfy their workplace environment. Compensation includes monetary and non-monetary components which is employee's base salary and additional benefits. The benefits are including indirect financial compensation and nonfinancial compensation. A businessman must know the importance of compensation and how to apply it at the workplace in order to maintain competitive in the market. Firstly, the importance of compensation is to attract high-quality of the candidates during the hiring process because an employee can directly affect the productivity of the business. A high salary and benefits can attract more top applicants to work in your company but the benefits must be suitable for the applicants such as flexible work time. They will work efficiently at their workplace. This will increase the productivity. Secondly, compensation affects an employee's motivation, job satisfaction and worker performance. If the company gives the good reward to employee, they will feel motivated to help their company

succeed such as bonus. For example, salesperson will work harder in order to get base salary and the commission. They will try their best to achieve that target and it will motivate the salesperson to increase productivity. Lastly, compensation also can retain the high-quality candidates. The company can give the benefits to them such as retirement packages in order to retain them. The company can save money in recruitment fees and training costs. They also can save time to training the new employee. If the company provides better retirement benefit than other company, the worker will more loyalty toward their company and will not switch to other competitive company. A compensation system is one of the factors for any successful organization. This is the following of key objectives:- To attract high-quality of the candidates by giving rewards to them.- To motivate the employee by giving commission to them.- To retain the potential worker by giving benefits to them. In conclusion, compensation is very important for every company. Employees are not willing to work for cash only, but they also expect 'extra' which is benefits. " If you pick the right people and give them the opportunity to spread their wings and put compensation as a carrier behind it you almost don't have to manage them."(Jack Welch) Therefore, we need to give monetary and nonmonetary reward to employee in order to retain them because employee is company's asset and also is key success of company.

### **Content (theory)**

According to R. Wayne Mondy (2010), compensation is the total of all rewards provided to employees in return for their services. The main objectives of providing compensation to their employees are to attract, retain as well as motivate them. Compensation can be divided into several

types such as direct financial compensation, indirect financial compensation, and non-financial compensation. Direct financial compensation consists of the pay received in the form of bonuses, salaries, wages and commissions provided at consistent intervals (HR Council for the Nonprofit Sector).

Furthermore, indirect financial compensation includes all financial rewards that are excluded in direct financial compensation. This type of compensation includes a variety of rewards normally received indirectly by the employee such as benefits, leaves, education (R. Wayne Mondy, 2010).

Lastly, non-financial compensation refers to the satisfaction of a person receives from the job itself such as career development and advancement opportunities, as well as work environment and conditions (HR Council for the Nonprofit Sector). Based on Joseph J. Martocchio (2013), compensation also represents both extrinsic and intrinsic rewards employees receive for performing their jobs. Intrinsic compensation reflects employees'

psychological mind-sets that result from performing their jobs. However, extrinsic compensation includes both monetary and nonmonetary rewards. Compensation professionals establish monetary compensation programs to reward employees according to their job performance levels or for learning job-related knowledge or skills. Monetary compensation also known as core compensation. While nonmonetary rewards or can called as employee benefits include protection programs, paid time off and service such as vacation and medical insurance. According to Wayne F. Cascio (2010), fairness or equity is the most important objective of any pay system.

Organization must attract, motivate, and retain competent employees. This is because an organization's financial compensation system plays a huge role in achieving these goals. Equity theory can be defined as the motivation

theory that people assess their performance and attitudes by comparing both their contribution to work and the benefits they derive from it to the contributions and benefits of comparison others whom they select ( R. Wayne Mondy, 2010). However, equity can be assessed on at least three dimensions such as internal equity, external equity and financial equity. When the employees receive any pay of their job within the same organization, internal equity will exist. However, external equity means when the employees from a firm received any pay comparable to workers, who perform similar task from other firm. Lastly, financial equity is a perception of fair pay treatment for employees (R. Wayne Mondy, 2010). Sometimes the employee equity will exist when individuals performing similar jobs for the same firm receive pay according to factors unique to the employee, such as performance level or seniority. Furthermore, team equity is achieved when teams are rewarded based on their group's productivity. Actually compensation is importance to both new applicants and existing employees. Compensation is one of the ways to improve the employees' engagement. The compensation received from a job is a major reason that most people seek employment. If a company's compensation system is viewed as inadequate, top applicants may reject that company's employment offers and current employees may choose to leave the organization. Moreover, the dissatisfy employees will choosing to remain with the company may begin to behave unproductively such as less motivated and less cooperative. On the other hands, if an organization can provide satisfaction to their employees, it will raise the morale, efficiency, and cooperation among the subordinates. Indirectly, as the efficiency of the workers, the company operations will also growth eventually. Through this research we had made, we can get a clearer <https://assignbuster.com/the-indirect-financial-compensation-business-essay/>

picture for the importance of compensation to a company for how to retain the competence employees. For example, according to the research of Fortune, they stated that Intel is a company has low turnover rate which 2%. The main reason of low turnover rate in the Intel Company is offer fully paid sabbaticals to employees in order to obtain their existing employees. Moreover, Intel Company also offer onsite fitness center to their employees for maintaining their healthiness. Therefore, Petronas Company can learn from Intel Company in order to have a low turnover rate. Besides, company names Canadian General Tower also has a lower turnover rate 4% to 4.5% compared to industry average. This is because of the compensation and the benefits offer to their employees. This company conducts an internal salary review for its employees to ensure that there is the wages equity among the comparable jobs and qualifications within the company. But before this, Canadian General Tower noted that higher turnover rate would be caused by weak compensation system. So, they decided to engage in a number of activities and programs that potentially affect its employees' retention. For examples, external compensation reviews are frequently conducted by them to make sure that the employer is offering the wages that remain competitive. According to Fortune, Mercedes Benz USA is the 12nd best company in the world which only has almost 3% of turnover rate. The reason of low turnover rate is when the celebration of 125th anniversary of Karl Benz's invention of the automobile, this company gave bonuses based on tenure. Workers who are works for more than 14 years of service can get \$1,400.

## **Case Development (practices of compensation) applied by PETRONAS.**

### **Background of PETRONAS Company.**

PETRONAS is recognized as the national oil company of Malaysia since 1974 and is wholly- owned by Government of Malaysia (PETRONAS, 2012). The business is granted authorization with the entire ownership and control of the petroleum resources in the country since its incorporation on 17 August 1974 (TheExpatGroup. com, 2013). Besides, together with its subsidiaries and associated companies, PETRONAS has rapidly grown into a fully integrated oil and gas corporation in such a broad spectrum of the oil and gas value-chain. Moreover, PETRONAS has been ranked among the FORTUNE Global 500® largest corporations in the world (PETRONAS Business Analysis, 2011). There is no denying the fact that PETRONAS is " Leading Oil and Gas Multinational of Choice" since it has been increasingly accepted as a preferred strategic partner by international companies. Its business activities include: The exploration, development and production of crude oil and natural gas in Malaysia and overseas; The liquefaction, sale and transportation of LNG; The processing and transmission of natural gas and the sale of natural gas products; The refining and marketing of petroleum products; The manufacture and sale of petrochemical products; The trading of crude oil, petroleum products and petrochemical products; Shipping and logistics relating to LNG, crude oil and petroleum products. PETRONAS definitely has the responsibility to manage the Malaysia's oil and gas resources effectively, to ensure continuous development of the nation's petroleum industry and to add value to this national asset by evolving their

upstream capabilities and ventured into the entire spectrum of downstream activities.

## **Analysis of Compensation practices in PETRONAS Company.**

After analyzing the human resource practice in PETRONAS, they had implemented all the form of compensation. PETRONAS had applied financial compensation to pay their employees in the form of salaries, wages and bonuses.

## **DIRECT FINANCIAL COMPENSATION**

PETRONAS had made used of organization, labor market and employees itself as the determinant of direct financial compensation. Under the organization determinant, PETRONAS had applied market rate compensation policy (Salary for PETRONAS Employees, 2013). PETRONAS pay their employees at market which had average pay as other companies such as Shell Oil Company, Western Digital Corporation and Siemens. As this reason, positive external equity has existed in the PETRONAS. External equity represent to perception of employees of a company pay structure and compensation system (Osmand, 2013). The employees in PETRONAS will not feel jealous as receive the salary same as other firm. On the other hand, labor union had involved in PETRONAS direct financial compensation. There are hasanin-house staff unions in PETRONAS that name as KesatuanKakitangan Petroliaam NasionalBerhad (KAPENAS). According to Bernama (2013), KAPENAS had signed a Collective Agreement for the period 2013-2015 with PETRONAS in order to improve and revise the employment term and condition of non-executive staff. Union is organized to help the



employees to get better benefit. Besides, factor related to the employee are also essential in determining an individual's compensation. PETRONAS had used merit pay and variable pay which are the approaches under the job performance factor to compensate their employees. Merit pay refers to pay increase added to employees' base pay. Puan Raihaas the promoted vice-president of Human Resources Management Division in PETRONAS said that it has adopted merit-based approach with regard to employees in order to improve their productivity (Petronas; Developing Workforce for Successful Talent Management, 2012). Variable pay also is one of the approaches used by the PETRONAS in reward to their employees. The most common types of variable pay used by PETRONAS are bonus, a one-time annual financial reward, based on productivity that is not added to base pay. According to archive 2012, PETRONAS had given at least 5 months' bonus to 44, 000 staffs, the highest in the national oil corporation's history. (Record Bonus for Petronas' Employees, 2012).

## **INDIRECT FINANCIAL COMPENSATION**

All the employees in PETRONAS (MALAYSIA) had enjoyed mandated benefits which are time-off payment, employee provident fund, employee social security and maternity protection. These benefits had been legally required by Employment Act 1955 and the Sabah and Sarawak Labor Ordinances. PETRONAS had provided scholarship to scholar in developing and nurturing talents and skills that they will require as PETRONAS employees through its Education Sponsorship Units. (Petronas; Developing Workforce for Successful Talent Management, 2012). Besides, PETRONAS also has a scholarship program which name as The PETRONAS Scholars' Leadership Development

Program (SLDP) in order to draw out high quality employees (PETRONAS, 2007). This scholarship programs can help boost employees' recruitment and retention. Besides, PETRONAS also had set up a university, UniversitiTeknologiPetronas that provide a place for its employees to do research and development that support its business. (About the University, 2013). Moreover, PETRONAS was one of the main sponsors of the BMW Sauber Formula One team and newly formed Mercedes Grand Prix team. Mercedes GP PETRONAS has appointed Daniels Fitness Group (DFG) as its partner for its workplace fitness, health and wellbeing programmes, and they will be providing full consultancy of the programmes to all staff. (Paterson, 2011). PETRONAS emphasizes on the employees' health and safety by offering standard employee benefits package which is competitive with the other industries. The package is provided in the form of comprehensive health care coverage as a guarantee for the employees and their family. For example, life insurance is provided to protect the employee's family in the event of his or her death. (Mondy, 2012). The premium is paid based on the employee's annual earnings. Therefore, there is no psychological imbalance among them since it depends on how much the employees put their effort on their working and get their deserved own earnings. For example, employees earning RM50, 000 per year may have twice of their annual earnings amounted to RM100, 000, worth of group life coverage.

## **NON-FINANCIAL COMPENSATION**

Job environment is a factor of non-financial compensation. In order to ensure employees are working in a safe, secure and healthy work condition; PETRONAS had set out guidance in several areas such as unlawful

discrimination, sexual harassment, occupational health and safety environment. (Petronas Code of Conduct and Business Ethics Guide, 2013). As the employees feel safe and enjoy in the organization, this will increase their productivity. Secondly, the discussion below shows how they is applied by PETRONAS for the entire of job characteristic in every particular job of employee, we will take for the three main job areas in PETRONAS to discuss about it, which are: Geosciences, in a petroleum industry company, it is an inevitably most essential job area in PETRONAS, which it is under job significance, where their job output as having an important impact on others. And this profession is to ensure optimal recovery of the hydrocarbon resources, as they are in specialized to perform and dealing with most of the technician functions, such as Exploration projecting, Specialized Geology and Geophysics, Technical Geosciences, Geosciences Research, and so on. (Discover Your Potential with Petronas, 2013). When the employees find they are contributing to the success of the organization or country and improve the others live, they will tend to remain with the organization. Materials, Corrosion and Inspection Engineering, the maintenance and supportive group of workers. It is under skill variety worker who are required to perform number of different activities and they are also carrying a high autonomy, discretion have in performing about their task. PETRONAS has provides the employees substantial freedom, independence and discretion in scheduling their work. (Discover Your Potential with Petronas, 2013). Employees will fell motivated as they are given chance to growth and made their own decision. As the skill employees always need to make decision in various area most of the time so they are providing technical services in each respective discipline to improve project life cycle costs, and to ensure the reliability and

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safety facilities, and also create competitive advantage to its projects and assets. The Civil, Structural and Pipeline Engineering job area in PETRONAS involves the adoption of technologies required for capital development and maintenance of offshore and onshore structures and pipelines. As functions we can show that it is under task identity, which requires completion of a whole and identifiable piece of work carried out from start to finish. It's also involved during project conceptual design, basic and detail engineering, management of procurement, construction and commissioning, as well as continuous integrity management of these infrastructures. (Discover Your Potential with Petronas, 2013). It is better to let them handle the entire of the works process than just to be an assembly-line of worker. So they feel the importance from the job, they tend to remain in the organization too. PETRONAS is paying the most attention into these job areas, where they are providing a great compensation in these particular job areas. And the most focus is to remain all potential workers, especially positions stated as above.

## **Advantages & Disadvantages of Compensation practices implementation**

Direct Financial CompensationMarket rate compensation policy had applied by PETRONAS which is a prevalent method of pricing job nowadays.

PETRONAS should always have a competitive compensation structure in order to retain and attract the top talents. Market pricing can prevent the "internal equity" with comparison among the department and jobs in the organization because it looks directly at how the market values the job and skills instead of the employers. This can lead to a fair paying structure in the organization and the organization can have a good control in their

organization labor cost. However, when in the economic booming with the tight labor market, this may put the HR manager in the position of playing catch-up that requires a large adjustment in the compensation structure. The advantages merit pay is to increase the employees' satisfaction with work and pay as well as the performance. Besides, merit pay also can attract and retain highly motivated employees. This indirectly increases the productivity of the PETRONAS. However, pay differentiation in merit pay may result in dampening to work together as a team. Merit pay based on individual performance rather than group performance will lead the employees emphasize in individual goal instead of group goals. PETRONAS signed a collective agreement with Union will bring significant advantages to it that make the cost related to pay and benefits more predictable. Besides, it also can lower the turnover rate in PETRONAS as long as the employees are satisfied with their current compensation. On the contrary, labor union has also brought disadvantages to PETRONAS if their relationship is bad. Unions may always complaint and bring many resistances to PETRONAS decision such as termination issues if they do not meet a win-win situation. Although labor unions is an advantageous to the employees but it is an obstacle to organization. The benefit of PETRONAS is to boost production and efficiency and to give employees some control over their earning power. But bonus can cause issue of fairness because not every employee will get the same amount or same holiday bonuses. Indirect Financial CompensationScholarship provided by PETRONAS can be considered as an effective way that ensuring potential or talented scholar retain in the organization since they are required to work for PETRONAS within a specified period of time. Besides, PETRONAS has indeed provided a specific program <https://assignbuster.com/the-indirect-financial-compensation-business-essay/>

which is Scholar's Leadership Development Program for the scholars in order to give them a chance to enhance their knowledge related to the job. It is easier for them fully integrated into the job and even adapted to the working environment. PETRONAS most likely corporate with its university called Universities Teknologi Petronas to provide a way for the employees to go beyond current job as well as perform the task better. Nevertheless, if the scholarship issue has not been handled appropriately, then it may become a big trouble to PETRONAS. For example, if PETRONAS just simply provides scholarship to any individuals, then it is a wasting of resources and even can affect the reputation of the organization. With the fitness program, Anna Daniels thinks that it is the most effective medicines for sharpening focus and eliminating the negative stress, improving its health and driving it to increase its productivity and achieve its goal. However, if it is ineffective for those non-motivated employees, the confidence or courage of employees will be reduced even more. In the worst situation, it may cause not only physically health problem but also mentally problem that the employees will become self-abased. On the other hand, most of the employees in PETRONAS are working in oil field which their safety is highly threatened. They may become disability because of a small accident. So they are always worried about how their life will be after they face accident? Who is going to take care of them? How they cover their daily expenses? All of this question can be solve with employer provide insurance to them. If they face accident, there will be a huge compensation to them. This will relieves their fear and result them can work in a relax mind. Employees will feel secured and protected with the several insurances provided by company to them. However, insurance is cost to any company. In the economy recession,

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PETRONAS may have limited profit but they still need to pay for employees' insurance. Benefits can sometime increase the company burden of debt. In conclusion, the indirect compensation given by PETRONAS to their employees will increase the employee morale indirectly. Besides, the compensation and benefits will increase the employees' job satisfaction, motivation, peace of mind and increase self-confidence. This will lead to low turnover, low absenteeism, high productivity and effectively operation in the PETRONAS. Non-financial Compensation

**Nowadays, workers who are not only looks for the compensation in terms of money or bonuses, their satisfaction in the working environment are more important actually. If a person do not have a good relationship at the internal work field; no matter are workers and workers' relation or employee and employer's relations, there must have a positive attitude of making socialize in workforce, with a good relationship, it lead a better performance if you are not working alone. You just have to think, why do u making lot of friends? It is because people need belongingness, love, respect, and responsibility. Do you feel comfortable while working with your friend and getting something done? Yes, I do. So, what I want to say is a relationship in workforce, which will lead a better result to an organization.**

**Well yes, PETRONAS did so. As I would like to use the Maslow's Hierarchy of needs to show how an organization with applying all these needs, it will increase the satisfaction of the workers, and it could help for remaining the worker too.**

**From the first of needs; Physiological needs, I am sure not only PETRONAS has fulfill it, every organization should do so, as a minimum requirement for human survival and a at least needs to remain the workers, such as water, foods, fitness room, and emphasize on basic salaries more toward on direct compensation.**



**Second needs, safety; at least PETRONAS must provide an at least safety environment and secure such as insurance or security for all workers and organization, then employee feels safe to perform their job, especially for engineering workers, as an example from PETRONAS has restructuring of Group Health, Safety and Environment Division (GHSED), it is to enable Business Units to have greater accountability. (Safety & Health, 2012).**

**The belongingness, for the part of non-financial compensation is more focus on here, which bringing the internal satisfaction at the firm by knowing new friends, with a great relationship between workers and employer, and a person who giving advice to perform in a job. With having this belongingness needs, it leads a greater productivity or performance for a company; for relationship-oriented workers, they would ignore other compensation given by organization but with a basic need of survival, they likely to remain in this organization.**

**Esteem needs; that the job position with respecting of other and by others, PETRONAS did well in this part, which they have a structure of job areas to differentiate their tasks and performance, it does not make any conflict between them especially the engineering, who has the largest task significance on its business, PETRONAS has given a high autonomy to them. So they would feel themselves are importance.**

**Self-actualization needs; PETRONAS do provides training system to improve the all employees quality; it is by performance-based to measure employees who able to go in for higher position. The management will set goal and achievement for every worker with level of measurement (e. g.: minimum achievement; greater performance; Exclusive worker), so for the exclusive worker, will promote by the manager, it would have a chance for them heading to a higher position.**

**However, the shortcoming for PETRONAS is that the organization is too huge, everything what they did would be in very systematic form, therefore it would having problem about employee's autonomy, which refer to their freedom at the workplace then employees will be more satisfied his/her work. (Karim, 2008)**

Secondly, as there are some of the positions in PETRONAS as they feel like not performing well and not being taken serious into, such as the employee who involved in Materials, Corrosion and Inspection position, they felt they are unmotivated, where they are just performing the consistency and repetitively duties. They might feel boring, learning not much knowledge to take a higher responsibility performance.

### **Criticize the Problem of Compensation practices by PETRONAS.**

If we take into account of contingent factor such as merit pay, variable pay. This may result to huge difference of wages and salary among the employees in the organization. This will indirectly affect the job satisfaction of the employees. Because of differences in wages and salary earn in same work place, this will result in jealousy and interpersonal conflict between the

co-workers. The union also rejects this method because of fear of discrimination of among the worker based on their working (Compensation management, 2013). As we know different employees have different goals. Some workers are profit oriented, they tend to work fast in order to get higher salary. However, some employees dedicated to work and want contribute to society, so they may more concern on the quality of the product instead of the quantity product. With this compensation policy of the organization, their motivation will decrease because they think the company only concerns at their productivity instead of appreciate they contribution to company such as care the reputation of the company by produce high quality products. The employees may resign under this condition and this indirectly increases the turnover rate of employees. PETRONAS requires their scholars capable of having the drive to excel and stretch their potential (Petronas' Lifelong Relationship With Learning, 2013). Besides, they expect their scholars can be technically competent and be able to work in global environment. There is no doubt that it is a huge competitive field. Therefore, it may causes psychogenic disorder over the scholars by having negative stress or mind. It may be a big issue for PETRONAS if it tries to not face up to the problem. It will indeed affect the quality of the employees and the employees tend to disable to work effectively. Moreover, poor psychological quality of employees may result in unproductive employees. In the worst situation, it may affect the productivity and even the effectiveness of the entire business. Besides, we found that the PETRONAS are less concern at the non-financial compensation compare to the financial compensation. PETRONAS doesn't spend too much money in building a comfortable working condition and a good job environment to employees. Besides, PETRONAS

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also doesn't put much effort in building a good relationship between their employees. This is because there only have limited information can be found from online and other resources. Every employee has difference incentive in the types of compensation and not all the employees like the financial reward such as wages and benefits. They may be more motivated with the job itself or have a good relationship with their supervisor or peers. If there is bad relation between the employees, they will become demotivate. This will indirectly lead the employees do not like go to work and reduce their productivity and performance. Moreover, for those unmotivated employee who felt they are performing a low responsiveness duties, as what we mentioned above as Materials, Corrosion and Inspection position. PETRONAS should have really concern about it, otherwise it is hard to remain the worker in the work field, just because the position that they designed is not a large capability to let a worker to perform in new thing or learn something new.

## **Recommendation of the Criticism**

In order to disclose the big gap of wages and salary differences among the employees. The organization can delay the payment to employees who produce more output in a specific period. The organization can pay them with this delay payment at the following months when the demand of product decrease. Or the company can allocate the extra payment evenly at the following months. By using this method, the company can reduce the huge difference of wages and salary between the employees. For example, an employees earn extra RM 500 in this month which higher than other employees. So the company can pay him RM100 for the following each months. Although this method cannot totally eliminate the gap between the

wages and salary of employees but this at least can decrease reduce the gap. To ensure that resources could be utilized adequately in PETRONAS, either scholarship or scholarship program have to be provided only for the scholars who study related courses and possess the qualification required by PETRONAS. In the other word, the scholars might go through severe tests such as interviews or probations to be fully recognized as future employees for PETRONAS. In addition, educational facilities for training and development of the university should be fully provided. For example, the trainings should take the form of workshops more frequently in order to simulate the duty required in PETRONAS (The Impact of Indirect Compensation on Employee Productivity, 2012). Therefore, it will enhance the productivity indirectly. PETRONAS should find specific way to remove negative stress and mind from employees by hiring a specific psychologist to handle certain case. For example, the employees can be arranged to consult psychologist once a year and a psychological assessment would be done for each employees. Thus, PETRONAS can put their employees in the most adequate position through the advice given by psychologist. It will increasingly make their employees feel more confident as able to handle adequate position. Indeed, it indirectly enhances the job satisfaction of the employees. Besides, PETRONAS should provide employees calendar as a communication tool to spread out the benefit information to employees. There is no doubt that employees calendar is an effective technique to communicate with employees by showing the benefits will be received over the month evenly. For example, one month may feature a photo of an employee building a new home due to the company's savings plan and another month may feature the usefulness of the company's medical plan

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(The Impact of Indirect Compensation on Employee Productivity, 2012). It is used to sharpen the employees' focus on their work as they have known what benefits they will possess each of the month. Therefore, it will boost the morale of the employees since they are aware of what organization done for them other than what appears on their pay slips. Furthermore, the productive employees might be able to increase the effectiveness of the organization. PETRONAS should not only concern about the profit they can earn, they also should concern their employees' crises. PETRONAS can build a good relationship between their employees by implement the compensation policy used by other company. For example, Wal-Mart Stores had used the term of " association" instead of " employees" to motivate their worker (Differentiating the rewards from merit pay, 2013). PETRONAS should implement the policy that allows everyone call each other first name regardless what position you are. This can build a family oriented instead of boss-oriented business. This can eliminate the " hierarchy" in the organization and everyone is at the same level. This may result in people at PETRONAS are fully respect with each other and a strong bond between co-workers can be build.

**Furthermore, PETRONAS can modify or improve their compensation policy by referring to other company compensation policy. For example, the Nestle Company in Pakistan has involved all their employees in the company practice (Differentiating the rewards from merit pay, 2013). PETRONAS can provide an open communication with the employees are freely to express their opinion on the company decision or allow them to exchange their idea with each others. On the hand, the employers also need to consider their opinion instead of simply say " no" to them. This make the employees feel that they are contribute to the company and important to their company.**

**As the recommendation for unmotivated employee which has bored of performing his/her tasks, because they do not learn new skills and knowledge, a designed low capability job position and not taking serious into job field by PETRONAS, such as Materials, Corrosion and Inspection. Hence, I would like to apply a job enlargement and job enrichment for this particular job, which likely to have a combines a series of tasks into one new broader job, increasing the job scope, it provides a greater challenge and motivation to the employee; and through job enrichment it is designed that incorporates high-level motivators into the work, including opportunities for growth, learning, and achievement.**

**For job enlargement I would likely to recommend it to combine its position with Civil, Structural and Pipeline engineering, which they have, a similarity job for performing certain tasks. With combining these two positions into one, it has increased the job significance and its challenge, and because they have similarity of job performance, it leads them to have a stronger job identity which requires completion of a whole and identifiable piece of work. Due to the job enlargement, it slightly reaches to the job enrichment, just because combines of both positions into one, they have greater opportunities for growth, learning new thing in each position, and a higher achievement than previous.**

## **5. Conclusion**

Compensation is one of the human resources functions which are the reward to the employees in return of their contribution. There are 2 types of compensation, financial and non-financial compensation. While the financial compensation include can divides into two which are the direct and indirect compensation or called as benefits. By apply the compensation policies, the company can motivate their employees to work hard. Compensation should be fair and equity. The companies should pay their employees fairly when compare to the employees within company or in other companies, so that there will no internal and external equity exist in the company. When the employees dissatisfy with the company compensation, they will left the company and this indirectly rise up the turnover rate in the company. The company we had chosen in our assignment is PETRONAS who is the owner and controls all the oil resources in Malaysia. PETRONAS had implemented all types of compensation to their employees. For the direct financial



compensation, PETRONAS had applied organization, employees and labor market as the determinant of compensation policy. Market rate compensation policy is used by the PETRONAS to pay their employees and this eliminates the negative external equity in the company. Besides, there is also a labor union in PETRONAS which name as KesatuanKakitangan Petroliaam NasionalBerhad (KAPENAS). PETRONAS had also using merit pay and variable pay in return to its' employees' service. PETRONAS also had provided benefits to the employees such as scholarship, healthy and fitness programs, health care coverage and life insurance to their employees. Besides, PETRONAS also fulfill the compulsory benefits to the employees that needed by the law such as time-off payment, employee provident fund, employee social security and maternity protection. While in the nonfinancial compensation, PETRONAS more emphasize at the working environment compare to job satisfaction itself. The compensation policy that applies by PETRONAS had brought many advantages and disadvantages to the organization. Therefore, PETRONAS should take some actions in order to solve it. PETRONAS can modify its' compensation policy by referring good compensation policies of other companies. Firstly, the company should disclose the gap of wages or salary among the employees. Furthermore, PETRONAS can implement a policy to ensure their employees to treat each other as family. Therefore they have strong bond with each other. Finally, the company can too take serious of the hierarchy level in the organization so that the employees do not feel stress and feel motivate working in PETRONAS. From this assignment, we had learned how the employers compensate employees effectively and I think we can fully utilize this knowledge at our working place in the future.