

THE INFLUENCE OF COMPENSATION AND BENEFITS AND PERFORMANCE APPRAISALS ON EMPLOYEE ENGAGEMENT AMONG EMPLOYEE IN A LEADING MALAYSIAN AGRIBUSINESS COMPANY

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ABSTRACT

In Malaysia, fluctuating employee engagement levels have posed ongoing challenges, with disengagement contributing to decreased productivity and significant economic losses. Employee engagement is defined as the physical, emotional, and cognitive involvement of individuals in their work continues to be influenced by various organizational factors. This study examines the influence of compensation and benefits, as well as performance appraisal, on employee engagement among employees in a leading Malaysian agribusiness company. A total of 65 employees participated in this research through a structured questionnaire survey, employing a quantitative research design. Data collected were analyzed using the Statistical Package for Social Science (SPSS) version 27.0. The findings reveal that both compensation benefits and performance appraisals are significantly correlated with employee engagement. Pearson's correlation analysis showed a moderate relationship for performance appraisals ($r = .545$, $p < 0.001$) and a weak relationship for compensation benefits ($r = -.291$, $p < 0.005$). The results from multiple regression analysis indicate that performance appraisals ($\beta = 0.576$, $p < 0.001$) are the most influential factor of employee engagement. Meanwhile, compensation benefits were found to have a lesser impact. This study concludes that enhancing transparent, fair, and motivating performance appraisal systems plays a crucial role in fostering higher employee engagement. The outcomes of this study can serve as valuable input for a leading Malaysian agribusiness company and other organizations seeking to improve HR practices and employee performance through effective engagement strategies.

Keywords: Employee Engagement; Compensation Benefits; Performance Appraisals; Human Resource Management

1. INTRODUCTION

Employee engagement has become a critical success factor for modern organizations. It reflects the emotional commitment and involvement of employees toward their work and organizational goals. However, sustaining employee engagement remains a persistent challenge, particularly in dynamic work environments where organizational change, shifting expectations, and inconsistent HR practices are prevalent. Organizations worldwide, including in Malaysia, continue to face difficulties in achieving consistently high levels of employee engagement. In Malaysia, engagement levels have fluctuated in recent years, rising from 77% in 2022 to 82% in 2023, before declining to 76% in 2024 (D.Lai, 2023). These shifts indicate that maintaining employee engagement is an ongoing challenge, highlighting the need for more effective and sustainable HR strategies to foster long-term commitment (Gallup, 2025). The economic consequences of employee disengagement are substantial.

Hossan et al., (2024) estimated that Malaysia experienced economic losses of RM30.66 billion in 2018 due to disengaged employees, which increased to RM42.17 billion in 2019 before decreasing to RM26.10 billion in 2020. These figures underscore the urgent need for organizations to evaluate the effectiveness of existing human resource (HR) strategies, particularly those related to fostering sustained employee commitment. A leading Malaysian agribusiness company is the world's largest producer of crude palm oil (CPO), has long recognized the importance of employee engagement. The company collaborated with Aon Hewitt Consulting in 2015 and 2017 to conduct Employee Engagement Surveys (ESS) with the ambition of achieving the "Malaysia Best Employer" benchmark, which requires an engagement score of at least 87%. However, the 2017 ESS score revealed a result of only 73%, indicating a clear gap between intended targets and actual employee sentiment (Radzi, 2018). This discrepancy highlights a pressing need to reassess HR initiatives within the organization.

Among the factors affecting employee engagement, compensation and benefits remain essential. A well-designed reward system contributes not only to financial security but also to employee motivation, loyalty, and job satisfaction (Armstrong & Taylor, 2020). Recent policy emphasis on wage revisions in both public and private sectors by the Malaysian government further supports the notion that compensation is vital to employee retention and performance (Berita Harian, 2024). Conversely, when compensation is perceived as inadequate or unfair, it may lead to feelings of undervaluation and disengagement (Martin & Ottemann, 2016). Another key HR practice that influences employee engagement is the performance appraisal. Effective performance appraisal offer constructive feedback, align employee goals with organizational objectives, and support recognition and development (Dessler, 2019; Meenakshi, 2012). Many studies (e.g., Biswas, 2009; 2011; Shabbir et al., 2016) have identified performance appraisal as one of the most important factors affecting engagement, as they contain elements that promote commitment and motivation (Mollet Eliphaz et al., 2017). Similarly, research by Ameen and Baharom (2019a), Lim and Ahmad (2021), Tessema and Soeters (2006), and Wekesa and Makhamara (2020) supports the strong link between appraisal systems and engagement. However, when appraisals are unclear or unfair, they may reduce motivation and lead to disengagement (Marsden, D., & Sezer, L. (2024).

Despite the acknowledged importance of compensation, benefits, and performance appraisal, empirical studies focusing on these factors within the Malaysian agribusiness sector are limited. Previous studies have concentrated on employee engagement in Malaysia's agriculture industry, emphasizing autonomy, leadership, and career progression (Abdullah et al., 2025; Singh, 2025). Hence, the objectives of this research are to examine the relationship between compensation and benefits and employee engagement, to examine the relationship between performance appraisal and employee engagement and to determine the most dominant factor that affects employee engagement among employees in a leading Malaysian agribusiness company.

This study is significant to the industry. It provides agribusiness organizations with data-driven evidence to refine their HR strategies, particularly in aligning rewards and performance systems with employee expectations. To the community, the study promotes better working environments, enhancing employee well-being and job satisfaction, which can have positive ripple effects on household and social stability. To academic knowledge, the study fills a gap in empirical research within the plantation and agribusiness sectors in Malaysia, offering new perspectives on the HR practices that drive engagement in these unique organizational contexts. This study focuses specifically on employees in a leading Malaysian agribusiness company. The findings may offer transferable insights into other GLCs or large organizations operating in similar labor-intensive sectors.

2. LITERATUR REVIEW

2.1 Employee Engagement

Employee engagement has become a critical focus in modern human resource management (HRM), representing the extent to which employees are emotionally and cognitively invested in their roles and the organization. It goes beyond mere job satisfaction and includes a sense of enthusiasm, pride, and emotional attachment to the workplace (Biswakarma & Subedi, 2025). Kahn (1990) pioneered the conceptualization of engagement as the harnessing of the self physically, cognitively, and emotionally during role performance. Since then, scholars have expanded this notion to include the dynamic relationship between employees and employers, emphasizing the importance of mutual respect, trust, and psychological safety (Prouska et al., 2024).

Despite its widespread attention, the precise definition of employee engagement remains contested due to its multidimensional nature and overlap with related constructs such as job satisfaction and organizational commitment (Kwon et al., 2024). However, consensus exists on its significance in driving organizational performance. Engaged employees exhibit proactive behaviors, go beyond their formal job descriptions, and contribute meaningfully to the achievement of organizational goals (Ritu, 2024).

Employee engagement is also positively linked to retention, with engaged employees demonstrating greater loyalty and reduced turnover intentions (Zahari & Kaliannan, 2023). The importance of this concept is further underscored by its ability to enhance employee well-being, foster innovation, and build a resilient organizational culture. In short, engagement reflects not only the motivation to perform but also a deep-rooted commitment to the organization's mission and values.

2.2 Compensation and Benefits

Compensation and benefits play a central role in influencing employee motivation and engagement. Compensation is broadly defined as the total remuneration provided to employees in exchange for their services, which includes both direct (e.g., wages, bonuses) and indirect components (e.g., health insurance, paid leave) (Mello, 2021). According to Snell et al. (2022), compensation systems should be strategically aligned to attract, retain, and motivate talent, while also contributing to organizational effectiveness.

Intrinsic and extrinsic rewards are both relevant to employee engagement. Intrinsic rewards relate to psychological satisfaction derived from recognition, growth, and achievement, whereas extrinsic rewards involve tangible elements such as salary and allowances (Ali et al., 2019). A well-balanced reward system enhances employee satisfaction, fosters loyalty, and promotes sustained performance (Armstrong & Taylor, 2020).

Effective compensation systems must also be perceived as fair and equitable. Shah et al. (2020) argue that when compensation is seen as just and aligned with employee contributions, it reinforces a positive perception of the employer and boosts morale. In the Malaysian context, the government has emphasized the importance of fair wages through the progressive wage model, aiming to support talent development and economic stability (Sivakumar, 2023).

Moreover, compensation strategies should be flexible and responsive to employee needs. Customized benefit packages, performance-based incentives, and career-linked bonuses can all increase employee commitment and engagement. A strategic approach to compensation can thus serve as a powerful

motivator, encouraging employees to align their efforts with organizational objectives (Armstrong & Taylor, 2020).

2.3 Performance Appraisals

Performance appraisal (PA) is a fundamental HRM practice designed to evaluate and improve employee performance. It serves as a tool for setting expectations, providing feedback, identifying development needs, and aligning employee behavior with organizational goals (Aguinis, 2019). According to Ntufe (2024), PA is not a standalone activity but a key element of the broader performance management system that includes defining standards, assessing outcomes, and recognizing achievements.

Research has consistently shown that well-designed PA systems enhance motivation, job satisfaction, and productivity (Elamin et al., 2024; Ntufe, 2024). When employees receive timely and constructive feedback, they are more likely to engage in performance-enhancing behaviors and contribute to organizational innovation. Performance appraisal systems that are transparent, fair, and participative create a sense of ownership among employees, leading to stronger engagement (DeNisi & Sonesh, 2011; DeNisi & Murphy, 2017).

Fairness in appraisal processes is particularly important. Perceived justice in PA—comprising distributive, procedural, interpersonal, and informational fairness—has been identified as a key driver of engagement (Shawn, 2023). Employees who believe that their performance is evaluated objectively are more likely to feel valued and motivated to perform.

In addition, performance appraisals can foster trust between employees and supervisors. A study by Mkunde (2022) found that appraisal systems focused on coaching and employee development, rather than solely on identifying gaps, were more effective in enhancing engagement. Trust in leadership and perceived supervisor support are essential for appraisal systems to succeed in fostering engagement (Belsito, C., & Reutzel, C., 2019).

2.4 Compensation and Benefits and Employee Engagement

Compensation and benefits are among the most frequently cited drivers of employee engagement. Extensive empirical research has shown that competitive and equitable compensation systems significantly influence employees' willingness to engage fully with their roles (Elamin et al., 2024). Financial rewards serve not only to satisfy basic needs but also as recognition for contributions, reinforcing the psychological contract between employer and employee (Ntufe, 2024).

Studies by Ambarwati et al. (2023) and Singh et al. (2024) support the notion that both financial and non-financial rewards contribute to higher engagement. Compensation systems that include flexible benefits, performance-linked bonuses, and career development incentives have been associated with increased organizational commitment and job satisfaction. Moreover, perceived fairness in compensation is a key determinant of engagement. Employees are more likely to be engaged when they believe their efforts are recognized and rewarded appropriately.

The integration of compensation strategies with broader HRM practices also contributes to a cohesive and engaging work environment. Transparent compensation structures signal organizational support and help employees understand how their performance affects rewards. This clarity fosters motivation and alignment with organizational goals (Armstrong & Taylor, 2020).

Furthermore, compensation systems must consider individual differences and evolving employee expectations. As the workforce becomes more diverse, offering tailored compensation packages that address different life stages and personal priorities becomes essential in sustaining engagement.

2.5 Performance Appraisals and Employee Engagement

Performance appraisal systems also play a pivotal role in shaping employee engagement. Numerous studies have emphasized that appraisal practices are strong predictors of engagement, particularly when they include clear goals, consistent feedback, and opportunities for development (Biswas, 2009; 2011; Shabbir et al., 2016). According to Mollel Eliphas et al. (2017), performance appraisal is one of the most essential indicators of engagement, encompassing critical elements such as fairness, recognition, and employee involvement.

For instance, research by Ameen and Baharom (2019a), Lim and Ahmad (2021), Tessema and Soeters (2006), and Wekesa and Makhamara (2020) has consistently found positive links between appraisal systems and employee engagement. These findings highlight that effective PA practices enhance trust, motivation, and performance, which in turn foster higher engagement levels.

Aguinis (2019) noted that PA systems, when properly implemented, serve as key mechanisms for promoting performance alignment and employee development. In organizations undergoing digital transformation or facing innovation pressures, PA acts as a signal of what behaviors and outcomes are valued, thereby guiding employee actions (Bowen & Ostroff, 2004; Sanders & Yang, 2016).

The role of fairness in appraisal systems cannot be overstated. Employees are more engaged when they perceive that evaluations are conducted transparently and objectively. Inconsistent or biased appraisal processes can lead to disengagement, frustration, and turnover (Shawn, 2023). Moreover, appraisal sessions that involve two-way dialogue, coaching, and personalized feedback tend to be more successful in motivating employees and enhancing organizational loyalty (Mkunde, 2022).

Trust is a foundational element in performance appraisal systems. When employees trust that their contributions will be recognized and their feedback taken seriously, they are more likely to invest their energy and time in the organization Sumayya, U., & Raziq, A. (2019).

In the case of a leading Malaysian agribusiness company, while a KPI-based appraisal system has been in place since 2010, variations in employee engagement suggest a potential mismatch between intended objectives and actual implementation. As such, refining the PA process to better reflect employee needs and feedback could significantly enhance engagement outcomes.

3. METHODS

This study employed a quantitative research design to examine the relationships between compensation and benefits, performance appraisals, and employee engagement among employees of a leading Malaysian agribusiness company. A correlational and cross-sectional approach was adopted, allowing data to be collected at a single point in time to identify the strength and direction of relationships between the independent variables (compensation and benefits, and performance appraisal) and the dependent variable (employee engagement). The study targeted employees from various departments and management levels within a leading Malaysian agribusiness company, a prominent agribusiness organization in Malaysia. To ensure inclusivity and reduce sampling bias, a simple random sampling technique was used. Referring to Krejcie and Morgan's (1970) sample size

determination table, a minimum of 65 respondents was deemed adequate for a population exceeding 80 employees. However, to enhance reliability and generalizability, a total of 100 questionnaires were distributed, anticipating a response rate of at least 80%.

Data were gathered using a structured questionnaire adapted from established instruments in prior research. The questionnaire was divided into four sections: Section A captured demographic information (e.g., gender, age, department, position, and years of service); Section B assessed compensation and benefits using items adapted from the Pay Satisfaction Questionnaire (Heneman & Schwab, 1985) and the Employment Benefits Satisfaction Questionnaire (Al-Shami & Chneim, 2002); Section C measured performance appraisal practices using scales adapted from the Chartered Institute of Personnel and Development (CIPD, 2001); and Section D assessed employee engagement using the Utrecht Work Engagement Scale (UWES) developed by Schaufeli et al. (2002a), focusing on vigor, dedication, and absorption. The questionnaires were distributed digitally via company email, ensuring convenience and accessibility for all participants. Respondents were informed about the confidentiality and anonymity of their responses, and informed consent was obtained before data collection.

Data were analyzed using the Statistical Package for the Social Sciences (SPSS) version 26. Descriptive statistics such as mean, frequency, and standard deviation were used to summarize demographic data, while Pearson correlation analysis examined relationships among variables. Multiple regression analysis was conducted to identify the most dominant predictors of employee engagement. To ensure the validity and reliability of the instrument, the questionnaire was reviewed by HR professionals and academic experts. A pilot study with 30 respondents was also conducted, yielding Cronbach's alpha values above 0.80 for all constructs, indicating strong internal consistency and reliability.

4. RESULTS AND DISCUSSION

4.1 Correlation Analysis

The Pearson correlation analysis was conducted to examine the strength and direction of the relationships between the independent variables which are compensation and benefits, and performance appraisals with the dependent variable, employee engagement. Table 4.1 presents the correlation results.

Table 4.1 Correlation Analysis

Variables	Pearson Correlation (r)	Significant Value (p)	Strength of Correlation
Compensation and Benefits	0.291	< 0.005	Weak
Performance Appraisals	0.564	< 0.001	Moderate

The results show that compensation and benefits have a weak but positive correlation with employee engagement, with a Pearson correlation value of $r = 0.291$ and $p < 0.005$. This indicates that although the relationship is not strong, there is a statistically significant link, suggesting that improvements in compensation and benefits are likely to contribute to higher levels of employee engagement. This finding aligns with previous studies by Armstrong and Taylor (2020) and Shah et al. (2020), which emphasize that fair and structured compensation systems play a role in motivating and retaining employees.

On the other hand, performance appraisals show a moderate and positive correlation with employee engagement, where $r = 0.564$ and $p < 0.001$. This indicates a stronger and more meaningful relationship, implying that employees who perceive the appraisal system as fair, transparent, and development-oriented are more likely to feel engaged in their work. This supports the findings of Elamin et al. (2024) and Aguinis (2019), who assert that well-designed appraisal systems are critical in driving motivation, trust, and engagement in the workplace. Overall, the correlation analysis reveals that while both independent variables are significantly associated with employee engagement, performance appraisal has a stronger influence compared to compensation and benefits in the context of a leading Malaysian agribusiness company.

4.2 Multiple Regression Analysis

Multiple regression analysis was conducted to examine the combined effect of the independent variables which are compensation and benefits (CB) and performance appraisals (PA) on the dependent variable, employee engagement (EE). The model summary, shown in Table 4.2, presents the strength and significance of the regression model.

Table 4.2 Model Summary of Multiple Regression Analysis

Model	R	R Square	Adjusted R Square	Std. Error of Estimate	F	Sig. F Change
1	0.564	0.318	0.296	0.49004	14.452	0

The model yielded an R value of 0.564, indicating a moderate positive correlation between the independent variables and employee engagement. The R Square value of 0.318 reveals that 31.8% of the variation in employee engagement at a leading Malaysian agribusiness company is explained by the combined influence of compensation and benefits and performance appraisals. The remaining 68.2% may be attributed to other factors not examined in this study. Moreover, the F-statistic ($F = 14.452$, $p < 0.01$) confirms that the model is statistically significant, indicating that the predictors collectively influence employee engagement.

The coefficients of the regression analysis, presented in Table 4.3, identify the individual contribution of each independent variable to the model.

Table 4.3 Coefficients of Multiple Regression Analysis

Variable	Unstandardized B	Std. Error	Standardized Beta	t	Sig.
(Constant)	1.073	0.544	—	1.971	0.053
Compensation & Benefits (CB)	-0.024	0.13	-0.023	-0.186	0.853
Performance Appraisals (PA)	0.679	0.147	0.576	4.607	0

5. CONCLUSION

This study examined the influence of compensation and benefits, as well as performance appraisals, on employee engagement among staff at a leading Malaysian agribusiness company. The findings

revealed that while both independent variables were positively correlated with employee engagement, only performance appraisal showed a significant and moderate relationship. Regression analysis further confirmed that performance appraisal is the most dominant predictor of engagement, whereas compensation and benefits did not contribute significantly when both variables were considered together. These results highlight that transparent, fair, and constructive appraisal systems have a stronger impact on employee engagement than monetary rewards alone.

The findings support the study's objectives and problem statement, which emphasized the challenges organizations face in maintaining consistent employee engagement due to evolving HR practices. Three themes emerged: performance clarity and feedback, recognition and fairness, and moving beyond financial incentives. This study contributes to the field by offering insights into the relative importance of HR practices in the Malaysian agribusiness context, an area with limited empirical research. Practically, it urges HR practitioners to focus on improving appraisal systems to foster trust, motivation, and long-term engagement, rather than relying solely on compensation as a motivator.

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