

Material and Immaterial Compensation as a Determinant of Employee Organizational Commitment

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Abstract

The success and failure of any organization largely depend on talented and competent employees. Through human resource management (HRM) practices and policies, organizations strive to ensure committed employees. One of the fundamental practices they use is undoubtedly material and immaterial compensation. Adequate management of such compensation may contribute to greater employee engagement in achieving the set goals, realizing the mission, and fulfilling the vision of the organization. In such ways employees confirm their affiliation with the organization, which classifies them as committed employees.

The paper assumes that the adequate application of material and immaterial compensation in organizations in Bosnia and Herzegovina (BiH) may improve employee organizational commitment. This ultimately has a positive impact on the effectiveness and efficiency of organizations. The research was conducted in 128 BiH organizations with more than 50 employees across four sectors. The hypotheses were tested applying the Principal Components Analysis (PCA) through the Kaiser-Meyer-Olkin (KMO) values and Bartlett's test of sphericity and the regression analysis.

The results show a statistically significant positive impact of material and immaterial compensation on employee organizational commitment. Creating more agile policies and practices of human resource management, especially those related to material and immaterial compensation, can significantly improve employee commitment as well as the entire organizational effectiveness.

Keywords: human resource management, material compensation, immaterial compensation, employee organizational commitment

JEL: L2, M52

1. Introduction

Awards and recognition, being a part of material and immaterial compensation, are very sensitive issues both within organizations and in a society. Who are the employees that should be rewarded and recognized? Most people have a ready answer to this question. They believe that the employees responsible for improving processes, increasing efficiency, etc., deserve recognition. However, the question is whether recognition or award given is fair and truly deserved. Any recognition given to an employee who may not have earned it can create resentment and resistance from other employees towards future tasks. Therefore, rewarding, in any form, is a very sensitive issue that requires attention and careful consideration by those in charge of awarding. The manager's goal is not to create a negative atmosphere in the organization by awarding recognition, but to highlight the deserving ones and encourage others to join such employees. For this to be possible, one needs to clearly define the rules for granting recognition and rewards. With clear practices and policies for material and immaterial compensation, a sense of pride and commitment can be created among employees; this can increase their effectiveness and, most certainly, lead to greater efficiency of the entire organization.

Money is undoubtedly the oldest and most universal method of motivation. However, it is also the source of the most significant problems since it has a strong influence on work and workplace relationships. If the salary is directly linked to increasing labor productivity, it becomes evident that every increase in salary does not necessarily lead to an increase in productivity (Buntak et al., 2013).

According to Armstrong and Taylor (2014, p. 180), money can provide positive motivation under the right

circumstances, not only because people need and want money, but also because it serves as an exceptionally tangible means of recognition. However, poorly designed and managed payment systems can demotivate employees. Tabassi and Bakar (2009) emphasize that money is not the only means of fostering enthusiasm among employees, stating that numerous interwoven factors are involved in the performance improvement process, which is why in some situations even the recognition for well-achieved results itself is a powerful motivational tool. It is assumed that good work performance encourages the achievement of the organization's vision and mission and increases its competitiveness. This leads to the conclusion that compensation is closely linked to organizational commitment, which includes elements of will, need, and responsibility (Widyaningsih, 2016).

Practices such as incentive salary plans, performance bonuses, profit sharing, and performance management systems are primarily aimed to manage employee behavior (Wright & Kehoe, 2008). When it comes to incentive components of salary, many disapprove of such rewards, and Kohn (1993) views the incentive portion of salary as a bribe in the workplace, arguing that “a bribe in the workplace simply cannot work.”

Organizational commitment is very important for retaining employees in an organization as only committed employees can perceive the organization as a part of their life and family. Effective human resource management practices may increase the level of organizational commitment among employees.

In the time characterized by sophisticated technology and heterogeneous workforce, it is very difficult to encourage employee commitment, and even harder to maintain that commitment. This is why organizations face a huge challenge in attracting and retaining high-quality workforce that, through their dedication and engagement, is ready to provide organizations with a competitive advantage and success in the market. Given the fact that in the era of advanced technology people are the most valuable resource, organizations are focused on finding their ways to retain and secure committed workforce. Organizations become aware that employee commitment is a factor that can influence the success of the organization in the future.

Investigating the effect of technology on the future of human resource management, Stone et al. (2015) start from the question of whether the true purpose of using technology in human resource management is to reduce costs and increase delivery speed, or to attract, motivate, and retain exceptionally talented and diverse workforce. They believe that the problem lies in the fact that human resource management is increasingly focused on technology rather than on employees, leading to the field of human resources being viewed more as a “management tool” and less as a valued strategic partner. They believe that technology should only be a decision-support tool that should enhance, but never replace, the role of managers and human resource experts in the organization (Stone & Dadrack, D. L., Lukaszewski, K. M., Johnson, 2015).

Bosnia and Herzegovina (BiH) is a country that, until a few years ago, faced significant problems with unemployment. Today it faces a shortage of skilled workforce. Inadequate compensation packages offered by BiH companies led to the emigration of young and talented workers to the countries in the European Union, causing major problems for BiH organizations. This paper aims to address the problems that BiH organizations face by focusing on the importance of material and immaterial compensation and considering its impact on enhancing employee organizational commitment. This may restate BiH organizations in the category of competitive organizations in the global market.

This study makes a significant theoretical contribution by demonstrating that material and non-material compensation makes crucial predictors of organizational commitment among employees. Organizations that provide secure income for their employees, offer competitive salaries, ensure that rewards are exclusively performance-based, and support professional development while covering additional costs (e.g., the use of a company car) can significantly enhance employees' organizational commitment. The findings of this study align with previous research (Putri et al., 2021; Rahaman et al., 2016; Widyaningsih, 2016; Yeganeh & Su, 2008).

From a practical perspective, the research findings can assist management in selecting appropriate material and non-material compensations and ensuring balanced distribution. This approach aims to improve organizational commitment, which can significantly contribute to reducing employee turnover.

The study findings also have societal implications by fostering a fairer, more satisfied, and more productive environment through policies that promote economic stability. Appropriate material and non-material compensation contributes to both individual and collective well-being.

Human resource management (HRM) practices and policies are gaining an increasing importance. However, placing excessive emphasis on aligning these practices and policies with business objectives may result in employees being treated solely as tools for profit. According to Stone et al. (2015), the issue lies in the growing

orientation of HRM towards technology rather than employees, which leads to the field of HR being viewed more as a "management tool" and less as a valued strategic partner. An overemphasis on structure and processes risks neglecting the human aspect of organizations.

The article is structured as follows. The first part provides an overview of the literature on material and immaterial compensation and organizational commitment. The second part presents the research methodology, including the postulated hypotheses, while the third part includes discussion and conclusion.

2. Literature Review and Hypotheses Development

2.1 Material and Immaterial Compensation

One of the important and challenging tasks of every organization is to retain its employees. Employees' willingness to commit to their work and organization largely depends on compensation and benefits offered by the organization. Compensation as well as job satisfaction play a crucial role in employee commitment. The results of compensation should include improved employee satisfaction, low turnover, and better organizational performance. With a highly competitive labor market, employers must offer a compensation package that allows them to attract, retain, and motivate employees. A study by Rahaman et al. (2016) showed that compensation has a direct impact on employee commitment, performance, and productivity. However, this can be achieved if there is transparency in the reward system and if the benefits or compensation meet the aspirations of the employees (Rahaman et al., 2016).

Financial incentives and rewards affect employee retention, as they create the basis for a high level of commitment. Employee commitment increases their performance and reduces turnover. Consequently, employee loyalty depends on meeting employees' desires and needs. The basis of the relationship between employees and employers lies in financial incentives and rewards, as these are given to employees for performing their jobs (Saleem, 2011).

A rather important question regarding compensation is to what extent it is linked to performance. If the compensation policy in an organization is not linked to productivity, it does not create sufficient motivation for employees (Yeganeh & Su, 2008). The value of the exchange is influenced by the identities of both parties. Each party has expectations about the behavior of the other, but these expectations are not based on time or the specifics of what each party needs to give. If both parties benefit from exchange, neither will know if the other party's expectations are fully met (Tansky & Cohen, 2001).

Compensation includes techniques used by an organization to motivate employees and pay for the exchange based on the expected employee performance. It is assumed that good work performance encourages fulfilling organization's vision and mission, and increases organization's competitiveness. Hence, it can be concluded that compensation is closely related to organizational commitment, which includes elements of will, need, and responsibility (Widyarningsih, 2016). Compensation directly affects job satisfaction and organizational commitment, but job satisfaction may also mediate the effect of compensation on organizational commitment (Putri et al., 2021).

Adams (1963) stated that, according to the equity theory, employees assess the fairness of their compensation by comparing their contributions and rewards to those of their colleagues. However, in the era of globalization, the perception of fairness has become increasingly complex. The philosophy of rewards reflects management's beliefs about how employees should be incentivized. Nevertheless, it is not the philosophy of rewards itself that matters, but rather the payment practices that emerge from it (Armstrong & Taylor, 2014).

2.2 Organizational Commitment

Mowday, et al. (1979) defined organizational commitment as the emotional connection individuals have with the organization, their identification with it, and their active participation in it. Neinger et al. (2010) suggested that organizational commitment is a key factor contributing to successful employees remaining with the organization.

Generally speaking, organizational commitment is the voluntary attachment of an employee to an employer or organization. It includes support, practical identification and dedication, loyalty, and submission to the ideals, mission, or vision of the organization. Committed employees are also recognized by their willingness to demonstrate personal sacrifice, and they are sometimes seen as prioritizing the organization's interests over their own or any other interests. They are not just a part of the organization; they are tied to the organization for as long as their commitment lasts (Akinyemi & David, 2012).

Organizational commitment is a key factor in why successful employees remain within the organization (Ertemsir et al., 2017). According to Pandey and Khare (2012), committed employees are those who are

dedicated to organization's success and believe that working for the organization is their best option. Khan et al. (2013) emphasized that organizational commitment is demonstrated through improved performance in achieving individual and team goals, which leads to positive results of organization's productivity. Organizational commitment is very important for employee retention as only committed employees can look at the organization as the part of their life and family.

The results of the study by Amri et al. (2021) showed that the greater the organizational commitment, the higher employee performance. Therefore, with strong organizational commitment, it is possible to ensure the best performance, expressed through maximum effort from employees in achieving organizational goals. Strong organizational commitment makes employees more willing to place greater importance on the organization, have a strong desire to remain with the organization, be loyal, and be ready to fulfill their commitments to ensure that every set of expectations and goals of the organization is met.

According to the organizational commitment theory, employee commitment to an organization can be achieved through HRM practices (Meyer & Allen, 1991). However, if management becomes overly focused on reducing employee turnover, it may neglect the dynamics of the labor market and the need for employee mobility. Similarly, employees can be committed but still inefficient; this may result in loyalty without innovation, highlighting the fluid nature of the theory. This underscores the complexity of the relationship between human resource management practices and policies and organizational commitment (Meyer & Smith, 2000). Over the years, numerous authors have contributed to defining commitment, yet disagreements persist regarding its conceptual interpretation, characteristics, and the ways in which commitment influences employee behavior (Meyer & Herscovitch, 2001).

2.3 Material Compensation and Organizational Commitment

Material compensation, together with indicators such as salaries, incentives, and benefits, play an important role in increasing employee motivation, which is evident in achievements and the need for belonging. Based on the developed theoretical model, Rizal et al. (2014) demonstrated that compensation affects motivation, organizational commitment, and employee performance. The study results highlighted the importance of compensation and its ability to directly strengthen organizational commitment. What the authors particularly emphasized is the effect of material compensation on employee motivation, which acts as a mediator through which organizational commitment is ensured in this manner (Rizal et al., 2014).

Money and fair compensation are a good motivator, but also act as a key factor affecting employee satisfaction, leading to better organizational commitment, improved quality of the services provided, and better performance (Parvin & Kabir, 2011). In situations when rewards are perceived as fair, one may expect more constructive responses from employees, such as support and loyalty, and less destructive responses, such as neglect and leaving the organization (Si & Li, 2012).

The results of the multiple regression analysis in the study conducted by Koo et al. (2020) showed that emotional and material rewards, along with their dimensions, are important in shaping organizational commitment, work performance, and turnover. A year later, Kristanti et al. (2021) argued that financial rewards significantly affect job satisfaction and organizational commitment but have little impact on turnover. In their study, partial job satisfaction and organizational commitment did not mediate the relationship between financial rewards and labor turnover (Kristanti et al., 2021).

According to Coetzee et al. (2014), job satisfaction and material compensation significantly and positively predicted employee organizational commitment. Lumley et al. (2011) also argued that satisfaction with salary is an important forerunner to organizational commitment, and that salary has a direct impact on organizational commitment. Meyer and Allen (1997) considered that an organization that offers attractive compensation packages to employees shows them that they are important to the organization, which consequently increases their emotional attachment to it. The authors also argued that a high performance-based salary creates an economic obligation for the individual to stay with the organization. Brundage and Koziel (2010) confirmed the importance of establishing a compensation system that focuses not only on salary and benefits but also on career development and growth opportunities so as to retain talented staff (Coetzee et al., 2014).

Material compensation has a positive and significant impact on organizational commitment. The results of the study conducted by Imron et al. (2020) showed that the better the compensation an employee receives, the greater the employee's commitment to the organization. Good compensation management in an organization motivates employees to build a better relationship with the organization and improve organizational commitment. The authors emphasized that the organization must maintain employee satisfaction levels if it wants to increase employee commitment. According to the authors, maintaining employee satisfaction levels can be achieved

through important dimensions of material compensation (Imron et al., 2020).

Examining the effect of financial rewards on employee organizational commitment, Korir and Kipkebut (2016) found that financial reward management practices have a significant impact on organizational commitment. The authors stated that organizations can use financial rewards to attract employees, but that financial rewards may sometimes not be effective in retaining employees due to the perception employees may have about them. The findings of this study showed that reward management practices significantly contribute to employees' desire to stay or leave their jobs, depending on the way they are treated in the organization (Korir & Kipkebut, 2016).

An organization that implements appropriate practices and policies in the reward and benefits systems creates conditions for improving employee commitment. According to Mathieu and Zajac (1990) as well as Meyer and Herscovitch (2001), the “exchange” between the organization and its employees, which is achieved through material compensation, represents a significant factor in employee organizational commitment. Therefore, the first research hypothesis is postulated as follows:

H1: The implementation of appropriate material compensation influences employee organizational commitment.

2.4 Immaterial Compensation and Organizational Commitment

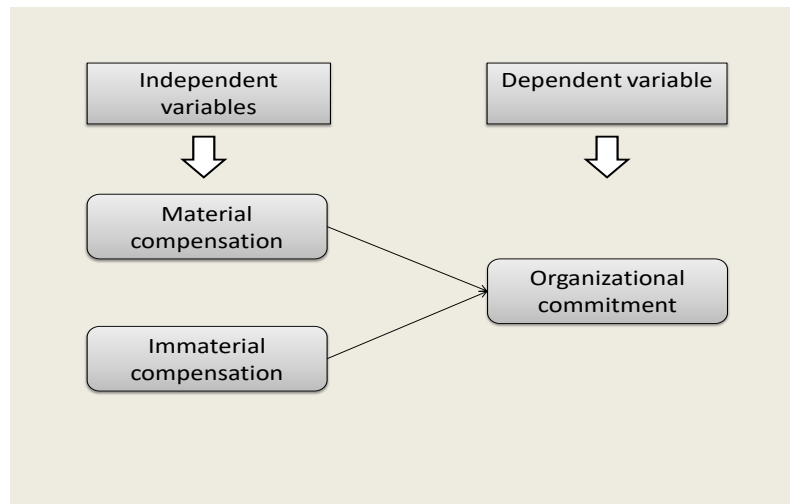
Immaterial compensation plays an important role in employee retention and commitment. Examples of immaterial compensation include recognition and praise from managers, team members, and customers. Although salary is indeed recognized as a potential predictor of organizational commitment and employee retention, salary alone is not enough. For example, a low salary can drive an employee away, but a high salary does not necessarily guarantee retention. There may also be other internal and extrinsic factors that influence an employee's decision to commit more or stay with the employer. Employees' sense that their efforts, abilities, and contributions are recognized and valued within the organization can lead to employee retention and commitment to the organization. Therefore, compensation and recognition positively impact employee commitment and their desire to stay with the organization (Chew & Chan, 2008).

Whitener (2001) revealed that the actual reward system in an organization moderates a positive relationship between employees' perceptions of organizational support and organizational commitment. Specifically, the positive link between perceived organizational support and employee organizational commitment becomes stronger when the organization implements a reward system with high internal equity. Although the research design somewhat varies from one researcher to another, a series of recent studies suggest that the effects of human resource management practices on employee commitment are neither direct nor conditional (Takeuchi & Takeuchi, 2013).

In a study conducted on 324 employees working for telecom companies, Giao et al. (2020) stated that rewards and recognition have a positive impact on organizational commitment. Two years prior, Jaworski et al. (2018) also stated in their study that recognition influences organizational commitment. Therefore, in order for employees to demonstrate commitment to the organization through dedication to their work and tasks, the organization must show respect towards them, as money is a motivator, but not a decisive factor for employee commitment to the organization they work for (Giao et al., 2020).

The application of appropriate human resource management practices and policies in the field of immaterial compensation is very important for enhancing employee organizational commitment. Meyer and Allen (1991) linked commitment to benefits, while (Nasurdin et al., 2008), based on their research, argued that employees perceive immaterial compensation as an indicator of the organization's care about their well-being, which strengthens their commitment to the organization. This commitment is manifested through their willingness to work hard on completing their tasks and achieving organizational goals. Therefore, the second research hypothesis is postulated as follows:

H2: The implementation of appropriate immaterial compensation influences organizational commitment



Graph 1. The theoretical framework of the research

3. Methodology

The empirical research, whose results will be presented in the following sections, included a total of 128 BiH companies. The data collected were processed using descriptive statistics, inferential statistics, and the hypotheses were tested using the Principal Components Analysis (PCA) through the Kaiser-Meyer-Olkin (KMO) values and Bartlett's test of sphericity and the regression analysis. The data were analyzed using the SPSS 21 software package (Statistical Package for the Social Sciences).

3.1 Measures

Data collection for the empirical part of the study was carried out through a questionnaire. The questionnaire was designed with close-ended questions, offering a set number of options, as well as close-ended questions using a Likert-type intensity scale. It was partly based on the Organizational Commitment Questionnaire (OCQ), which was developed and tested by Mowday et al. (1979). The first part of the questionnaire included demographic variables such as gender, age, years of work experience, education level, and employment characteristics. The second part of the questionnaire examined organizational characteristics. The third part of the questionnaire addressed material and immaterial compensation, while the fourth part focused on organizational commitment. The responses to the third and fourth parts of the questionnaire were based on a 5-point Likert scale. The response options ranged from 1 (strongly disagree) to 5 (strongly agree). The data collected through the questionnaire were subjected to reliability analysis. The reliability of the measuring scales in the questionnaire was tested by calculating the Cronbach's Alpha coefficient.

3.2 Sampling Procedures and Research Design

To examine the effect of material and immaterial compensation on organizational commitment of employees in BiH companies with over 50 employees, a study was conducted in four sectors: mining; manufacturing industry; production and supply of electricity, gas, steam, and air conditioning; water supply, wastewater treatment, waste management, and environmental remediation activities. The questionnaire was completed by managers, human resources department staff, as well as other employees working in BiH companies within the industrial sector. A total of 140 questionnaires were distributed and 128 were returned, resulting in a response rate of 91.43%. The companies included in the sample were selected based on the criterion of territorial dispersion ensuring that the empirical research covered companies across BiH: The Federation of Bosnia and Herzegovina (FBiH), Republika Srpska (RS), and the Brčko District of BiH (BD).

3.3 Sample Size

The questionnaire included 128 organizations, and the majority of the surveyed respondents belonged to organizations with more than 251 employees (37.8%). This was followed by the respondents working in organizations with 101-150 employees (19.7%), then those working in organizations with 51-100 employees (17.3%), and the respondents from organizations employing 151-200 employees (12.6%). The results are presented in Table 1.

Table 1. Organizations per employee number

Employee number	Frequency	Percent
50	4	3.1
51-100	22	17.3
101-150	25	19.7
151-200	16	12.6
201-250	12	9.4
251+	49	37.8
Total	128	100

Source: Authors' research

A total of 128 respondents were included in the study, 83 of them (64.8%) were male and 45 (35.2%) were female. The largest percentage (42.2%) of the respondents were between the age of 41 and 50, followed by those aged between 31 and 40 (36.7%). The smallest percentage belonged to the age group below 30 years (4.7%). The structure of the respondents by gender and age is presented in Table 2.

Table 2. Respondents' age by gender

	Gender				Total		
	Male		Female		n	%	
	n	%	n	%			
Age	<30	5	6.0%	1	2.2%	6	4.7%
	31-40	27	32.5%	20	44.4%	47	36.7%
	41 - 50	31	37.3%	23	51.1%	54	42.2%
	50+	20	24.1%	1	2.2%	21	16.4%
	Total	83 (64.8%)		45 (35.2%)		128	100%

Source: Authors' research

Regarding the work experience of the respondents, the largest percentage (40%) had between 16 and 25 years of work experience. About 66% of the respondents completed higher education, around 17% had a master's degree, 7.1% had a higher vocational education and secondary education, and about 3% had a doctoral dissertation, as showed in Table 3.

Table 3. Education and work experience of the respondents

	Work experience								Total		
	Up to 5 years		5 - 15 years		16 - 25 years		25+		n	%	
	n	%	n	%	n	%	n	%			
Education	High school	2	28.6%	3	6.4%	2	3.9%	2	9.1%	9	7.1%
	Higher vocational education	0	0.0%	0	0.0%	4	7.8%	5	22.7%	9	7.1%
	BA/BSc	3	42.9%	33	70.2%	33	64.7%	15	68.2%	84	66.1%
	MA	2	28.6%	10	21.3%	9	17.6%	0	0.0%	21	16.5%
	PhD	0	0.0%	1	2.1%	3	5.9%	0	0.0%	4	3.1%
	Total	7 (6%)		47 (37%)		51 (40%)		22 (17%)		127*	100%

* one respondent did not specify education level

Source: Authors' research

4. Results

The first step in analyzing the initial set of statements is the assessment of the reliability of the analyzed measurement scales. The reliability of the measurement scales in the questionnaire was tested by calculating the Cronbach's Alpha coefficient, which is a measure of the internal consistency of a set of statements ranging between 0 and 1. The closer the value is to 1, the more reliable the measurement scale is. Based on the results presented, it can be concluded that the reliability of the measurement scales is excellent.

Table 4. Cronbach's Alpha coefficients of questionnaire reliability

Variables	Cronbach's Alpha
Material compensation	0.969
Immaterial compensation	0.932
Organizational commitment	0.948

Source: Authors' research

Aiming to reduce the original variable space (statements) to a smaller number of factors (components), we applied the Principal Components Analysis (PCA) in the following part of the study. The goal was to extract one factor from different sets of statements in the questionnaire that measured a specific dimension of attitudes (e.g., immaterial compensation), which would constitute the main component (a linear combination of the original statement space) while preserving the maximum amount of information (maximum variance). These reduced independent and dependent variables were then used in further analytical procedures to test the research hypotheses. The parameter for the extraction decision was the eigenvalue, with Kaiser’s criterion applied in determining the maximum variance. The results of the principal components extraction are presented in Table.

The information that the sets of statements are appropriate for each applied principal component analysis is shown in the table through the Kaiser-Meyer-Olkin (KMO) values and Bartlett's test of sphericity. All obtained Kaiser-Meyer-Olkin values were above the required threshold of 0.6, while Bartlett's tests of sphericity were statistically significant with a probability of $p < 0.000$. The variance explained by each extracted component ranged from 43.45% to 54.87%. We would like to emphasize that the potential selection of additional components (e.g., selecting the 2nd or 3rd component) would, on the one hand, not contribute significantly to the overall variance explained, while on the other hand, it would complicate drawing research conclusions regarding the formulated hypotheses. Therefore, the extracted main components shown in the table were used in further analytical procedures.

Table 5. Extraction of the total variance of dependent and independent variables (statements) through the Principal Components Analysis

Components (factors)	Initial Eigenvalues			Kaiser-Meyer-Olkin	Bartlett's Test of Sphericity		
	I.E.	Total	% Variance		Approx. Chi-Square	df	p
Material compensation (18 items)	8.62		47.86	0.914	1369.29	153	0.000
Immaterial comepnasation (15 items)	8.23		54.87	0.914	1384.55	105	0.000
Organizational commitment (15 items)	6.52		43.45	0.869	1010.56	105	0.000

I.E. Total - Initial Eigenvalue, %Variance – Extraction share (variance), Kaiser-Meyer-Olkin – Value of the required KMO criterion > 0.6 , Approx. Chi-Square – Approximate chi-square value in Bartlett's test of sphericity, df – degrees of freedom, p – probability of rejecting the null hypothesis at 95% confidence.

Source: Authors’ research

Analysis of the effect of material compensation on employee organizational commitment

Table 6 presents the results of the principal components extraction for material compensation. The information that the sets of statements included in each applied principal component analysis are appropriate is shown in the table through the values of the Kaiser-Meyer-Olkin (KMO) indicator and Bartlett's test of sphericity. All obtained Kaiser-Meyer-Olkin values were above the required threshold of 0.6, while Bartlett's tests of sphericity were statistically significant with a probability of $p < 0.000$. The extraction of variance shares for each extracted component ranged from 43.45% to 47.86%.

Table 7. Extraction of the total variance of dependent and independent variables (statements) through the Principal Components Analysis

Components (factors)	Initial Eigenvalues		Kaiser-Meyer-Olkin	Bartlett's Test of Sphericity		
	I.E. Total	% Variance		Approx. Chi-Square	df	p
Material compensation (18 items)	8.62	47.86	0.914	1369.29	153	0.000
Organizational commitment (15 items)	6.52	43.45	0.869	1010.56	105	0.000

Source: Authors’ research

The results of the analysis of the effect of material compensation on the factor of employee organizational commitment are presented in Table 8. As the results show, the factor of material compensation had a statistically significant effect on employee organizational commitment ($p < 0.000$), $b = 0.724$.

Table 8. Effect of material compensation on the factor of employee organizational commitment

Components (factors)	Representativeness of the regression model				Parameters of the linear regression equation		
	r	r ²	F	p	a	b	Beta
Material compensation	0.724	0.525	139.1	0.000	0.0	0.724	0.724

Source: Authors’ research

The model, in which material compensation was set as the independent variable on the one side and organizational commitment as the dependent variable on the other, was found to be statistically significant. In other words, material compensation was a significant predictor of organizational commitment ($r=0.724$; $r^2=0.525$, $p<0.00$), thus confirming the first hypothesis. Material compensation explained 52.5% of the variance in organizational commitment.

Table 9. Characteristics of material compensation in your organization – distribution of respondents' responses

	Strongly disagree		Disagree		Somewhat disagree		Agree		Strongly agree	
	n	%	n	%	n	%	n	%	n	%
The salary level is in accordance with the requirements of the job/position.	1	0.8%	7	5.5%	22	17.2%	53	41.4%	45	35.2%
I can rely on the stability of my regular monthly income.	0	0.0%	4	3.1%	13	10.2%	42	32.8%	69	53.9%
The salary level ensures a satisfactory standard of living.	3	2.3%	4	3.1%	25	19.5%	54	42.2%	42	32.8%
The salary ratios among employees are appropriate to differences in job complexity and scope.	3	2.3%	8	6.3%	26	20.3%	58	45.3%	33	25.8%
In the organization, employee salaries are directly linked to performance.	2	1.6%	13	10.2%	34	26.6%	48	37.5%	31	24.2%
The salary is satisfactory compared to salaries for the same/similar jobs in other companies.	0	0.0%	5	3.9%	30	23.4%	55	43.0%	38	29.7%
Overtime and exceptional effort at work payments are appropriate.	0	0.0%	11	8.6%	22	17.2%	66	51.6%	29	22.7%
A job well-done is noticed and rewarded.	1	0.8%	11	8.6%	38	29.7%	52	40.6%	26	20.3%
I get additional income from the company (e.g., 13th salary, holiday bonus, Christmas bonus, etc.).	4	3.1%	5	3.9%	24	18.8%	44	34.4%	51	39.8%
The benefits employees have in the organization are similar to those offered by most other organizations in the industry.	1	0.8%	10	7.8%	47	36.7%	58	45.3%	12	9.4%
The company pays appropriate bonuses for extra achievements in performing tasks, (monthly, annual, etc.).	2	1.6%	18	14.1%	43	33.6%	48	37.5%	17	13.3%
Rewards in the organization are strictly linked to employee performance.	3	2.3%	16	12.5%	38	29.7%	43	33.6%	28	21.9%
The company covers additional job-related expenses (e.g., use of company car, mobile phone, etc.).	2	1.6%	4	3.1%	14	10.9%	48	37.5%	60	46.9%
The company finances professional development and education for its employees.	1	0.8%	5	3.9%	26	20.3%	41	32.0%	55	43.0%
The current reward and incentive plans do not motivate employees to perform better.	4	3.1%	18	14.1%	34	26.6%	46	35.9%	26	20.3%
Employee compensation is one of the important reasons for working in the organization.	0	0.0%	3	2.3%	12	9.4%	52	40.6%	61	47.7%
The organization uses the compensation system in accordance with the level of knowledge and skills acquired by employees.	2	1.6%	6	4.7%	33	25.8%	68	53.1%	19	14.8%
The compensation package should be linked to employee performance.	1	0.8%	0	0.0%	5	3.9%	59	46.1%	63	49.2%

Source: Authors' research

Analysis of the effect of immaterial compensation on employee organizational commitment

Table 10 presents the results of the principal components extraction for practices and policies of immaterial compensation. The information that the sets of statements included in each applied principal component analysis are appropriate is shown in the table through the values of the Kaiser-Meyer-Olkin (KMO) indicator and Bartlett's

test of sphericity. All obtained Kaiser-Meyer-Olkin values were above the required threshold of 0.6, while Bartlett's tests of sphericity were statistically significant with a probability of $p < 0.000$. The extraction of variance shares for each extracted component ranged from 43.45% to 54.87%.

Table 10. Extraction of the total variance of dependent and independent variables (statements) through the Principal Components Analysis

Components (factors)	Initial Eigenvalues		Kaiser-Meyer-Olkin	Bartlett's Test of Sphericity		
	I.E. Total	% Variance		Approx. Chi-Square	df	p
Immaterial compensation (15 items)	8.23	54.87	0.914	1384.55	105	0.000
Organizational commitment (15 items)	6.52	43.45	0.869	1010.56	105	0.000

Source: Authors' research

The results of the analysis of the effect of immaterial compensation on the factor of employee organizational commitment are presented in Table 11. As the results show, the immaterial compensation component had a statistically significant effect on employee organizational commitment ($p < 0.000$), $b = 0.653$.

Table 11. Effect of the factor of immaterial compensation on the factor of employee organizational commitment

Component (factor)	Representativeness of the regression model				Parameters of the linear regression equation		
	r	r ²	F	p	a	b	Beta
Immaterial compensation	0.653	0.426	93.6	0.000	0.0	0.653	0.653

Source: Authors' research

The results of the regression analysis clearly show that the variable of immaterial compensation practices and policies is a statistically significant predictor for improving organizational commitment. The regression coefficient was 0.653, with $r^2 = 0.426$, and was statistically significant, confirming the second hypothesis. This indicates that the application of appropriate immaterial compensation explained 42.6% of the variance in organizational commitment. Regarding immaterial compensation practices and policies, 45.3% of the respondents identified flexibility (agree) and 37.5% of them fully agreed regarding the use of annual leave as the most used practice of immaterial compensation. However, according to the respondents, BiH organizations did not recognize the practices and policies that help in work life balance. According to the respondents, 41.4% agreed, and 32.8% fully agreed that the application of immaterial compensation leads to an increase in the emotional attachment of employees to the organization.

5. Discussion

This article examined the effect of material and immaterial compensation on employee organizational commitment in BiH organizations in four industrial sectors. The results show that both material and immaterial compensation influences organizational commitment, with material compensation having a greater effect. As a result, the findings indicate that material and immaterial compensation and organizational commitment are positively correlated constructs. The model in which material compensation was set as the independent variables and organizational commitment as the dependent variable, proved to be statistically significant through linear regression analysis ($b = 0.724$; $r = 0.525$; $p < 0.000$), thus confirming the first hypothesis that material compensation significantly influences employee organizational commitment, which is consistent with previous research (Anvari et al., 2011; Meyer & Smith, 2000; Nasurdin et al., 2018; Putri et al., 2021). According to Armstrong and Taylor (2014), money can provide positive motivation under the right circumstances, not only because people need and want money, but also because it serves as an extremely tangible means of recognition. However, poorly designed and managed payment systems can demotivate employees. Therefore, proper management of material compensation practices and policies is crucial for the organization. When employees believe that the salary program aims to ensure internal pay equity (Stum, 2001), that attractive benefit packages are nothing but the organization's care for employees (Meyer & Allen, 1997), and that performance levels are linked to expected rewards (Gagné & Deci, 2005; Zaitouni & Sawalha, 2011), strong development of employee organizational commitment occurs. Some 47.7% of the respondents consider employee compensation to be one of the important reasons for working in the organization, expressing full agreement with this statement.

Researchers believe that financial compensation is important, but not enough to retain employees. Immaterial rewards, as motivation strategies, stand as an approach to increasing employee motivation by fulfilling their needs not related to money or other forms of material compensation (Vidaković, 2012). The results of the conducted research showed that immaterial compensation has a statistically significant effect on employee

organizational commitment ($b=0.653$; $r \approx 0.426$; $p < 0.000$), thus confirming the second research hypothesis.

6. Conclusion

Organizations in BiH are faced with the harsh reality of being unable to offer employees the same conditions that organizations within the EU offer their employees. That is why an increasing number of qualified employees are leaving BiH organizations. In such a situation, it is quite expected that material compensation becomes most important when it comes to organizational commitment. Although material reward practices are recognized as significantly contributing to the improvement of organizational commitment, they are not decisive enough to make employees stay in the organization and perform their tasks in the best possible way. Based on these results, it is evident that the awareness of employees as well as managers in BiH organizations is changing. These changes indicate that for employees in BiH organizations, salary alone is not enough to make them committed to the organization. Organizations in BiH need to be aware of this fact because, if they fail to take adequate steps, they could soon lose their most valuable resource – human potential. Immaterial compensation is also recognized as a highly significant predictor of organizational commitment in BiH organizations, which is another indication that salary alone is not enough to ensure commitment to the organization. Managers in BiH organizations need to realize that they can build their competitiveness in the market only with the committed workforce that will be ready to do whatever is necessary for organizational goals. However, to ensure such human potential, it is essential to make employees partners by implementing effective human resource management practices and policies and show them that they are an important link in the organizational process. It is in human nature to develop and grow, and if organizations and their managers know how to use this and enable such employee development, they will likely succeed in enhancing employee commitment through adequate practices and policies, as only committed employees make an organization successful.

The conducted study has several limitations. First, the limitation of the research lies in the fact that only two human resource management practices were included: material and immaterial compensation. Therefore, the recommendation for future research would be to cover a larger number of human resource management practices. Second, the sample used in the study was limited to the industrial sector. Future research should include other industries to provide a more reliable picture when it comes to material and immaterial compensation. Conducting the research on a larger sample would provide a better understanding of organizational commitment in BiH organizations, as individual practices and human resource management policies alone cannot ensure organizational success in the global market. However, they can serve as a solid starting point for improving the organizational climate and capturing employees' attention. Third, in this study, organizational commitment was presented as a whole variable without exploring its components. Future research could explore the impact of material and immaterial compensation on the components of organizational commitment (affective, continuance and normative).

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