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Effect of compensation policies on employee's commitment in care homes northwest England UK

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Abstract

Having committed employees is essential to improve the performance of an organization. Compensation is a major factor that affects the commitment of employees as revealed in literature. Thus, adopting the appropriate compensation strategy may increase employee commitment. In this light, this study examined the effect of compensation policy on employee commitment in Care Homes Northwest England UK. The aim of the study is to examine the effect of compensation policies on employee commitment. To achieve the aim of the study, three hypotheses were tested to ascertain the relationship between three types of compensation policies: guarantee pay, variable pay, and employee benefit. Fifty employees of Care Home Northwest England UK were conveniently sampled, and data analysed using Pearson correlation and ANOVA. The study recommends that since guarantee pay and employee benefit demonstrate a stronger relationship with employee commitment compared to variable pay, Care Home Northwest England UK should consider the combination of guarantee pay and benefit to increase employee commitment and retention.

Keywords: Compensation, guarantee pay, variable pay, organizational commitment

1. Introduction

Human Resources Management is one of the vital and delicate management functions that determine the success of any organization. Policies that will increase employees' performance and commitment are constantly reviewed. Compensation policies are structured to duly reward employees to motivate them to increase performance and committed to the objectives of any organization (Aker and Hussain, 2016) ^[31]. According to Armstrong (2007), compensation policies are vital to an organization because these policies influence employees' commitment to increase productivity on the task assigned to them to achieve the goals of the organization.

Due to unforeseen internal or external environments that could affect an organization's activities, employees' commitment could have dwindled if compensation policies are not reviewed accordingly (Giebel *et al.* 2020) ^[32]. The government's new rules issued on 11th November 2021 and others that keep cropping up within the social care sector due to the Covid-19 crisis have made the home care company a very significant component, since the state is now pushing individuals to have aided care in their homes, making the business more required and necessary for the seniors in the neighbourhoods (GOV.UK, 2021) ^[9].

This government directive advocated for a greater proportion of elderly and disabled individuals to receive care at home rather than in institutional settings. This means there will be a higher demand for care in Northwest England's care homes, necessitating either additional staff or longer shifts for existing caregivers (NHS Employers, 2021) ^[20].

Many businesses have looked for ways to boost performance by focusing on how to promote employee dedication. In all areas of the economy, pay has been shown to effect employee dedication. Numerous writers have examined the relationship between pay and loyalty in the workplace, but there has been a dearth of research into the specifics of how different types of pay impact workers' dedication. Also, it is not apparent what kind of pay motivates workers the most. Little attention has been paid in the literature on the topic of remuneration and employee commitment to the fact that different forms of pay have different effects on retention levels. Due to the importance of this topic, this research will analyse the distinct effects of guarantee pay, variable pay, and employee benefits, all of which are employed by Care Homes in the Northwest of England, on the loyalty of its staff members.

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2. Research Objectives

The aim of the study is to investigate the effects of compensation policies on employees' commitment at Care Homes in Northwest England and the specific objectives are:

- i. To identify the effect of guaranteed pay on Employees' Commitment at Care Homes in Northwest England.
- ii. To ascertain the impact of Variable, pay on Employees' Commitment at Care Homes in Northwest England.
- iii. To highlight the impact of employee benefits on Employees' Commitment at Care Homes in Northwest England.

3. Literature Review

3.1 Compensation

Using compensation, either financial or non-financial is an important strategy for increasing employee productivity, motivation, and quality of work. By providing competitive pay and benefits, the firm shows it cares about its employees and wants to keep them around. Organizational success and the creation of equitable working conditions for all employees may be attributed in part to careful pay management. According to Ahmad *et al.* (2019) ^[1], monetary incentives can help attract and keep talented workers, boost a business' competitive edge, motivate workers to go above and beyond, meet legal requirements for employee compensation, further an organization's strategic objectives, and set the stage for efficient operations. Employer-employee interactions; employee happiness, good worker recruitment, engagement, and stability; improvement in worker discipline; and strengthening labour union ties are all purposes of compensation, (Ashraf, 2020) ^[4]. Organizational, employee, labour market, and job characteristics are all utilized to construct the pay structure, according to (Nasution *et al.*, 2019) ^[19].

3.2 Theory of Expectancy

According to Vroom's (1964) ^[33] expectation theory, an employee's mental process in interpreting and perceiving an organization's remuneration leads to increased levels of commitment, motivation, and effort. The hypothesis holds that a company's commitment policy affects employees' employment expectations and attitudes. According to Vroom, people's actions at work are influenced by whether or not they think their efforts will yield desirable outcomes. The three expectations that make up the theory are the ones for effort-performance (E-P), performance-outcome (P-O), and value (V) (V). The degree to which an organization delivers on its claims depends on how well it meets all three of these expectations. An E-P (effort-performance) bias exists when a worker falsely believes that their actions directly influence their outcomes. Workers who subscribe to P-theory E's assume they will be financially rewarded for exceptional performance. Employee perceived value of incentives, denoted by the letter V. If employees see that their additional work is increasing output, they are more willing to do it. Only if the reward for effort and performance is tied to those outcomes and is seen as valuable will the effort be maintained (Lloyd and Mertens, 2018) ^[16]. Employees' work ethic improves when the rewards they get are both reliable and highly valued by them. When a company clearly lays out its compensation policy, it gives workers a clearer idea of what they may

anticipate in terms of pay and benefits. To a great extent, workers' efforts at work are influenced by workers' expectations about the intensity of the benefits they would get for their efforts (Lee, 2019) ^[14]. Motives, both extrinsic and internal, are given by the incentives. Worker intrinsic motivation, as opposed to the extrinsic drive provided by financial incentives, is what leads to the most productive and successful workplace environments (Lin, 2019) ^[15]. There are several factors that go into establishing an employee's worth, including their position in the company, their professional status, and their personal goals and aspirations. If a company's compensation plan satisfies these three criteria, workers will be more likely to remain dedicated to the business and their jobs (Burns *et al.*, 2018) ^[6].

3.3 Equity Theory

When an employee compares his compensation with that of others in a comparable job, with equivalent credentials, and with similar work, Adams (1965) ^[34] coined the term "Equity Theory" to describe it. The advantages an employee perceives as a consequence of comparison have an impact on his perspective of his job and the organization. Two ratios are used in equity theory to analyze pay: one compares my salary to that of others, and the other compares my salary to the average salary for someone in my position (Kollmann *et al.*, 2020) ^[12]. Unhappy workers and a lack of commitment to the project or the company are the results of imbalances in any of the ratios. Zhou, Govindan, and Xie (2020) ^[30] found that when people try to rationalize unfairness, they end up less invested, more stressed out, doing lower-quality work, and putting in fewer overall hours. Workers' reactions to the comparison might be affected by a number of factors, as noted by Cote (2019) ^[8]. The internal moderators were value, clarity of structure, justice in pay administration, and the employee's future goals. Various factors outside of the company's control moderate this situation, including standard operating procedure, the availability of alternative workers, and the accessibility of information (Cote, 2019) ^[8]. To ensure fair compensation, organizations should conduct salary surveys, implement pay-for-skill-performance systems, publicly communicate compensation policies, and respond quickly to wage complaints (Wang, Zhao and Zhou, 2018) ^[27]. Procedural fairness affects employee engagement because individuals look for fairness in organizations where disparities exist (Hussain and Khan, 2018) ^[10].

3.4 Elements of Compensation Policy

It is the combination of incentive structure and principles and philosophies that form the basis of the policy's compensation system. The wholesomeness of a compensation policy is reflected in its grade and pay structure; overall reward; and the philosophies and ideals upon which the compensation policy is based.

3.4.1 Guarantee Pay

Guaranteed pay refers to a kind of monetary (cash) compensation provided by an employer to an employee on the basis of the employee's status with the company. Most workers have a guaranteed minimum income in the form of a basic pay that is paid on a regular schedule, such as an hourly, daily, weekly, bimonthly, or monthly basis. The majority of workers rely on their base salary to cover basic

living costs. A minimum wage is a set amount of money that must be earned to live in many countries (Kuvaas *et al.*, 2020) ^[13]. In a job-based pay structure, workers' salaries might vary widely depending on their specific set of talents and years of experience. Salary and seniority bonuses, for example, are provided on top of a standard wage because of the work the employee has done for the company (Mahmood *et al.*, 2019) ^[35]. A regular salary is given to the worker in exchange for his or her services. The remuneration is determined by two factors: the employee's performance and the going rate for the job. Many nations, regions, and states as well as cities and counties have minimum wage laws in place (Mabaso and Dlamini, 2018) ^[18].

3.4.2 Variable Pay

Variable compensation, as opposed to a fixed wage, that is based on an employee's actions, output, or the like. Typically, bonuses and sales incentives are based on performance, outcomes achieved, or some combination of these (Luna-Arocas, Danvila-Del Valle and Lara, 2020) ^[17]. The part of a salesperson's salary that is contingent on their performance is known as "Variable Pay." Employees that achieve or surpass their goals get variable compensation as an incentive. The opposite is true with performance-based pay, when an employee's starting salary remains constant regardless of how well they do their job (Ahmad *et al.*, 2019) ^[1]. Bonuses, sales incentives (commission), overtime pay, and other kinds of remuneration are all examples of variable pay systems. An outstanding case in point of this kind of remuneration system is the real estate industry and its agents. At the beginning of a variable compensation plan, a salesperson gets fifty percent of all revenue generated up to a predetermined level (Nasution *et al.*, 2019) ^[19]. Common factors in variable remuneration include the employee's own performance and the company's financial standing. Individual, group, and organizational performance metrics are often used to determine how much an employee is paid. The potential for a variable compensation might be communicated either before or after an employee begins working as an incentive. Companies may provide employees with a range of benefits, such as cash, stock, or paid time off (Vizano *et al.*, 2020) ^[26].

3.4.3 Benefit

Paid vacation, health insurance, dental and vision coverage, and sometimes even a pension plan are all part of the benefits packages offered by employers. It is not common practice to hand out cold hard cash when a benefit plan is established to address a specific need. Governments in a great variety of countries impose minimum benefits that vary by country, including paid leave, employer pension payments, sick pay, and more (Widagdo *et al.*, 2018) ^[28]. Paid time off (PTO), insurance, a pension or other retirement plan, use of a company car, and other perks are some of the most popular benefits offered to employees. Certain employee perks, such as health insurance, are mandated by law, while others are offered voluntarily to appeal to a certain demographic within the workforce. Benefit packages are an element of an employee's total remuneration, although they are not always paid out in cash (Tamsah *et al.*, 2021) ^[36]. Equity-based compensation refers to the practice of rewarding workers with ownership stakes in the organization. Companies may also use Employee

Stock Purchase Programs (ESPPs) and stock appreciation rights in addition to stock options, restricted stock, and restricted stock units (RSUs) (SARs). Employee retention, new hire attraction, and alignment of shareholder and employee interests are the traditional aims of equity-based pay plans (Luna-Arocas, Danvila-Del Valle, and Lara, 2020) ^[17]. Numerous writers have examined the relationship between pay and loyalty in the workplace, but there has been a dearth of research into the specifics of how different types of pay impact workers' dedication. Little attention has been paid in the literature on the topic of remuneration and employee commitment to the fact that different forms of pay have different effects on retention levels. This motivates us to investigate the differing effects of guarantee pay, variable pay, and employee perks, all of which are employed by Care Homes in the Northwest of England, on the loyalty of its staff members.

3.5 Organizational Commitment

Organizational commitment is the dedication an employee feels for their company. A strong conviction in and acceptance of the company's principles and goals, as well as a strong desire to be a part of the organization, are all elements of organizational commitment, as described by Putra, Sudja, and Martini (2018) ^[24]. Commitment may be shown in many ways, including the dedication of employees and their continual participation in the organization's quest for growth and improvement. Yamali classifies multidimensional organizational dedication into three model components: (2018). An individual's desire to stay a member of the organization, which necessitates their being connected to the organization in some manner, is an example of their continuation commitment, which is distinct from their affective commitment. According to Chanda and Goyal (2020) ^[7], the third kind of commitment is the individual's sense of obligation to stay at the company, and it is based on the belief that quitting the organization will cause damage. Giving back to the company is something most employees feel obligated to do since it is the right thing to do.

3.6 Factors that influence employee commitment

Employee dedication may be influenced by both internal and external factors. Onwuka and Onwuchekwa (2018) ^[23] argue that human resource policies and practices have an effect on staff dedication. Various human resource management practices have been shown to significantly increase employees' emotional and long-term loyalty to the company (Johar *et al.*, 2019) ^[11].

3.6.1 Recognition and Empowerment

When employees are empowered, they are given more responsibility and autonomy, which in turn increases their sense of pride in the company (Ntwiga, Muchara and Kiriri, 2021) ^[22].

Taking part in competency development activities, such as job rotation and training and development, may show workers that their employers value their growth and development as professionals. Employees develop a positive outlook and sense of loyalty to the company and their position as a consequence of receiving favorable comments from superiors (Alias *et al.*, 2018) ^[3]. Information regarding the company's finances, strategy, and operations that is made available to workers may help them better understand

the company's goals and objectives, and can also foster a sense of trust and a sense of belonging among the staff (Badjie *et al.*, 2019) ^[5]. People are more inclined to put forth their best effort over the long haul if they believe their efforts are being recognized and rewarded in ways beyond just monetary compensation.

3.6.2 Investing in the stock market

According to Sidabutar, Syah, and Anindita, strategic compensation strategies are related to organizational commitment (2020). Strategic compensation refers to pay that is determined by the company's long-term objectives (Nor *et al.*, 2020) ^[21]. Strategic compensation strategies are used by companies that provide market-competitive pay, demonstrate pay difference across vocations, provide both intrinsic and extrinsic benefits that are valued by workers, and are flexible in how they are distributed (Nor wt L, 2020) ^[21].

3.6.3 Psychological Contact

When companies honor the agreements they make with their workers, it influences their dedication in a positive way (Ashraf, 2020) ^[4]. People in trade relationships, such as employees and employers, sometimes consider themselves to be bound by "psychological contracts," or agreements that outline their respective responsibilities and obligations to one another (Nasution *et al.*, 2019) ^[19]. When assessing employment agreements, it is important to consider both the employee's and the employer's unstated expectations over the duration of the agreement. The psychological contract, as described by Wang, Zhao, and Zhou (2018) ^[27], states that both the company and the employee have expectations of one another: the employee wants to be valued for their work and given greater responsibility; the company wants the employee's loyalty and trust. If an employer lets them down on their end of the psychological contract, the worker will feel obligated and start repaying the debt (Hussain and Khan, 2018) ^[10].

4 Method

4.1 Subject and Procedure

The participants were workers at a home care company in the UK. Employees who have been with the company for at least a year were prioritized for promotion since they had a deeper understanding of the HR processes at play there. This research used a suitable sample size of 50 people who are familiar with the company's human resources operations. Due to the difficulty of collecting data from the often busy staff of Care Homes in Northwest England, a convenient sampling procedure was employed to choose the workers who were available to take part in the research. The selection of participants took into account their age, education level, and work position. There were 22 males, accounting for 44% of the total, and 28 females, accounting for 56% of the total, in this sample of workers. The findings categorize the population into those aged 20-29, 30-39, 40-49, and 50+. The largest proportion of respondents (58%) were in the 30-39 age bracket, followed by the 20-29 age bracket (22%) and the 40-49 age bracket (14%), with those 50 and older making up the smallest proportion of respondents (2%). One-third have completed their undergraduate studies, while another 62% have earned their graduate degrees, and 2% have earned their doctoral degrees.

4.2 Instrument

In this study, questionnaires were used to collect information from the research population. The questions in the survey used a five-point Likert scale. As this question is closed-ended, participants may only choose one of the possible responses (strongly agree, agree, unsure, disagree, or strongly disagree). The objectives of the research informed the categorization of the questionnaire's items. In the section titled "Guaranteed Payment," you will see prompts like "Do my current salary and benefits fulfill my needs? Compensation for my services rendered, such as a salary or pay, Paychecks are always issued on time by the company. There are many unanswered concerns about variable compensation. I like to get compensated in accordance with my performance since it encourages me to strive toward my goals. If I am rewarded for my efforts, it will be because of bonuses and incentives. The commitment items include: I have a deep emotional tie with the business I work for; I feel a feeling of comfort and safety in the firm's work; I am proud of the company I work for; and I believe the significance of loyalty is a moral duty to continue working in the company.

4.3 Results

The effects of Guarantee pay, Variable pay, and benefits on employee commitment were tested through three hypotheses. The impacts and correlations of the three types of pay we looked at on employee loyalty were different. The Pearson correlation study revealed a connection between the three components of remuneration and employee dedication. Linear regression with Anova was also used to assess the significance of each factor in fostering employee dedication.

Questionnaire construct and reliability test results

Construct	Number of items	Cronbach Alpha
Guarantee Pay	4	.967
Variable Pay	4	.825
Commitment	5	.895
Benefit	6	.893
Total	19	.929

The results of the reliability analysis, as measured by the Cronbach alpha, showed that the items utilized in this study may be relied upon for accurate results. According to Rosti Otajärvi *et al.*, a Cronbach alpha of .79 or .80 is deemed acceptable and reliable for scientific study (2017). Therefore, this study has achieved dependability.

Pearson Correlations of Guarantee pay and Commitment

		Guarantee Pay	Commitment
Guarantee Pay	Pearson Correlation	1	.809**
	Sig. (2-tailed)		.000
	N	50	50
Commitment	Pearson Correlation	.809**	1
	Sig. (2-tailed)	.000	
	N	50	50

** . Correlation is significant at the 0.01 level (2-tailed).

To investigate the relationship between employee commitment and guarantee pay, a Pearson correlation analysis was run using the two variables. Employee dedication is positively correlated with guarantee

compensation ($r=.809$, $n=50$). This suggests that there is a substantial positive correlation between guarantee pay and

employee commitment, and that this factor will help workers to be more dedicated to their jobs.

ANOVA of Guarantee pay and commitment

	Model	Sum of Squares	DF	Mean Square	F	Sig.
1	Regression	25.538	1	25.538	90.891	.000 ^b
	Residual	13.487	48	.281		
	Total	39.024	49			
a. Dependent Variable: Commitment						
b. Predictors: (Constant), Guarantee Pay						

According to the results of a regression analysis between guarantee pay and commitment at the P0.05 level, a strong correlation exists between the two. Employees are more dedicated to the firm if they get their guarantee pay on a consistent basis and in a timely manner. According to Ott,

Tolentino, and Michailova (2018) ^[37], an employee's sense of fairness in their compensation affects their dedication to an organization if their salary is commensurate with the market rate for the job and is tied to how well they perform there.

Correlation of Variable pay and commitment

		Variable Pay	Commitment
Variable Pay	Pearson Correlation	1	.818**
	Sig. (2-tailed)		.000
	N	50	50
Commitment	Pearson Correlation	.818**	1
	Sig. (2-tailed)	.000	
	N	50	50

**, Correlation is significant at the 0.01 level (2-tailed).

The second part of an employee's remuneration that might influence their dedication to their job is the amount of money they get through bonuses and commissions. The connection between variable compensation and loyalty was analyzed using Pearson correlation. With $r=.818$, $n=50$, and $p=.000$, we find that variable compensation significantly increases employee dedication. According to the findings, variable pay is a crucial component of remuneration that may boost employee loyalty. Organizations that want to boost or keep employee dedication might consider offering variable compensation in the form of bonuses and incentives. These results corroborate the claim made by Ahmad *et al.* (2019) ^[1], which can be found in the aforementioned reviewed literature, that variable pay stimulates workers to repeat their previous successful behavior so that they may maintain or increase their current level of compensation.

Employees develop a sense of loyalty to the company because they know they will be rewarded for their efforts. According to Gul (2015) ^[38], loyalty decreases when workers stop caring about being paid or about other benefits of their jobs. Consequently, consistent rewards for outstanding performance have a positive effect on staff loyalty. In light of these findings. At a significance level of .818 ($p=.01$), we accept the null hypothesis that employee dedication is unaffected by changing remuneration.

ANOVA of Variable pay and commitment

	Model	Sum of Squares	DF	Mean Square	F	Sig.
1	Regression	26.109	1	26.109	97.029	.000 ^b
	Residual	12.916	48	.269		
	Total	39.024	49			
a. Dependent Variable: Commitment						
b. Predictors: (Constant), Variable Pay						

Regression research revealing a significant link between

variable compensation and employee commitment at the P0.05 level. This provides more evidence in favor of the hypothesis that performance-based compensation increases loyalty from workers. In addition, the connection between commitment and variable pay is higher for variable pay (.818) than for guarantee pay (.809). This suggests that workers may be more invested in their jobs when offered variable compensation rather than just guaranteed salary. But as pointed out by Chen and Hsieh (2015) ^[39], this may not be the case, since job security is attained when workers know they will get a predetermined amount regardless of their performance. However, sectors like real estate and tourism have found success using variable compensation structures like commission to maintain employee loyalty (Nasution *et al.*, 2019) ^[19].

Correlation of Benefit and commitment

		Benefits	Commitment
Benefits	Pearson Correlation	1	.748**
	Sig. (2-tailed)		.000
	N	50	50
Commitment	Pearson Correlation	.748**	1
	Sig. (2-tailed)	.000	
	N	50	50

**, Correlation is significant at the 0.01 level (2-tailed).

The third and last component of pay that affects loyalty is benefits. Benefits and employee dedication were analyzed using regression and Pearson correlation to draw conclusions. The reported Pearson correlation results showed a favorable association between benefit and employee commitment ($r=.748$, $n=50$, $p=.000$). employee loyalty is boosted, suggesting that offering perks as part of a salary package is a good way to retain valuable staff. Health insurance, vacation time, and use of corporate vehicles are just few examples of the many types of benefits offered by

employers today. When these perks are implemented, workers are more likely to stay loyal to the company. This finding also shows that workers consider these perks to be a relief from the costs of other things, including healthcare premiums (because the employer already pays for that) and

automobile payments (since the employer already provides that). This finding supports the hypothesis that employee perks have a significant impact on employee commitment, with a significance level of .748 and a p-value of less than .01.

ANOVA of Benefit and Commitment

	Model	Sum of Squares	DF	Mean Square	F	Sig.
1	Regression	21.829	1	21.829	60.935	.000 ^b
	Residual	17.195	48	.358		
	Total	39.024	49			
a. Dependent Variable: Commitment						
b. Predictors: (Constant), Benefits						

Regression analysis findings corroborate the importance of the link between benefits and employee loyalty at the P0.05 level. The loyalty of an employee tends to increase when they are given additional perks on top of their base salary and any bonuses they may earn. Chris, Maltin, and Meyer (2016) ^[40] found that doing so boosts employee loyalty and

commitment to the company, and this conclusion is in line with their findings. According to Ramdhani, Ramdhani, and Ainisyifa (2017) ^[41], an employee who receives a stock bonus is more likely to remain loyal to the firm. This is because stockholders have a greater feeling of ownership over the business.

Summary of findings

Hypothesis	IV	DV	Supported	Correlation Coefficient (+/- Positive/ Negative)	R Value
H1	Guarantee Pay	Commitment	Yes	Strong+	.807
H2	Variable Pay	Commitment	Yes	Strong+	.738
H3	Benefits	Commitment	Yes	Strong+	.883

Three hypotheses were tested, and all were determined to have sufficient evidence to warrant acceptance after examination of the data. Employee commitment is predicted to increase if guaranteed wages are provided. The examination of the data showed that Guaranteed wages had a high positive association with employee dedication ($r=.807$). Inferring that providing workers with assurance of regular compensation would encourage them to devote more time and effort to the company. It was hypothesized that "Variable compensation greatly impacts employee commitment," which was the same as the first hypothesis. The study's findings and the graph's depiction of those findings corroborated the hypothesis, showing a robust positive association between variable compensation and employee commitment at $r=.738$. As for the third hypothesis, "Employee benefits strongly affect employee commitment," this hypothesis was accepted after analysis with a $r=.883$ suggesting that a firm may utilize employee benefits like health insurance to raise the degree of commitment among its workforce.

5. Conclusion

Consistent with the expectation theory stated in the study's third part, the study's findings on pay and employee dedication are clear. An E-P (effort-performance) bias exists when a worker falsely believes that their actions directly influence their outcomes. If employees see that their additional work is increasing output, they are more willing to do it. Only if the reward for effort and performance is tied to those outcomes and seen as valuable will the effort be maintained. Based on what we can deduce from the research. Research shows that variable pay, guaranteed pay, and benefits all have a favorable effect on employee loyalty. As a result, the degree of dedication among workers will rise if any of these factors are employed as a part of

compensation inside the company. Employees are more likely to feel invested in the success of the company when they get a mix of these factors, such as additional perks in addition to their base hourly salary.

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