

Impact of Compensation on Employee Performance (Empirical Evidence from Banking Sector of Pakistan)

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Abstract

Purpose: Compensation is very important for the performance of the employees. Therefore they are very important for the organization too. The purpose of this research is to measure the impact of compensation on employee performance.

Methodology: A questionnaire was designed to collect the data on the factors related to compensation like salary, rewards, Indirect Compensation and employee performance. The data was collected from different banks of Pakistan. The data collected were analyzed in SPSS 17.0 Version. Different analytical and descriptive techniques were used to analyze the data.

Findings: It is founded from different results that Compensation has positive impact on employee performance. It is proved from correlation analysis that all the independent variables have weak or moderate positive relationship to each other. Regression analysis shows that all the independent variables have insignificant and positive impact on employee performance. Descriptive analysis also reveals that all the independent variables have positive impact on employee performance. ANOVA results reveal that education have not same impact on employee performance.

Limitations/implications of the research: The major limitation of this research is that this study only covers the banking sector of Punjab. Another limitation is that it excludes many variables of compensation due to shortage of time. Funds were also another limitation. Apart from these limitations this research may provide insights to the managers to enhance the employee performance of their subordinates.

Key Words: Salary, Rewards, Indirect Compensation and Employee Performance

1. Introduction

Compensation is output and the benefit that employee receive in the form of pay, wages and also same rewards like monetary exchange for the employee's to increases the Performance(Holt,1993).Compensation is the segment of transition between the employee and the owner that the outcomes employee contract. As the prospective of employee pay is the necessary of life. The payment receives from work done on the behalf of people getting the employment. From the employee prospective one of the most important part of cash flow. Compensation is mostly equal to half of cash flow of the companies. But in the service sector it is more than half. It is the major to attract the employee and motivate employee to increases the performance (Ivanceikh and Glueck, 1989).

It is argument that mostly individuals that getting higher education they are not satisfied their jobs and their turnover is more than so that organizations are overcome to that problem design the compensation plain to retain the employees as well plays more to attract, retain and motivate to give man power. Different universities objectives make their benefits and compensation packages to attract as possible (HRM Process BPR term report june,2009) mostly employees believe their abilities that knows that if they perform well pay can be increasing.

In other words you can say that compensation and rewards effects the employee decision making to stay their organizations and also accepted the responsibility (Bratian &Gold 1995).

The value employee training as a compensation and benefits packages has increases the performance human resource outcomes normally increases the performance, satisfaction and productivity also stay there and attracting. The perception of employee about the organization benefits policy. If pay is tied to employee performance good quality and quantity of work done(Ivancevch and Glueck,1989).Organization pay directly influences to employee voluntary turnover employee compare to their pay available in other organization (Henman and Schwab,et.al.1987).People stay or leave the company more reasons they satisfied with their job promotional opportunity and work environment (Mitchall and Holton et.al.1993).This paper designed to assessing to evaluate the employee perception towards compensation and benefits policy associate problems to selected government higher education because the compaction strategy is same as well study of this paper focus on perception of employee towards compensation and pay rewards as well.

2. Literature Review

2.1 Salary

There are many factors of pay (Millvier and newman; 2005) research perform that may be form of individually and may be form of multiple performance pay plan different qualities can consider the efficient of degree to perform merit pay to performance, bonus long incentives first of all merit pay is form of reward and individual function of their individuals performance and rating (Henenman&warner,2005)the pay plan is most common by employee performance appraisal (Chani 1998)meant by pay has been frequently use in the organization.

(Pak,1984;alson,1990)number of recent survey 80 to 90 percent organizations use merit pay (Heneman & wamer2005) . Bounces pay is monetary reward gives to employee in addition to their fix compensation (Millovian & newman 2005)This pay plan in base on individual performance but bonuses does pay and their not performance (Suman&shout,2000).There are reward like the long term growth as well as employee relation (Rousse and hou,2000)mostly form of cash in and stock (Rasch&lesson,1984)The length and performance pay plan mostly are their (elling,1982)long term incentive also generate some problem of their liquidity long term incentive cantonal get immediately value because requirements on reward convicted in to cash.

Performance related pay directly impact the workers performance creating the output through pay and workers has more able to give pay structure according to the performance (Lazear,1986)sheer (2004)some results for their expected tree sampling allocated to price fixed rate. The role of employee performance linking to bounces to improve the productivity Banded re et al (2007).The relation of pay and performance is dirtily linking(1999)worker has a fixed pay in a period of time and give incentive for their good performance give the pay for shorter term incentive give the power job shorter oriented.

The performance related pay is one kind or another is most OECD member countries mostly senior managers and new mangers or employee. The performance policies in the reference of economics and some other problems faced OECD countries in the mid-1970.It can improve the individual motivation improve the performance of the employee in this context performance related pay refer to system linking the performance it based on the organizational accountably measure individual outputs individual output of the organizations performance pay can be manage value of potential references(Denmark; Finland, Korea, Newz land OECD 1993;OECD 1997).

2.2 Incentives and Rewards:

Reward can generate as important role for employee performance. A good employee feel that value of the company is working for the also enhance the batter work they are well being. Taken seriousness by their employee and their career self assessment also taking care by their commonalty employee are the big part of organization like engine of the organization which else and fund the reward knows organization scan attain any objective with its employee (Akerale,1991)also blame the productivity of the workers on several factors provide adequate failure compensation for hard work (Mark and ford 2001) Mention the real success of organization from employee from employee willingness to use their creativity and among how the employee increases the positive employee inputs and rewards practices in place. The importance of motivating employees cannot enough in organizations context motivated employee highly productive more efficiency providing and willing to performing taking in the organizations (Hurtreatal 1990;Entwested 1987)in views that if the employee performance efficiently more than ten leaders to organizations rewards as a result of employee performance.

The highly motivated employee build advantages for their company and leads the organizations of its objectives (Rizal and ali,2010).This paper impact of reward dimension on employee performance with special reference to highly companies. According to (Hasiban 2003)that job satisfaction effects the level of employee performance which means that satisfaction derived from therefore declaration of employee so good. so that if job satisfaction is mean moral decline and support of the organization objective (Hasbuan;2003)According to grisly and Brown (1950&johson2008).Arguments that have five factors that have increases job satisfaction position ranks age financial guarantee and influence job satisfaction consist on psychology factor and social factor. A pay is the key determination but experience rewards is study indicate more complex and difficult. The another study impact of pay menagerie level that may be tailed to satisfy the key motivational rewards for effective performance (Olce 1993;olce 1997)

Reward is the most important element to eliminate employee for paying their best efforts to generate the innovation and the new ideas in cress the company performance financial and noon financial Dewhurst et al(2010) relationship of the manager supervisor reward power positivity linked with employee performance more productivity ,satisfaction and turnover and organization citizenship behavior (simon,1976;more&hunt 1980;jahangar,2006).Dee prose (1994)says that motivation of employee productivity can be enhance provide effective recognition which provide the result improve the performance of organization. He entire second of the organization that the employee motivated to assessment the performance of job compensation abacus at all 2003). The ability to organization is accommodates the needs employees their performance 1960). Inside the commitment towards their organization and their work play a critical role (eisenbegal 1992).

2.3 Indirect compensation:

Milkovich and Newman(1999)refer that financial return and employee receive as a employment relationship all cash incentives and other mating employee received which countries of total compunction .Global business and economics(2010) compunction is a big range of financial benefits and Nan financial benefits, It is played in the form of wages and salaries and also insurance level free traveling is also including chhabra(2001).It also included that the salary is generally paid for monthly and year. The time spent in the organizations salary is played time spent on the job. Some type of indirect composition offered by today organization (byars and rul 2008)

- Social security: this is managing insurance system by the rules of employee must pay into system and contain perchance of pay up to maintain limit. And also average monthly wages give the security of the employee.
- Workers compensation: it also says that employee from loss of salary associated extra job related illness. The laws generally provide the medical expenses.
- Retirement plan: it gives that a sources of income who have retail money paid for a previous services .Give the time of employment one from of plan is contribution plan also known as beneficial annual plain.
- Paid holiday: The new year day, independent day which is called holiday plain of employee to employee
- Paid for vacation generally depend on employee services. Most of the companies unit less than one year.
- Other benefits: It also involves the additional benefits food services may be wide range purchases discount example for the especially attractive for the retail stores.

Indirect compilation employee motivation Gareth and George (2010). Defined as psychological force the indication of the attitude of an organization. Process by which engafip the specific motivation period (1998). That provide the weeforce of the organization the employee show of the Nifshed output the employee will behave seeing their heat productivity. They perform responsive duty to productivity level about performance how effective you are pointed battle and hollon (1995) that.

2.4 Employee Performance:

Employees who are the most efficient are like to be they are motivate to perform medina (2002) this relationship mean that rewards and employee performance is expecting theory which means that employee are most to be motivated performance is more performance to receive the rewards and bonus.

The rewards may be cash, recognition both to be acceptable that to achieve the forgets they are performance is well suesi (2002) rewards is the key motive to increase the employee performance to expected well. Give the monthly rewards also increase the performance Osterloh and Frey (2012). Employees are extremely motivated to monthly rewards. The Goal is to satisfy the social exchange process they contribute the efforts Kanfell (1990). Entiwestal (1987) is of the view that 96 employee perform feel them. Organizational rewards result motivated employee.

Some other views that recognition in pleasanter the organization favorable works environment motivated the employee Freedman (1978) as cited in Rizwan and Ali (2010). Employee are the important part of any organization increasing the performance they can be motivated through financial and non financial benefits they can designing that you can says that composition is reward which is receiving by the employee to show their performance. Employee concentrated pay or wages and similar to non monetary exchange for the employee performance (Holt, 1993). Good organization are maintain to design and enable the organizations to attract the highly skilled and qualified employee retain and motivation towards objective and goals achieve and most employee getting is pay (Decenzo and Robbins, 1999). If the employee free that they have not getting good salary they cooking for better employee dissatisfaction with the compensation towards goal attainment towards goals done to be lower. Dissatisfied employee increasing the turnover, Absents am and poor mental health (Welthel and Davis, 1996). The main objective of compensation is that employee attracted to work and motivated good job for employee Davis (1996).

3. Theoretical Framework

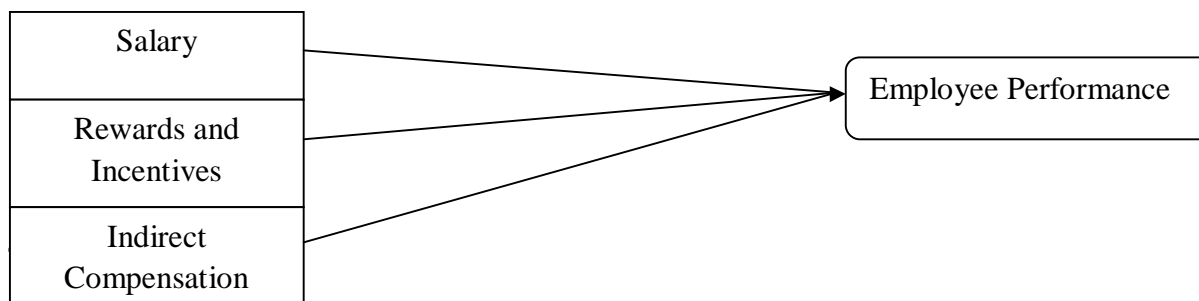
3.1 Independent Variables

- Salary
- Rewards and Incentives
- Indirect Compensation

3.2 Dependent variable

- Employee Performance

3.3 Schematic Diagram



The study was conducted to check the impact and relationship of the factors like salary, Rewards and indirect compensation on employee performance. A questionnaire was designed to collect the data from banking sector.

4.1 Participants

The data was collected from different banks of southern Punjab. Approximately 45 banks were included to collect data. 200 Questionnaires were distributed among the full time working employees of banks and they were selected randomly.

4.2 Measurement Scale

All the questions were extracted from already developed questionnaires which were published in different journals and articles. All the questions were designed in linkert scale (1=Strongly Disagree, 2=Disagree, 3. Neutral, 4. Agree, 5. Strongly Agree).

All the questions regarding to each variables are given below.

4.2.1 Salary

To measure the impact of salary, 10 questions were extracted from “Employees’ Perception towards Compensation and Benefit Policy: The case of some selected Government Higher Education Institutions in Addis Ababa” by “Ahmed Kelil” and were further modified.

4.2.2 Rewards

The questions related to Rewards were extracted from “effects of rewards systems on employees performance (a case study of Ghana commercial bank EJISU branch)” by “Danso Doreen, and Umeh Donald,”.

4.2.3 Indirect Compensation

The questions regarding to Indirect Compensation were extracted from “the impact of indirect compensation on employee productivity: a case of central university college” by “MENSAH RUBY” and were further modified.

4.2.4 Employee Performance

The questions related to Employee performance were also extracted from “Hong Lu_, Alison E. While, and K. Louise Barriball (2006)”.

4.3 Response Rate:

As the questionnaires were distributed personally, therefore the response rate was 100 %.

4.4 Population Size

The population size was consists of 45 banks which were selected randomly.

4.4 Sample Size

The sample size was consists of 200 respondents who were selected randomly.

5. Procedure

Descriptive and analytical techniques were used for the analysis of data. The process of analysis was carried out in SPSS 17.0 version for windows. Among the descriptive analysis, mean and standard deviation were applied. Among the analytical techniques, correlation and regression were run to measure the impact and relationship among the variables.

6. Results and Discussion

6.1 Correlation analysis

Correlations					
		Salary	Rewards	Indirect Compensation	Performance
Salary	Pearson Correlation		.499**	.271**	.072
	Sig. (2-tailed)		.000	.000	.314
	N		200	200	200
Rewards	Pearson Correlation			.269**	-.048
	Sig. (2-tailed)			.000	.500
	N			200	200
Indirect Compensation	Pearson Correlation				.095
	Sig. (2-tailed)				.180
	N				200

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

This table shows the correlation analysis of the variables salary, rewards, indirect compensation and employee performance. The relationship among these variable is given below.

Salary-Rewards

The table shows the moderate positive relationship among salary and rewards. It means that if there is an increase in salary then rewards will also increase moderately. So there is a direct relationship among these variables.

Salary-Indirect Compensation

The table shows the weak positive relationship among salary and indirect compensation. It means that if there is an increase in salary then indirect compensation will also increase weakly. So there is a direct relationship among these variables.

Salary-performance

The table shows the weak positive relationship among salary and performance. It means that if there is an increase in salary then the Performance will also increase but increase will be minor. So there is a direct relationship among these variables.

Rewards-Indirect Compensation

The table shows the weak positive relationship among rewards and indirect compensation. It means that if there is an increase in rewards then the indirect compensation will also increase but increase will be minor. So there is a direct relationship among these variables.

Rewards-Performance

The table shows the negative relationship among Rewards and performance. It means that if there is an increase in rewards then the performance will be decreased. So there is an inverse relationship among these variables.

Indirect Compensation-Performance

The table shows the weak positive relationship among indirect compensation and performance. It means that if there is an increase in indirect compensation then performance will also increase but increase will be minor. So there is a direct relationship among these variables.

6.2 Regression Analysis

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.659	.316		11.578	.000
	Salary	.096	.073	.109	1.317	.189
	Rewards	-.081	.052	-.129	-1.566	.119
	Indirect Compensation	.085	.063	.100	1.351	.178
a. Dependent Variable: Performance						

The table shows the impact of the independent variables (salary, rewards, indirect compensation) on dependent variable (employee performance). The value of chronbach's alpha is 0.05. The impact of these variables is given below.

Salary

H1. There is a significant impact of salary on employee performance.

As table shows that value of significance for the variable job salary is 0.189 which is greater than alpha. But the value of B is minor which means that there may be other factors as well. However result is insignificant and hence the alternative hypotheses is rejected. So we can say that Employee performance has positive impact on performance of the employees.

Rewards

H2. Rewards has significant impact on employee performance.

The value of rewards is greater than alpha ($0.119 > .05$) therefore the results are insignificant and alternative hypothesis is accepted. So from the regression results it can be concluded that rewards has negative and insignificant impact on employee performance.

Indirect Compensation

H3. There is a significant impact of indirect compensation on employee performance.

The regression results also show insignificant impact of indirect compensation on employee performance. So indirect compensation has negative impact on employee performance

Regression Equation

Employee Performance = 3.659 + 0.096 Salary - 0.081 Rewards + 0.085 Indirect Compensation

6.3 Descriptive Analysis

Descriptive Statistics			
	N	Mean	Std. Deviation
Salary	200	4.0869	.37396
Rewards	200	4.0708	.52614
Indirect Compensation	200	4.0925	.38852
Performance	200	4.0703	.32987
Valid N (listwise)	200		

According to the descriptive analysis the answer of salary, rewards, indirect compensation and employee performance show agreeableness. Hence it means that all the independent variables will increase the employee performance.

The Results of Standard deviation shows the variation in data. According to the results of standard deviation the data variation of salary is 3.71 - 4.46. As the mean results lie between this range so the respondents responds in agree which means that salary has positive impact on employee performance.

The variation in the variable rewards is 3.54 – 4.59. Its value also lies between this range. So the responses are in agreeableness. Therefore it is concluded that rewards has positive impact on employee performance.

It is also clear from standard deviation results that the values of indirect compensation lie between the range of strongly agree and agree which means that these variables have also positive impact on employee performance.

6.4 ANOVA Analysis

On the Basis of Education

Salary

ANOVA					
Salary					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	1.010	3	.337	2.565	.057
Within Groups	20.481	156	.131		
Total	21.491	159			

The table shows the significant results as the value 0.0571 is greater than the value of alpha 0.05. It means that different educational groups has the different impact which means that salary has different positive impact on employee performance for all education groups.

Rewards

ANOVA					
Rewards					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	2.388	3	.796	2.720	.046
Within Groups	45.659	156	.293		
Total	48.047	159			

The table shows the insignificant results as the value 0.045 is less than the value of alpha 0.05. It means that different educational groups have not the same impact which means that rewards has not same positive impact on employee performance for all education groups.

Indirect Compensation

ANOVA					
Indirect Compensation					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	.741	3	.247	1.553	.203
Within Groups	24.813	156	.159		
Total	25.554	159			

The table shows the insignificant results as the value 0.203 is greater than the value of alpha 0.05. Therefore different educational groups have not the same impact which means that Indirect Compensation has not same positive impact on employee performance for all education groups.

7. Conclusion

It is concluded from different results that Compensation has positive impact on employee performance. It is proved from correlation analysis that all the independent variables have weak or moderate positive relationship to each other.

Regression analysis shows that all the independent variables have insignificant and positive impact on employee performance. Descriptive analysis also reveals that all the independent variables have positive impact on employee performance. ANOVA results reveal that education have not same impact on employee performance.

8. Limitations/Implications of the Research

The major limitation of this research is that this study only covers the banking sector of Punjab. Another limitation is that it excludes many variables of compensation due to shortage of time. Funds were also another limitation. Apart from these limitations this research may provide insights to the managers to enhance the employee performance of their subordinates.

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