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COMPENSATION MANAGEMENT CHALLENGES AND STRATEGIES: AN EMPIRICAL STUDY

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ABSTRACT:

This paper aims to explore the composition of “Job Performance” for employees in IT Industry of Pune city. The paper applies data reduction using Exploratory Factor Analysis (EFA) on a sample of 273 respondents and reduces a set of 13 compensation management practices determinants into a list of three comprehensible factors. The present study investigate the impact of compensation management practices determinants on the employee job performance. The study found that remuneration, identification and recreational facilities are impacting significantly the employee job performance. Therefore, IT Companies should focus on the above factors to provide enrich employee job performance.

Key Words: Compensation Management Practices, Determinants, Job Performance, IT industry and Pune City.

1. INTRODUCTION

It is very important to find and retain effective, skilled and informed workers in the company in the age of global competition by designing and sustaining an efficient incentive package to get the employee's best job results. Workers are the core resource of the company and organizations' success or failure focuses on employers' ability to recruit, retain, and compensate sufficiently talented and qualified employees. The ability of employees to stay on the job primarily relies on the organization's pay packages.

If the abilities of employees have been developed to the point where they meet or exceed job requirements, it is now appropriate that they be equitably compensated for their contributions. The factors affecting the determination of equitable compensation are many, varied and complex. And management must come to some decision concerning the basic wage or salary. To motivate improved performance on the job many systems of variable compensation have been devised and finally organizations have developed numerous ways of providing supplementary compensation in the form of fringe benefits. An incentive or reward can be anything that attracts a workers attention and stimulates him to work. An incentive programme is most frequently built on monetary rewards but may also include a variety of non-monetary rewards. The term reward has been used both in the restricted sense of participation and the widest sense of financial motivation.

The concept of reward implies the increased wiliness or motivation to work and not the capacity to work. Compensation and Rewards determination may have one or more objectives, which may often be in conflict with each other. The objectives can be classified under four broad headings. The first is equity, which may take several forms. They include income distribution through narrowing of inequalities, increasing the wages of the lowest paid employees, protecting real wages (purchasing power), the concept of equal pay for work of equal value compensation



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management strives for internal and external equity. Internal equity requires that, pay be related to the relative worth of a job so that similar jobs get similar pay. External equity means paying workers what comparable workers are paid by other firms in the labor market. Even compensation differentials based on differences in skills or contribution are all related to the concept of equity.

Efficiency, which is often closely related to equity because the two concepts are not antithetical. Efficiency objectives are reflected in attempts to link a part of wages to productivity or profit, group or individual performance, acquisition and application of skills and so on. Arrangements to achieve efficiency may be seen also as being equitable (if they fairly reward performance) or inequitable (if the reward is viewed as unfair). Macro economic stability through high employment levels and low inflation, of instance, an inordinately high minimum wage would have an adverse impact on levels of employment, though at what level this consequence would occur is a matter of debate. Though compensation and compensation policies are only one of the factors which impinge on macro-economic stability, they do contribute to (or impede) balanced and sustainable economic development.

REVIEW OF LITERATURE

Conceptual approach:

The literal meaning of compensation is to counter balance[2]. In case of Human Resource Management, compensation refers to —money and other benefits received by an employee for providing services to its employer. Cascio [3] opines that because of the importance that compensation holds for people's lifestyle and self esteem, individuals are very concerned about what they are paid – a fair and competitive wage, while organizations are also concerned about what they pay because it motivates important decisions of employees about taking a job, leaving a job and on the job performance. *Research Problem*

In return for their contribution to the company, the compensation includes not only remuneration, but also the direct and indirect incentives and welfares that the workers is provided with. Some of the advantages of job success include health insurance, security of disability income, retirement benefits, daycare, reimbursement of tuition, sick leave, holidays (paid and non-paid), college support, as well as flexible and alternative work arrangements.

From the above literature, most of the studies found that compensation management practices are most influential factors on employee job performance in any organization. Many studies conducted in different areas with different industries. But very few studies conducted in IT industries. For fulfilling this gap the researcher aims to identify the determinants of compensation management practices in top IT companies in Pune city and also study how these determinants are impacting on the employee job performance.

Sheila Wambui Njoroge & Josephat Kwasira (2015) has studied that the adopted pay strategy of basing compensation to knowledge was effective and had ripple effects of motivating employees to further their studies which would in turn enhance employee performance and the data were collected from the secondary sources such as journals, books, libraries etc. To determine how compensation and reward influence the performance of employees at Nakuru County Government. Pamela F. Resurrection(2012) has studied that the owned enterprises are starting to appreciate the value that human resource management can strategically bring in their pursuit of organizational competitiveness. This study sought to determine the underlying relationships of performance management and compensation practices with organizational competitiveness. performance management, compensation, and employee benefits were all found to be congruently significant predictors of organizational competitiveness. Bolanle Odunlami, Oludele Matthew(2014) has studied that The Food and Beverage Industry in the Manufacturing Sector is one of the vital sectors necessitating the growth and development of Nigerian economy. The data were collected from the secondary sources such as journals, books, libraries etc. therefore, it is vital for organisations to embark on effective compensation management policies that will protect and promote employees performance and to explore relationship between compensation management and improved productivity.



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Research Objectives

1. To identify the compensation management practices determinants in IT Industry.
2. To study the impact of compensation management strategies determinants on employee job performance.
3. To suggest specific strategies to IT companies HR managers to improve the performance of employees.

Research Hypothesis

H0: There is no significant relationship between compensation management practices determinants and employee performance.

H01: There is no significant relationship between salary and employee job performance. **H02:** There is no significant relationship between recognition and employee job performance. **H03:** There is no significant relationship between recreational facilities and employee job performance.

2. RESEARCH METHODOLOGY

Sampling Procedure

Compensation is expected regardless of the company's size, industry, and venue. As the popular of IT companies are based in these areas in India, an attempt was made to contact the IT companies in Bangalore via emails. In response to this, 12 companies have reacted positively and have allowed research to be done. In these 12 companies, as many as 1450 questionnaires were mailed to workers. Significant numbers of questionnaires from 7 companies and up to 40 each were collected from them only because the information on the subject was not familiar and comprehensible to many. More workers outside the team leader are only taken in the survey frame as they will only have a say in the methods of salary management. The 7 companies are thus selected purposively. The select 7 companies are as follows;

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Table: 1. List of IT Companies

S. No.	IT Companies
1	Accenture
2	TCS
3	IBM
4	Infosys
5	Wipro
6	Cognizant
7	Tech Mahindra

Where the number of questionnaires completed in all respects is less than 40, further attempts are made by taking quota sampling to obtain a quota of at least 40. Of the questionnaires received, 273 contained complete details in all respects. Thus, the sample size is 273 employees. When selecting employees from the 7 companies, care was taken to cover them from various locations.

Sample Size

As many as 1450 questionnaires were mailed to employees in the selected companies. Out of the received filled in questionnaires, 273 were with full information in all respects. Hence the sample size is 273 employees.



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Tools for Analysis

- Reliability Test
- Exploratory Factor Analysis
- Multiple Linear Regression

3. DATA ANALYSIS & RESULTS

Reliability & Validity Test

Table: 2. Reliability Statistics

Cronbach's Alpha	Number of Items
0.908	19

The internal consistency of the questionnaire of 19 questions with a value of the Cronbach's Alpha is 0.908, which shows that data is 90.8 per cent reliable.

Exploratory Factor Analysis

Table: 3. KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.875
Bartlett's Test of Sphericity	Approx. Chi-Square	1689.987
	Df	78
	Sig.	0.000

Before proceeding for factor analysis the eligibility of the data has to be tested by conducting KMO- Bartlett's test. This test is a measure of sampling adequacy and multivariate normality among variables. The KMO value in this study is $0.875 > 0.5$ which says that the sample taken is adequate. Bartlett's Test of Sphericity value is $0.000 < 0.05$, indicate multi normality among variables. Hence Factor Analysis is considered as an appropriate technique for further analysis of the data.

Table: 4. Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	5.620	43.232	43.232	5.620	43.232	43.232	3.437	26.442	26.442
2	1.622	12.477	55.710	1.622	12.477	55.710	2.855	21.964	48.406
3	1.232	9.476	65.185	1.232	9.476	65.185	2.181	16.780	65.185



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4	.837	6.436	71.621					
5	.681	5.235	76.856					
6	.526	4.047	80.903					
7	.476	3.660	84.563					
8	.462	3.557	88.120					
9	.421	3.240	91.360					
10	.338	2.601	93.961					
11	.323	2.486	96.447					
12	.266	2.044	98.491					
13	.196	1.509	100.000					

Extraction Method: Principal Component Analysis.

On the basis of Varimax Rotation with Kaiser Normalization, 3 factors have been extracted. Each factor is constituted of all those variables that have factor loadings greater than 0.5. 13 variables were clubbed into 3 factors. 3 factors were extracted from the 13

variables used in the study. These 3 extracted factors explained 65.185 per cent of the variability in determinants of compensation.

Table: 5. Rotated Component Matrix

Factor No	Variable Covered	Factor Loading Value	Name of the Factor
1	Well organized & efficient salary system	0.820	Remuneration
	Salary received by staff meets by immediate needs of the staff.	0.774	
	Salary system in the organization is poorer than what operates in other organizations.	0.736	
	Additional inputs of the employees get rewarded by the organization.	0.758	
	The existing salary system is applicable to all the employees in the organization	0.645	
2	Lunch on the house.	0.793	Identification
	Thank you note	0.854	
	Time off with pay.	0.806	
	Full appreciation of work done.	0.640	
3	Fun at work is in place in the company.	0.521	Recreational Facilities
	Team of the month award	0.666	
	Company celebrates occasional system relievers' day.	0.833	
	Best employee award.	0.782	

Multiple Regression



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Table: 6. Model Summary

Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate	Durbin-Watson
1	.705 ^a	.591	.578		.615	1.196

a. Predictors: (Constant), Recreational Facilities, Remuneration, Identification

b. Dependent Variable: Employee Job Performance

From the above regression table, the R-value is 0.705 means that there is a high positive relationship between the determinants compensation and job performance of employees in IT Companies. Since the R square value is 0.591 i.e. 59.1 per cent of the explained variation is there in the job performance of employees in IT Companies and Durbin-Watson statistic value is 1.196. It is closer to the standard value 2. So, that the assumption has almost certainly been met.

Table: 7. ANOVA

Model		Sum Squares	Df	Mean Square	F	Sig.
1	Regression	117.129	3	39.043	88.412	.000 ^b
	Residual	118.791	269	.442		
	Total	235.919	272			

a. Dependent Variable: Employee Job Performance

b. Predictors: (Constant), Recreational Facilities, Remuneration, Identification

The ANOVA (Table7) reveals that the F statistics of the regression model is statically significant at 0.05 levels implying the goodness of fit of the regression equation. (Model is statistically significant).

Table: 8. Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.975	.159		6.118	.000
	Remuneration	.174	.047	.205	3.715	.000
	Identification	.275	.045	.343	6.136	.000
	Recreational Facilities	.291	.045	.320	6.483	.000

a. Dependent Variable: Employee Job Performance

The multiple regression equation of this model is: $Y = MX + C$

Y (Employee Job Performance)

= 0.174 (Remuneration) + 0.275 (Identification)

+ 0.291 (Recreational Facilities) + 0.975 (Constant)

The above table shows, remuneration beta value as 0.205 which indicates the positive impact of salary on employee job performance. Since t, value is 3.715 and significance value is 0.000 which is less than 0.05 hence salary



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has a significant impact on job performance of employees’ in IT companies. Identification Beta value as 0.343 which indicates the positive impact of recognition on employee job performance. Since t, value is 6.136 and significance value is 0.000 which is less than 0.05 hence recognition has a significant impact on job performance of employees’ in IT companies. Recreational Facilities beta value as 0.320 which indicates the positive impact of recreational facilities on employee job performance. Since t, value is 6.483 and significance value is 0.000 which is less than 0.05 hence recreational facilities has a significant impact on job performance of employees’ in IT companies.

Table: 9. Summary Table

Factor	P Value	H ₀ (Accepted/Rejected)
Remuneration	0.000	Rejected (H01)
Identification	0.000	Rejected (H02)
Recreational Facilities	0.000	Rejected (H03)

Suggestions

The study found that, remuneration, identification and recreational facilities are impacting significantly the employee job performance in IT companies. So, all the companies must focus on these factors for improving employee job performance.

Remuneration – Providing salary based on the performance and timely payment also important parameters to improve productivity of employee in the organization.

Identification – Recognizing the employees leads to satisfaction of the employees, this leads to improve job performance in the companies.

Recreational Facilities – Conducting recreational programs leads to stress relief from the work and leads to improve job performance in the companies.

4. CONCLUSION

The study investigated the impact of compensation determinants on employee job performance, concluded that salary had the highest impact on the job performance of the employees followed by recognition and recreational facilities. So, all the companies must focus on these factors for improving employee job performance in the organization. Further research, include some more variables in compensation management practices like job security, training and others to get more insights on how these are impacting on the employee job performance.

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