

A STUDY ON THE IMPACT OF EMPLOYEE COMPENSATION POLICIES IN PRIVATE SECTOR

Rashmi B H^{*}, Arunakumari K[†] & Suraj M[‡]

Abstract

Employee compensation is payment made to employees in return for their work. This payment is offered in terms of monetary compensation like salary, allowances, medical benefits, conveyance, leave travel allowance, and bonus. Compensation can be offered in the form of non-monetary compensation like flexible timings, leave travel policy, overtime, insurance, holidays, etc. Most employers offer a compensation package that contains both monetary and non-monetary parts. In order to retain talent, organizations prepare a compensation policy that outline their approach to employee compensation. In this study carried out on a private company in Bangalore, an analysis was done of the various compensation policies followed by the organization and its impact. The impact of these policies on employee morale was examined. The factors related to compensation that satisfied employees was determined. The link between compensation and employee appraisal was also reviewed during this study.

Keywords: *Employee compensation, Monetary compensation, non-monetary compensation, compensation packages, Compensation policy*

Introduction

Employees compensation is the total gross wages paid by the employers to employees for work done in an accounting period which is a term used in

^{*} Assistant Professor, St. Claret College, Jalahalli, Bangalore, email: rashmibh@claretcollege.edu.in

[†] Assistant Professor, St. Claret College, Jalahalli, Bangalore, email: aruna@claretcollege.edu.in

[‡] Assistant Professor, St. Claret College, Jalahalli, Bangalore, email: suraj@claretcollege.edu.in

the national accounts, balance of payments and also sometimes in corporate accounts. It shows an effective total labor cost to an employer paid from the gross revenues or the capital of an enterprise. It is based on the accrual basis that is, compensation of employees is measured in the form of value of remuneration in cash, which is being paid by the employer to employees in respect of work done.

This remuneration is paid to employees based on either the time spent at work or other objective indicator of the amount of work done. The main aim is to measure the value which labor contributes to net output along with other factors of production but not to measure income actually received by workers. Compensation of employees can be both included and excluded in different countries, this is because that the way in which workers is compensated for their work may be somewhat different in different types of economies. The general compensation plan is mainly on the base compensation, rewarding incentives, indirect compensation.

Compensation directly influences the outcomes like job satisfaction, attraction, retention, performance, flexibility, cooperation, skill acquisition. However, compensation may also indirectly influence by facilitating the effectiveness of other human resource activities in the organization like recruiting, selection, training and development.

Compensation decisions will also have important consequences to the individual employee in the organization. Most of the people consider salaries and wages are the main sources of income and also key indicators of a person's success in life. Therefore, it is essential to understand how individuals are affected by different compensation decisions.

Review of Literature

Hazra.et.al (2018) has made a study on policies and practices of compensation and its impact on commitment of employee. The researcher made up an objective to identify the factors which are determining the

compensation packages and also to study compensation effect on employee commitment. The present study is based on the secondary data. The researcher came out with the findings that satisfaction levels of the employees can be increased by having effective fair policies and practices on compensation and the commitment levels of the contractual employees would be low when compare to permanent employees. The author suggested that compensation policies and practices adopted by the organization will have a great impact on employee's commitment which affects the productivity and employee turnover in the organization. The researcher concluded that compensation is an important determinant of employee's commitment and effectiveness of retention by providing competitive package that will ensure that they are loyal to the organization.

Alianto, Anindita (2018) analyzed the study on work life balance on work satisfaction which is mediated by work stress and effect of compensation. The researcher's objective is to determine the effect of compensation and the satisfaction of work mediated work stress. The researcher collected the data by 160 respondents and used structural equation model to analyze the data. The researcher came out with the findings that the work satisfaction of an employee is influenced by compensation. The researcher concluded that compensation effects the work satisfaction and does not affect the employees work stress.

Timsal and Malik (2015) made a study based on the motivation level of employees, the compensation policy is impacted. The researcher also focused the relationship between compensation policy and employees motivation and also determine which factor of compensation is majorly impacted. The present study was undertaken based on primary and secondary data. The researcher found that compensation policies have a significant impact on motivation level with salary package being the most significant variable.

Rafique et.al (2015) observed the role of compensation management in balancing the employee relationship. The research focused on the issues of

compensation management of the employees in UBL. The data was collected by using primary and secondary data. The researcher found out that salary packages are not fully satisfied the employee's expectation work load is higher than salaries and researcher recommended that reward system should be fair and related to the performance and also suggested that performance review report should be transparent and not confidential.

Poonam and Kaur (2015) have made a study on the impact of compensation management on employee motivation in Malvia urban co-operative bank. The researcher made an objective to study about the effect of compensation management on the employee motivation acting as a tool in the organization. The researcher collected the data primarily from the employees of the organization and also used secondary data sources to collect the information. The Researcher came out with the findings that employees in the organization are less aware about the compensation policy and suggested that the employee should be given proper allowance facility, salary, and job security according to the market trend.

Adeoye (2014) analyzed the role of compensation management which influences the employee leadership in insurance sector. The researcher's objective is to ascertain the influence of compensation management on employee leadership role. The data was collected based on primary and secondary data where structured questionnaire were issued to employees to collect the data from them. The Researcher came out with findings that employee in the organization motivating the employees to work in the workplace and have a leadership role in the organization. The Researcher concluded the topic that employees in the organization are getting the correct compensation package so that they are also getting the motivation to employees in the organization.

Mwangi (2014) made a research study on the effect of compensation on the employee motivation in the company of chloride Exide. The researcher made up an objective to study on the methods of employee's compensation and also to know the benefits that affecting employee's motivation at

Chloride Exide. The researcher studied at primary based data and collected data with the employees of that organization. The researcher found out that every employee in organization is getting the benefit of the compensation policy packages that are motivating the employees to work in the organization.

OSIBANJO.et.al (2014) made a research study on compensation packages which is acting as a strategic tool for employee's performance and retention. The researcher made up an objective to examine the effect of incentive packages and fringe benefits and also to evaluate the impact of salary and bonus on employees. The researcher collected the data based on simple random sampling and also used qualitative and quantitative method in the study. The researcher found that there is a strong correlation between the tested dependent and independent variables so that management and decision makes should try to review compensation packages at the various levels in order to earn employees. The author concluded that the managers should make sure that rewards distributed to employees are dynamic and fairness to all employees.

Gupta (2014) made a study based on the monetary compensation practices towards the satisfaction of employees. The researcher made a objective to study upon the employee satisfaction and the compensation practices towards monetary and non-monetary benefits. The present study is based on secondary data and also the descriptive research design research design method has been applied. The researcher found that if the policy makers and managers want to enhance their businesses then they have to focus on the factors that affect the employee job satisfaction. The author concluded that if companies create a fair competitive environment so that employees improve their attitude towards job and help the employees get motivated to be hard working. Hence fairness would be the key factor affecting job satisfaction.

Odunlami, Matthew (2014) has made a study on the performance of employees and management of compensation under the manufacturing

sector. The researcher's objective is to ascertain the range at which the employee's performance is being affected by compensation management and to traverse relationship between retainment of staff, compensation management and improved productivity. The researcher collected the data by 100 respondents using questionnaire. The researcher found that men are more eligible when compared to women. The nature of job demands for more men than women by considering the active agile, matured workforce in the organization. The researcher concluded that compensation management is the critical issue and vital for management of the organization and it is being considered as the heart beat of the organization so that this shows that good working condition depends on employee performance.

Weekesa, Nyaroo (2013) has made a study on the performance of public secondary school teachers on the effect of compensation with reference to eldoret municipality Kenya. The researchers made a objective to study on performance of public secondary school teachers. The researcher adopted cross-sectional descriptive survey approach and also used simple random sampling technique. The researcher found that majority of the teachers in public secondary schools where uncomfortable and hence the compensation was much lower than what other employees in the private/public service were taking home. The researcher concluded that compensation provided teachers service commission was over all not satisfied because many of the teachers were uncomfortable with the compensation package and policies.

Ghazanfar.et.al (2011) made a study based on the relationship between work motivation and satisfaction with compensation. The researcher made an objective to examine the relationship between satisfaction with compensation and work motivation. The researcher used chi-square and correlation to analyze the data. The researcher came out with the findings that satisfaction with compensation can be factor of work motivation and there will be no significant impact on work motivation. The researcher concluded that chi-square is significant that supports the cross tabulation

result and combines that there is a relationship between satisfaction with compensation and work motivation and also fixed pay can increase work motivation.

Research Gap

The extensive review of several literatures on the concepts and objective of the study gave the way to know the status available research in state, country of abroad and also helped to find requirements of conducting the present research. For many years many researchers have been done the research on the applied knowledge where the study was based upon the various aspects of the compensation policy packages, principles of rewarding system, various factors affecting the employee's compensation in the various organization etc, as the conceptual study. But the researchers have not fulfilled perfectly mentioned about the employee compensation policy packages, its various principles and its impact in the fabrication based company. As upon this no study has been found to be made on the employees compensation policy packages and the rewarding system in the fabrication based company. So now the empirical study is made by the primary and secondary study is conducted on topic "A study on employee compensation policies and its impact in private sector".

Statement of the problem

Compensation policy is the major benefit for all the companies. It pays a way for good compensation package for the employee and it eliminates the errors at the time of fixing the compensation. Many of the companies doesn't have the good compensation policy packages by that the employees may feel the pressure more on the work where they doesn't get any motivation thus there are many types compensation policies followed in various origin and the problem now is to find out what type of compensation policy packages that convince the employees of private limited so that the employees can have better work life balance in their mind. Keeping some constraints in mind to analyze the effect of the compensation policy

packages this study is entitled “A Study on the Impact Of Employee Compensation Policies in Private Sector”.

Objectives of the study

- To know the concept of compensation policies and its impact on the employees.
- To know the importance of adopting compensation policy in the organization.
- To evaluate the outcome of the compensation policy on the organizational growth.
- To know the pros and cons of compensation policy packages.

Scope of the Study

The compensation policy packages is playing very vital role in the present scenario of the industries. Lack of people join the organization by seeing the better compensation policy packages comparing to other organization so keeping some major constraints that have gone through in mind the researcher is getting the research study done in a private company in Bangalore that is in the industrial domain.

Limitations of the study

- This study has the limitations of covering the respondents particularly to private Company.
- The data is responsible of which employees have given about the compensation policy packages in the company.
- The research findings and results may vary from one company to another company

Research methodology

Research methodology is a process of collecting the data which the researcher requires for his research. This study is based on both primary

and secondary data. In this study the primary data is based on the primary information which has been collected from the structured questionnaire from managers and employees by face to face interviews.

Secondary data was collected through books, websites and other related research journals. The sampling technique used in study is a non-probability sampling technique that is size of 100 has been selected on the basis of convince sampling method the researcher has used statistical analysis tool that is descriptive analysis through SPSS.

Data Analysis and Interpretation

Gender of the Respondents

Sl.no	Gender	Respondents	Percentage
1	Male	46	49.50
2	Female	47	50.50
Total		93	100.00

Source: Primary data

Age of the Respondents

Sl.no	Age	Respondents	Percentage
1	Below 25 years	31	33.30
2	26-35 years	49	52.70
3	36-45 years	9	9.70
4	46-55 years	4	4.30
Total		93	100

Source: Primary data

Employee Satisfaction towards Monetary Compensation

Factors	WAS	Rank
Basic salary	4.021	IV
DA	4.097	II
HRA	3.881	V
Bonus	3.827	VI
Travel allowance	4.053	III
Yearly increments	4.096	II
CCA	4.118	I
Incentives	3.774	VII
Salary scale of companies	3.774	VII

Source: Primary data

The above table shows with the interpretation of employees satisfaction towards monetary compensation where the city compensation allowance is in the first place with the weighted average score of 4.118 same as the yearly increments and dearness allowance stands in the second position with the WAS of 4.096 whereas the travel allowance is standing in the third position with the WAS of 4.053 whereas the basic salary is standing in fourth position with the WAS of 4.021 where as human resource allowance stands in the fifth place with the WAS of 3.881 such that bonus stands in sixth place with the WAS of 3.827 and at last place is shared by incentives and salary scale of companies with the WAS of 3.774.

Employee Satisfaction towards Non- Monetary Compensation

Factors	WAS	Rank
Leave policy	4.2795	I
Flexible working hours	3.9247	IV
Over time policy	4.2473	II
Insurance	3.9032	V
Medical facility	3.8817	VI
Acquire new skills and knowledge	4.0107	III
Leave travels and holiday	3.9032	V

Source: Primary data

From the above table it is clearly shown that leave policy standing in first position with the weighted average score of 4.27, whereas over time policy is in the second position with the WAS of 4.24 such that acquiring new skills and knowledge is standing in third position with the WAS of 4.010. Flexible working hours is standing in fourth position with the WAS of 3.92. The fifth place is shared between insurance and leave travels and holiday with the WAS of 3.903. The sixth position priority is given to medical facility with the WAS of 3.881

Findings of the Study

1. From the study, researcher has found out that the 50.50% of the respondents are female, this is because the company has the

objective that the women empowerment should be in force, so it has been done like that.

2. The 52.7% of the employees are falling in the age of between 26-35 years with which in the organization, as they have choose the youth sector that they can work easier and efficiently.
3. 43% of the employee's income level is around 1 lac to 5 lacs per year, which is the majority of the respondents earning in the organization, so that the employees in the organization are getting fair paid up value of the compensation.
4. Here in this organization the 54.80% of the employees are working in the organization from the past 1-3 years of the past duration of the work experience.
5. The researcher has found that 57% employees falls under the senior management level of the organization. The senior management level is working for the betterment of the company.
6. The researcher found out from the above study that 67.70% of the employees are saying that the organization is using General method of increasing the salary of the organization so that there will be equality of the hiking in the salary.
7. From the study it is found that 71% of the respondents are saying that they are aware of the compensation policy packages available and used in the organization so that there will be transparency of the compensation policy.
8. From the study, the researcher has found out that 71% of the respondents are saying that they are receiving the bonus with the salary in order to get motivation to work in the organization.
9. It is found that 66.70% of the respondents are saying that the employee's retention is not happening in the company as they decide to leave the job.
10. In this organization it is observed that, 81.70% of the respondents of the organization believe that the compensation policy packages are meeting the legal requirements of the compensation.

11. In the organization it is found that 62.40% of the respondents are saying organization is using all the type of compensation system so that it will help the employee's compensation structure.
12. The researcher found out from the study that 26.90% of the respondents are saying that Bonus is the main part of the compensation system used in the organization, so that every employee will be motivated to work in the organization.
13. In this organization the researcher has found out that 77.4% of the respondents are saying that the compensation policy is also consisting of the retirement benefits of the employees to keep the employees in touch with the organization.
14. In the research study, the researcher has found out that 79.60% are saying that the organization is maintaining the track record of the compensation paid out to the employees who work for the organization.
15. From the above analysis of the data, the researcher found out that 63.4 % of the respondents are saying that the organizations compensation policy packages are very motivating to the employees to work in the organization.
16. From the analysis the researcher found out the factor affecting the compensation policy packages that attracting the top talented skills is ranking in the first position with the weighted average score of 3.139.
17. From the study it is found out that receiving official compensation is the main factor that affects the compensation on the organizational growth ranking first in the position with the weighted average score of 1.913
18. From the analysis of the data, the researcher found out that, promotion Scheme is the major satisfaction factor of the compensation policy used in the organization is ranking in the first position with the weighted average score of 2.645.
19. In this organization, the researcher found out that the City Compensation Allowance is the monetary compensation that is ranking in the first position with the weighted average score of 4.118.

20. The researcher has found out that the Leave policy i.e. Non monetary compensation is ranking in the first position with the weighted average score of the 4.2795 where it motivates the employee more.

Suggestions

From the study, it can be inferred that the effective pay system in the organization is not affecting the compensation policy package, so the researcher suggest to take some initiative or measures to increase the productivity by making some effective compensation policies.

1. As per the study that the researcher found out that cost of living of the employees in the organization is very low, so to control the flow of money and also to increase the effectivity of work, the organization has to take some serious steps so that it effects the cost of living as it has not been given much importance.
2. From the research conducted in the organization it is found that working time is not suiting for the employees of the organization, so it is suggesting that there can be flexible hours of the working time and also can readjust the timings which they are currently working with or else the employees will not be able to cope up with effectively in work.
3. Since the research is done, the employee opinion is that the incentives and salary scale of companies is not satisfactory. The company may work for the employees who work for the company. So it is suggested that according to time frequency the company can revise the pay system and distribute the incentive to the employees properly.
4. The employees of the organization are not much satisfied with the medical facility given as the compensation from organization. The researcher suggests that the company may take certain initiatives or measures to satisfy the employees provide them better facility to get productivity of work.

5. To review the compensation facilities given to the employees of the organization periodically and should have the flexibility to change some of policy that have been implemented.

Conclusion

Compensation is closely connected to performance appraisals, which include both pay and benefits. The employees who perform better will be getting a bigger pay rises. The most important high level positions such as President, Chief Information Officer and Chief Financial Officer are compensated at the highest rates. It can be concluded that opportunity for growth and promotion outside, compensation, working conditions, work timing or shifts, relationship with managers, location of the organization and work load are the major reasons for the employee turnover. This remuneration is paid to employees based on either the time spent at work or other objective indicator of the amount of work done. The main aim is to measure the value which labor contributes to net output along with other factors of production but not to measure income actually received by workers.

Compensation of employees can be both included and excluded in different countries, this is because that the way in which workers is compensated for their work may be somewhat different in different types of economies. The general compensation plan is mainly on the base compensation, rewarding incentives, indirect compensation.

References

1. Abayomi Olarewaju Adeoye (2014) "The Influence of Compensation Management on Employees Leadership role in Insurance Sector: Nigeria Experience", Mediterranean Journal of Social Sciences MCSER publishing, Volume 5, Issue 27.
2. Ahmad Tismal and Abeera Qaiser Malik (2015) "Impact of compensation policy on the Motivational Level of Employees: Empirical

- evidence from the University Teachers of Pakistan”, South Asian Journal of Banking and Social Sciences (SAJBSS), Volume 1, Issue 1.
3. Andi Alianto, Rina Anindita (2018) “The Effect of Compensation and work life Balance on work satisfaction mediated by Work stress”, International Journal of Business and Management Invention (IJBMI), Volume 7, Issue 5, Page no. 79-87
 4. Faheem Ghazanfar, Shuai Chuanmin, Muhammed Mahroof Khan, Mohsin Bashir (2011) “A study of Relationship between Satisfaction with Compensation and Work Motivation”, International Journal of Business and Social Science (IJBSS), Volume 2, issue 1.
 5. Ibojo, Bolanale Odunlami, ASABL Oluele Matthew (2014) “Compensation Management and Employees Performance in the Manufacturing Sector, A case Study of a Reputable Organisation in the Food and Beverage Industry”, International Journal of Managerial Studies and Research (IJMSR) Volume 2, Issue 9, Page No. 108-117.
 6. Jane Nelima Wekesa, Silas Nyaroo M A (2013) “Effect of Compensation on Performance of Public Secondary School Teacher in Eldoret Municipality, Kenya, International Journal of Scientific and Research Publication (IJSRP) , Volume 3, Issue 6 .
 7. Krishnendu Hazra , Prof. Partha PratimSenguptha, KR Biswakarma (2018) “ Compensation: Policies and Practices and Its Impact on Employee Commitment in the Hospitality Industry”, International Journal of Humanities and Social Science Invention (IJHSSI) ,Volume 7 Issue 4 Ver. III
 8. Madan Poonam, Bajwa Jasleen Kaur (2015) “ Impact of Compensation Management on Employee Motivation: A case study of Malvia urban Co-operative Bank, International Journal of Scientific Research and Review (IJSRR), page 57-71.
 9. Manisha Gupta (2018) “ Employees Satisfaction towards monetary Compensation practices” Global Journal of Finance and Management (GJFM), Volume 6, Issue 8, Page No.757 -764

312 A Study on the Impact..... Rashmi B H, Arunakumari K & Suraj M

10. Omotayo Adewale Osibanjo, Adnike Anthoniass Adenji, Hezekaiiah Olubuasyo Falola (2014) "Compensation Packages: A strategic tool for Employees Performance and retention, Issue 25, Page 65-84.
11. Patrick K.Mwangi (2014) "The Effect of Compensation on Employee Motivation: A Case Study on Chloride Exide", A project Report submitted to the Chandria School of Business (MBA), United States International University.
12. Sidra Rafique , Muhammad Mehtab Qureshi, Syed Shazaib Pirzada, Muhammad Badar, Irum Shahzadi, (2015) " Role of the Compensation Management in Balancing the Employees Relationship", Journal of Resources Development and Management (JRDM) , Volume 8.