

## **IMPACT OF COMPENSATION MANAGEMENT ON EMPLOYEES' PERFORMANCE**

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### **ABSTRACT**

In this era of modernization, it has become a challenge for each organization to acquire efficient employees who work for the welfare of the organisation. Simultaneously, it is also a challenge for compensating the staff members in accordance with their performance and which works as a motivation. Also, there is a robust link between compensation management and employees performance. The variables which have impact on employees' performance are wages & remuneration, working hours and promotional policies of the organisation. The goal of this research paper is to examine compensation management required to retain employees. Primarily, aim of this Research paper is to study the compensation management and related aspects and to know the impact of compensation management on employees' performance. Employees must be managed properly and timely by providing best remuneration and compensation as per the standards. The lucrative compensation will serve the necessity for attracting the pre-eminent employees and helps in retaining them. In view of this research paper, main emphasis has been made on concept, need and importance of compensation management in improving the performance of the employee. Data has been collected from multiple sources of evidence, including various books, websites & journals. The paper describes the role of compensation management in the different organizations and concludes that it is an important tool in improving the performance of the staff members which additionally improves the organizational productivity.

**KEYWORDS:** Compensation management, Employees performance, Remuneration, Organisation

### **INTRODUCTION**

Compensation Management can be described as a system of compensating employees for the work they perform in an efficient and effective manner that the organization is in the position to attract, retain and lead them to perform well. Process of compensation management is to determine & maintain an equitable wages & salary structure and also an equitable cost structure which involves job evaluation, wage and salary survey and sharing of the benefits. It is known to be well-organized practice that involves balancing the work-employee relations by providing them monetary and non-monetary benefits. Compensation is the main requisite of human resource management which helps in improving the employees' performance and organizational effectiveness. Compensation is that which directly or indirectly affects the performance of the working members. Various components of compensation makes employees feel that they are actually working in a well secured and better organization which is helping them in fulfilling their needs. When the one working in the organization feels secured and satisfied with the job, he/she perform much better. Employees are valuable resource of any organization. Labor productivity now a days is an important concern of all the organizations. It is usually accepted that employees discover valuable source of competitive edge for firms

In India compensation or pay structure generally consists of the components which are:

1. Wage or Salary
2. Dearness Allowance
3. Incentives
4. Fringe benefits
5. Stock options
6. Travel/Meal/Housing Allowance

## **RELATIONSHIP BETWEEN COMPENSATION MANAGEMENT AND EMPLOYEES PERFORMANCE:**

The performance of employees directly or indirectly is procured or forced by the motivation which may only be accomplished if that force is linked with the fulfillment of individual objectives. Motivation plays an extremely vital role in improving the performance of the members working in an organization. Compensation management is that force which motivates the members to perform as per the standards. Compensation management has two main factors: monetary and non-monetary incentives and employees is satisfied with the efficient use of both.

If the organisation is successful in satisfying their employees by introducing different compensation schemes, the workers will remain loyal towards the organisation and it will definitely increase their performance.

#### **REVIEW OF LITERATURE:**

Bob (2011) Compensation processes are based on Compensation Philosophies and strategies and contain arrangement in the shape of Policies and strategies, guiding principles, structures and procedures which are devised and managed to provide and maintain appropriate types and levels of pay, benefits and other forms of compensation.

Robert and Angelo (2001) opined that the success or failure of organisations hinges on the ability to attract, develop, retain, empower and reward a diverse array of appropriately skilled people and is the key to improved performance.

Armstrong (2005) Compensation management is one of the central pillars of human resources management (HRM). It is concerned with the formulation and implementation of strategies and policies that aim to compensate people fairly, equitably and consistently in accordance with their value to the organisation.

Armstrong (2005) in his own analysis says compensation management is all about developing a positive employment relationship and psychological contract that adopts a total compensation approach which recognizes that there are a number of ways in which people can be compensated.

Pearce (2010) Compensation implies having a compensation structure in which the employees who perform better are paid more than the average performing employees.

According to Dale Yoder, "Compensation is paying people for work".

"Compensation is what employees receive in exchange for their contribution to the organisation". – Keith Davis

In the words of Edwin B. Flippo, "The function compensation is defining as adequate and equitable remuneration of personnel for their contributions to the organisational objectives".

The author opined that compensation management contains five main factors which include basic salary, short term incentives, long term incentives, benefits & services and perquisites. The study revealed that basic salary and benefits & incentives motivate more to the employees of public sector banks whereas the employees of private sector are motivated more by short term and long term incentives.

#### **OBJECTIVES:**

- To study compensation management practices employed in an organization.
- To understand various factors of employees motivation.
- To identify the linkage between compensation management and performance of employees.
- To analyze the impact of compensation management on employees performance.

#### **RESEARCH METHODOLOGY:**

This study is descriptive in nature as only secondary sources of collecting the data are employed in this research where the main target is on fact finding investigation with adequate interpretation. For this purpose secondary data were collected from various research publications, journals-online and printed, magazines, books, newspapers, government reports and websites.

#### **NEED OF COMPENSATION MANAGEMENT:**

Compensation refers to the rewards, employees get after offering their mental and physical efforts, wherein they compare their worth. Any dissatisfaction could result into a conflict or a dispute. This dissatisfaction affects the performance of the employee and can also imbalance the equity between human capital investment and expected returns to the organisation. The compensation management tries to make a balance between these two with following specific needs:

**1. Attracting and Retaining Personnel:** From organization's point of view, every organisation wants new talent and skill from outside, for which the compensation management target at attracting and retaining right human resource at right place in the organisation time to time.

**2. Motivating Personnel:** Compensation management focuses on motivating human beings or employees for higher productivity. Compensation can be designed or planned to encourage people through financial and non- financial compensation.

**3. Optimizing Cost of Compensation:** Compensation management targets at Optimizing cost of compensation by maintaining relation between 'Performance' and 'Compensation' of every employee.

**4. Consistency in Compensation:** Compensation management tries to obtain consistency in both internal and external for remunerating employees. Internal consistency consists of payment on the basis of criticality of jobs and employees' performance on jobs. External consistency involves similar remuneration for the similar job in all organisations.

#### **HOW COMPENSATION AFFECTS EMPLOYEES PERFORMANCE:**

A compensation package not only includes rewarding the employees in the monetary form. It also includes other benefits, medical care, work-life balance, and employee perks. In Today's scenario, Employees not only work for the money, but also place equal emphasis on other aspects of compensation. A good compensation package ensures the following:

- Retention – A compelling compensation policy helps to reduce the turnover rate of the company. Employees will be more incentivized to stay in their role and this saves the expenses related to turnover.
- Motivation – Compensation is the primary motivating factor for employees which push themselves to strive for greater heights. It gives them a reason to work hard and keep driving towards achieving the next milestone.

On the other hand, employees' performance and efficiency can be drastically affected if a good compensation package is absent. Following are a few reasons why:

- Low job satisfaction – Employees will feel underappreciated and will be less satisfied with their job. This may lead to discontent amongst coworkers which can put a dent in workplace morale.
- Low productivity – Poor compensation plan induces low productivity. There will be less motivation for employees to strive for excellence.
- High turnover – If the reward v/s effort ratio is low, employees are incentivized to cast their sights away from their job. Employee churn incurs a hefty cost to the company (retraining, relocating and time wasted) hence it would results in high turnover.

### **TOP RANKED COMPANIES FOR COMPENSATION AND BENEFITS:**

Career database Glassdoor has compiled its annual ranking of the top companies for compensation and benefits, based entirely on employee feedback. Top 4 of them are:

- 1) **Google:** Perks include free food, massages, vacational trips to places like Vegas and Hawaii, and a flexible work schedule. According to a senior software engineer the company environment is so outstanding that "you don't really want to leave the campus."
- 2) **Costco:** Employees rave about the benefits, which include "Great health and dental insurance plan, 401k, paid vacations, paid holidays and paid sick leave for both part time and

full time employees." Additionally, salary is competitive, raises are established upon the hours worked, and workers receive twice a year bonuses after you hit top pay.

**3) Facebook:** An employment at the social network comes with access to an "onsite healthcare," Additional fantastic benefits include three free meals each day, snacks, Cal Train passes, and regular team happy hours on daily basis.

**4) Adobe:** The pay is equitable if not better than peer companies and therefore the company offers 'pet insurance.' Facilities get rave reviews, as does Adobe's vacation policy: They have 28 days of vacation & receive a sabbatical every 5 years.

#### **FINDINGS:**

Through accessing various websites and sources it has been observed that the compensation management plays an essential role in motivating the employees, thus resulting in increase in overall improvement in workforce performance. It can also be concluded that many factors leads to employee motivation like healthy working environment, fair equitable salary structure and various allowances etc.

Also there is direct link in between the compensation management and employee performance. If one is getting the salary according to the work done then it will automatically lead to the more positive outcomes from the employees and overall contributing more to the organizational goals.

At last it can be summarized that **“A happy employee is a productive and efficient employee”**

#### **RECOMMENDATIONS:**

In line with this study, the following recommendations were made.

Organisations must make sure that there is a friendly and positive relationship between employers and employees in the organisation.

Management creates good and friendly working conditions that will improve employee's performance.

Organizations should assure the provision of attractive welfare packages that will encourage and promote employees performance.

It is the desire of every organisation to constantly increase productivity, thereby necessitating the need to motivate employees through comprehensive compensation policies.

### **CONCLUSION:**

The research paper helps to arrive at a conclusion through the study that the motivation is an important aspect of employee's job satisfaction. However, to motivate the employees one of the important aspects is compensation management i.e. proper compensation policies. The results also showed that if the compensation policies are managed properly it will directly affect the motivation level of employees. It is important for organisations to embark on effective compensation management policies that will project and promote employees performance. Employees are integral part of the human resources management, and therefore need to be properly compensated in order to effectively perform beyond expectation. It is therefore said that compensation management is an issue that is critical and vital for the running and management of the organisation. There is a significant relationship between compensation management and improved productivity, and in a similar manner, there is a significant relationship between compensation management and retainment of staff, therefore it is necessary to have effective compensation policies in order to retain employees. Conclusively, there is a relationship between compensation management and employees performance, which implies that employees performance depend on planning, implementation and control of effective compensation management.



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