

Reduction in Salaries in the Pandemic and its Impact On Employee's Spending's & Savings – A study with reference to Douglas OHI Company

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Abstract

The main base of individual's spending's and savings are their income levels. Every individual spending potentiality and saving potentiality is directly linked to their daily/weekly/monthly/annual income levels. Individuals may give different priorities to their percentage of spending's and percentage of savings as per their living life styles. In generally person who can earn more can afford for more spending's and more savings. But the sudden changes of their income levels will influence their regular spending and saving habits. Due to the reduced income levels the individuals spending's potentiality and saving potentiality will come down. Due to the recent pandemic situation the income levels of the different individuals who are working in different fields across the world are effected and it shown the impact on their regular spending's and savings. Especially the employees who are surviving with their salaries are effected much. The sudden arrive of pandemic situation is not allowed the employees to go for their work as like as before. The jobs whichever is possible to continue with the online support are delivering by the employees with the work from home option. The other jobs where the group of employee's personal presence is required are effected much. Most of the companies are unable to run their business as like earlier and incapable to meet its regular expenses. As a result the companies are focused on cost cutting strategies and reduced their employee salaries.

Key words: pandemic situation, reduction in salary, spending's and savings

Introduction

Income is very much concerned factor to the employees. At the same time cost to company is also an important factor to the employer. Due to the pandemic situation businesses are effected and unable to pay the salaries as before. Some of the employees lost their jobs, some of the employee's salaries are reduced to meet the cost to company policy. As per as the income levels the employees who are especially depend on the salaried income they have to compromise with their spending's and savings. This is the situation which is causing to realize about the reality. Some of the employees are really bothered much about their salary reductions and lack of job situations. Some other group of employees who might have the other source of income are managed. In the present research it is targeted to find the situation of Douglas OHI employees in the Sultanate of Oman. Douglas OHI is one of the leading and reputed construction company with around 150 full time employees. Due to the unexpected pandemic situation and forced lockdown in the country it is unable to continue its project works, and the employee salaries were effected. Reducing the salaries suddenly will cause for many changes in the employees living life styles. Forcefully they have to adopt the new reduced spending and saving behavior. Most of the employees realized and experienced that, the unexpected and unwanted high expensive medical bills can knock the doors at any time. So every individual should plan for the cash reserve until this pandemic ends.

Aim and objectives of the study:

The aim of this research is to understand the employee's opinions about the reduction in the salaries in Douglas OHI Company, as well as to investigate the impact of reduction in salaries on employee spending's and savings.

- To know the employee salaries are reduced or not; and
- To collect the employee views about the reduction in the salaries during the pandemic.
- To understand the effect of reduction in salaries on employee spending's.
- To observe the impact of reduction in salaries on employee savings.

Significance of the study

This research is more helpful for the management students, company employees, company management and for other research scholars to refer the research results. This research will be helpful to them to improve their knowledge about the impact of salary reduction on employee spending's and savings during the pandemic.

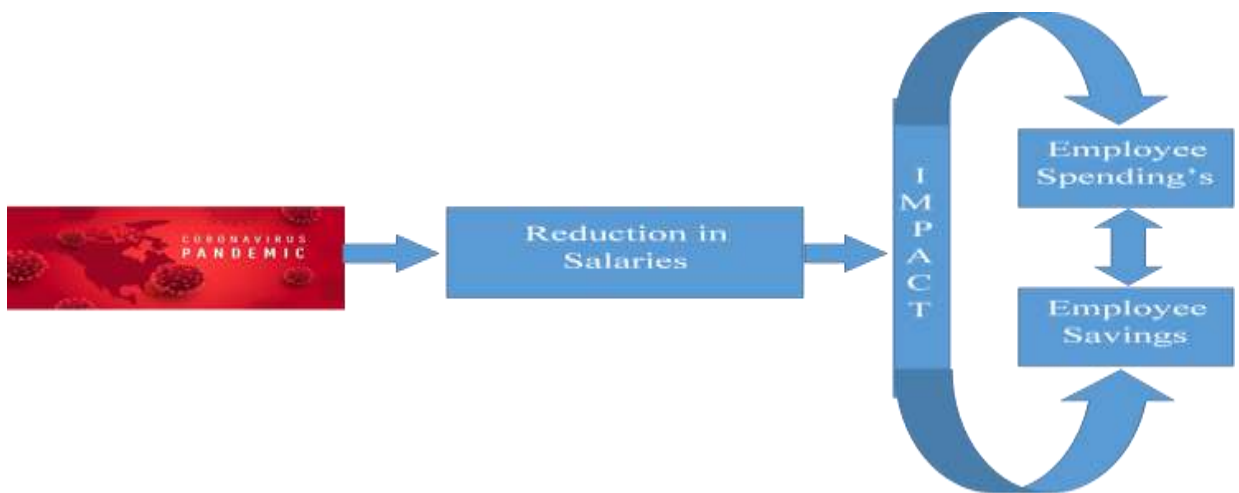
Review of literature

- According to Beland et al. (2020) the pandemic is still present and continues to grow, the first available reports on its economic and job effect tend to converge around similar conclusions: the impact of the outbreak is clearly asymmetric, with the pandemic affecting the most vulnerable countries and parts of the workforce.
- According to Chetty, Friedman, Hendren and Stepner (2020), the cut in employees' salaries led to rearrangement of employee's spending's, most of them thought carefully about their expense priorities. The study showed that the percentage of spending's dropped down by 49%. In addition, the most spending was on healthcare more than entertainment.
- Based on study conducted by Wu (2020), there is huge shift in people spending's during the pandemic related to their financial situation. The household expenditure in last year declined in both China and U.S.A. The study observed, analyzed and presented relative information about family's consumption attitude before and throughout the pandemic.
- Alemu (2020) explained in his book that there is a strong relationship between savings and investments, so when there is an increase in the savings, investments will increase too, but because of the pandemic the amount of savings has decrease and this influences the investments and economy growth too.

Research Gap

There are previous studies that were conducted on reduction in salaries, employee spending's and employee savings. According to Hendren and Stepner (2020), the cut in employees' salaries led to rearrangement of employee's spending's, most of them thought carefully about their expense priorities. But as per the researcher's observation there is no such a study found about the reduction in salaries in the Pandemic and its impact on spending's & savings of Douglas OHI company employees. So the researchers considered the research gap as their topic title and started the research work.

Conceptual Framework



As this conceptual framework is representing that, due to pandemic situation employee salaries are reduced. The impact of salary reduction is on the employee's spending's and savings. Employees are unable to continue their spending's as like earlier and incapable to meet their saving or investment plans as like before. Spending's and savings were effected.

Research Design

For the current research work, researchers chosen descriptive research design and quantitative methods. Numerically the data is going to collect with the help of a structured questionnaire.

In this research the participants are the employees working in Douglas OHI Company, Muscat branch. The research population is 150 employees. The sample will be 64 employees from different departments within the company. Salary reduction is the independent variable, dependent variables are employee spending's and savings.

Researchers chosen non-probability convenience sampling technique. Out of total population Total of 64 employees from the different departments and categories of administration, accounting, joinery & interior, IT, safety and engineering are participated.

Gathering of Data

To gather the data, researchers are depending on both the primary and secondary sources. Primary data is the information gathered directly from the respondents through the structured questionnaire. Secondary data is the information that is gathered from different types of sources such as the internet, articles, and journals.

Treatment of Data

To analyze the research information, the researchers planned to use percentage calculation and the result will be displayed with the help of graphical diagrams and tables through MS

Excel document. Researchers are also, planning to use correlation method to find the relationship between data frequency.

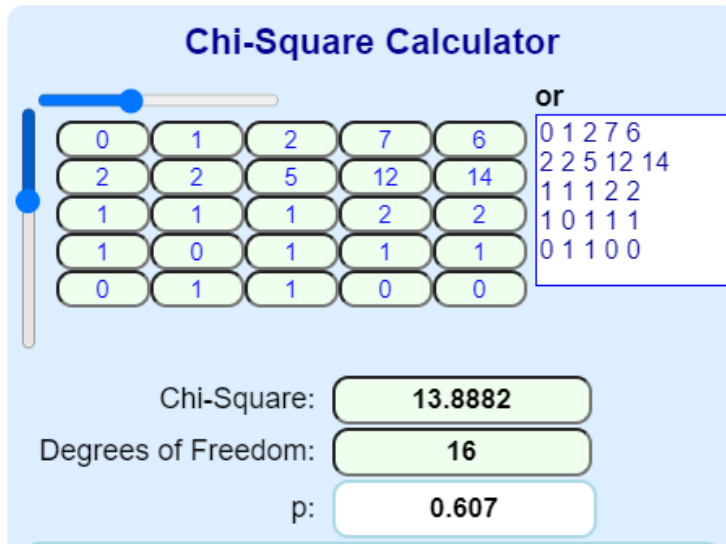
1 - Strongly Agree, 2 – Agree, 3- Neutral, 4- Disagree, 5- Strongly

Disagree

Sl No	Questions	1		2		3		4		5		N	%
01	My salary was reduced due to pandemic situation.	29	45%	23	36%	5	8%	4	6%	3	5%	64	100%
02	I was embarrassed due to my salary reduction.	32	50%	20	31%	10	16%	2	3%	-	-	64	100%
03	I too understand that crisis situation so I am not bothered about my salary reduction.	1	2%	3	5%	5	8%	11	16%	44	69%	64	100%
04	It is difficult to maintain my regular cost of living with my decreased payment.	21	33%	22	34%	13	20%	5	8%	3	5%	64	100%
05	After my salary was reduced there is a change in my spending behavior.	21	33%	31	48%	4	6%	5	8%	3	5%	64	100%
06	Due to my salary was reduced, I too reduced my regular spending amount.	22	35%	29	45%	6	9%	4	6%	3	5%	64	100%
07	Even through my salary was reduced I am unable to compromise with my regular grocery, medical and house maintenance spending's.	15	23%	25	39%	11	17%	8	13%	5	8%	64	100%
08	I prefer the savings irrespective of pandemic or crisis situation.	20	31%	26	41%	8	12%	5	8%	5	8%	64	100%
09	My monthly savings are effected due to salary reduction.	16	25%	35	55%	7	11%	4	6%	2	3%	64	100%
10	I am able to manage my targeted savings, even after my salary was reduced.	4	6%	5	8%	10	16%	22	34%	23	36%	64	100%

Chi-Square Test-1

The main Aim of the using Chi-Square in the present study is to confirm the association between employee views about the statements ‘my monthly savings are effected due to salary reduction’ and ‘I am able to manage my targeted savings, even after my salary was reduced.’



H0: *Null Hypothesis*: There is no association between the employee views about the statements ‘my monthly savings are effected due to salary reduction’ and ‘I am able to manage my targeted savings, even after my salary was reduced.’

H1: *Alternative Hypothesis*: There is an association between the employee views about the statements ‘my monthly savings are effected due to salary reduction’ and ‘I am able to manage my targeted savings, even after my salary was reduced.’

		I am able to manage my targeted savings, even after my salary was reduced					
My monthly savings are effected due to salary reduction’		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
	Strongly Agree	-	1	2	7	6	16
	Agree	2	2	5	12	14	35
	Neutral	1	1	1	2	2	7
	Disagree	1	-	1	1	1	4
	Strongly Disagree	-	1	1	-	-	2
	Total	4	5	10	22	23	64

Conclusion: As the above result table shows the value of Chi Square is 13.8882, which is < to table value 26.296 at 0.05 significance level. Hence the null hypothesis is accepted. So it is concluded that There is no association between the employee views about the statements of ‘my monthly savings are effected due to salary reduction’ and ‘I am able to manage my targeted savings, even after my salary was reduced.’

Correlation Coefficient

As the main aim of using Correlation coefficient to find the correlation between the employee views about the statement-1 of ‘it is difficult to maintain my regular cost of living with my decreased payment’ and statement-2 of ‘after my salary was reduced there is a change in my spending behavior’.

Statement-1 X	21	22	13	5	3
Statement-2 Y	21	31	4	5	3

Calculation

$$r = \frac{\sum(x_i - \bar{x})(y_i - \bar{y})}{\sqrt{(\sum(x_i - \bar{x})^2)(\sum(y_i - \bar{y})^2)}}$$

$$r = \frac{389.8}{\sqrt{(308.8 * 632.8)}} = \mathbf{0.8818}$$

As the above result table shows the Pearson correlation value is 0.88 which indicates there is a positive correlation between the statement-1 of ‘it is difficult to maintain my regular cost of living with my decreased payment’ and statement-2 of ‘after my salary was reduced there is a change in my spending behavior’.

Findings

1. Due to pandemic situation most of OHI Douglas company employees (81%) salaries are reduced.
2. The majority of company employees (50%) feels embarrassed due to their salary reduction.
3. Most of the employees of OHI Douglas Company (69%) are bothered about their salary reduction.
4. The majority of employees (34%) are feeling it is difficult to maintain their regular cost of living with decreased payment.

5. At Douglas OHI Company (48%) employees changed their spending behavior after salary reduction.
6. Most employees (45%) expressed that they reduced their regular spending amount because of salary reduction.
7. Most of employees in Douglas OHI company (39%) are unable to compromise with their regular grocery, medical and house maintenance spending's.
8. Most of employees (41%) prefer to save irrespective of pandemic or crisis situation.
9. Majority (55%) of employees are expressed that their monthly savings are effected due to salary reduction.
10. The majority of the company's employees (36%) feels that they are unable to manage their targeted savings after salary reduction.
11. Some of the major reasons to reduce the salaries of the employees are: pandemic situation, lockdowns, effect on business volume, managing company capital, less profits, minimized work, company need to control expenses, bad economic situation, weak organizational performance, low productivity, financial problems, and reduction in company shares values.
12. Some of the spending's which are controlled by the employees after their salary reductions are: Luxury item/prestigious products purchases, holiday trips, food habits, weekend dinners at restaurants, beauty parlors visits, donations, money contributions towards periodical occasions, garments shopping, car services, new furniture purchases, outdoor games, electronic devices, vacation tour to neighbor countries.
13. Some of the new savings started or controlled after the employees' salaries are reduced are: Bank deposits, retaining the liquid cash amount at home for the unexpected problems, new medical insurance policies which will cover Covid, investment in gold coins, purchasing of foreign currency, investment in land/construction to get fixed monthly returns, chit fund schemes, purchasing additional life insurance policies.

Recommendations

1. It is suggested that company may plan to reduce the employees benefits such as: transportation allowances, house allowance and medical allowance, instead of reducing the salaries of employees.
2. The company must conduct meetings to inform the employees with the circumstances that the company is going through so that they become aware of the company's situation and that may not get embarrassed.

3. Realizing with the actual economic situation and understanding the external environment reality will be helpful to minimize the botheredness to the employees.
4. It is recommended to all the employees to minimize their spending's during pandemic situation even though it seems difficult.
5. It is suggested to continue the same changed spending behavior until the pandemic situations come to normal.
6. The employees should give priority only to the necessity items purchase rather than luxury items.
7. It is suggested that employees not to compromise with medical and grocery items, because during this situation health is very important.
8. Employees must increase their savings irrespective of any pandemic or crisis situation to be ready to face any financial problems in the future.
9. Due to reduce in salaries it is suggested that employees must use different ways to control saving after salaries cut.
10. The employees must prefer to manage their targeted savings by keeping all possible alternatives.
11. The amount of salary reduction must be fair and should not trouble the employees to meet their monthly expenses.
12. It is suggested to all employees to control some of their spending's to cope with current situation.
13. Employees should make plans to maintain their monthly savings in any mode like purchasing gold, bank deposit or others to overcome any unexpected crisis.
14. To overcome the financial crisis, the organization must prepare strategies from the lessons what it learned from the current situation.
15. Organization should commit with the employees that after the situation came to normal the employees will again receive their regular financial benefits. It creates good morale to all the employees.

Conclusion

The research is about the impact of salary cuts in the pandemic and its effect on spending and savings of Douglas OHI employees, a major effect that has been studied from various

aspects. Several researchers have investigated the factors and causes that led to the reduction in employee salaries. This study was undertaken to further discuss the impact of salary cuts in the pandemic, its impact on employee spending's and savings, and how it affects many sectors, private companies as well. It had a negative impact on companies and all sectors, which led to the stagnation of the economy and thus the reduction of salaries of employees in all sectors. Facing the problem of saving the salary of the employees will affect their work, also this situation led to many employees leaving their jobs and livelihoods at risk. The consumptions of goods and services and their demand and supply dropped down a lot which led to economic collapse all over the world. In early February 2020, Africa already faced critical economic problems as a result of the pandemic. The result of the research focus on how the employees control saving and spending during pandemic situation in Douglas OHI company, so the reduction of the salary makes a lot of changes in lifestyle of the employees. So, salary play a major role in giving the workers push to complete the assigned responsibilities effectively. Companies support employee's productivity through valid benefits, rewards, and salaries. The outcomes of the research showed different reasons from the company regarding salaries reduction, it also mentioned some examples of spending's and savings which the employees started to manage.

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