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A Study on Measuring Impact of Compensation Packages on Overall Performance of Employees

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ABSTRACT: Compensation packages encourage competent workers to stay motivated and devoted to the company while also assisting in attracting top talent. Monetary return significantly impacts workers' motivation to work and raises their morale. This study seeks to quantify how compensation packages affect workers' general performance. The current investigation employed the SEM approach with SMART PLS. The results of this study show that remuneration packages have a considerable effect on employees' overall performance. Additional research may be done to determine whether work satisfaction plays a mediation function between remuneration packages and overperformance.

KEYWORDS: *Structural equation Model, overall performance, compensation packages.*

I. INTRODUCTION

The incentive system's rising prominence in performance management might be considered as a sign of how important it is to the business. Over the past 25 years, new pay components have emerged to provide businesses various benefits, which in turn energizes the workforce. The employee is aware that both parties stand to gain from a pay system since it is directly and indirectly linked to the organization's vision and aim. Keeping employees engaged is crucial for human resources and management in firms, according to a study by Latham (2012). As a result, businesses must develop reward programs and other initiatives to satisfy employee needs and motivate them to put in their best efforts. Most companies have trouble deciding which incentive programs would work best for their employees. High-caliber employee performance may result from a successful incentive scheme. A corporation will have problems like low employee morale, subpar performance, or a high staff turnover rate if it does not have an efficient pay structure (Wilson, 2004). According to Edward and Christopher (2006), a large number of employees don't always turn up for work, stick with it, or contribute a lot of effort for the company. High-performance people are required to accomplish goals, deliver goods and services, and gain a competitive edge in the market. Both performance and the incentive system are essential because people expect to be adequately paid for their high levels of performance. Dissatisfaction will grow if they fail to meet the goals and perform poorly inside the organisation (Ojeleye, 2016).

According to academic studies, a company's pay policy directly impacts how well its workers perform; it is a reliable indicator of the individuals' financial or other outcomes and is linked to the efficiency and financial success of the enterprise. Therefore, top, medium, and lower level managers all play a crucial role in performance. Employers have discovered that it is challenging to comprehend how employees behave as well as how to attract, inspire, and keep them for a long time in the company since their behaviour is always changing. In terms of "organisational performance, employee performance" is defined as the extent to which an individual member contributes to achieving the organization's goals. Employee productivity needs to be prioritized since it is essential to the success of the organisation. To evaluate employee performance, the majority of businesses look at worker productivity, output amount, quality, and timeliness (George, 2015). What workers do or don't do will have an impact on how the company is perceived. A key component of organisational performance is the ability to properly manage, inspire, and empower personnel.

Employee performance as a whole is significantly impacted by financial incentives. Organisations may successfully encourage their staff by giving them cash incentives that are closely related to performance. Such rewards match workers' efforts with business objectives, boosting output and elevating the standard of work. Offering attractive financial incentives also aids in attracting and keeping top personnel, as employees take into account not just the base wage but also the possibility of additional financial perks. Organisations develop a performance-driven culture and motivate people to perform well by setting high achievers apart from others. As employees feel valued and appreciated for their contributions, financial incentives also help to increase levels of engagement and job satisfaction. While



avoiding possible dangers like short-term emphasis or unhealthy rivalry, it is vital for organisations to carefully develop incentive programs to ensure fairness, transparency, and long-term goal alignment. In the end, well planned financial incentives may considerably improve overall employee performance and support the success of the business. The purpose of conducting this study is to examine the impact of compensation packages on the overall performance of employees.

II. REVIEW OF LITERATURE

1. **Agbenyegah, G. K. (2019).** The study looks at how well-trained personnel perform in Ghanaian financial institutions in relation to financial and non-financial incentives. The most crucial element of both monetary and non-monetary pay that affects employee performance is also examined, along with the effect that its absence has on overall organisational performance when employers are unable to supply it in order to retain employees. The study showed the researchers that employee performance was affected by both monetary and non-monetary prizes. When incomes can't keep up with the cost of goods and services in Ghana's unsteady economy, where prices are growing, non-financial perks are just as crucial to motivating employees in order to help them make ends meet and raise their socioeconomic position. The researchers reached the conclusion that when businesses take into consideration the financial and non-financial concerns of its employees, the company as a whole will benefit. a recommendation that the employer review and improve the job specifications and descriptions in collaboration with the personnel. To promote newly hired employees and considerably increase labour productivity, immediate changes should be made to compensation, allowances, retirement benefits, leave benefits, and the availability of affordable housing.
2. **Andon, P. et al (2018).** To encourage reporting of corporate wrongdoings, several countries have created regulatory systems that reward whistleblowers and provide safeguards. To test whether such an incentive induces prospective whistleblowers to report a witnessed financial reporting fraud to a pertinent external institution, researchers performed an investigation with practicing accountants. The authors also examined how an accountant's choice to disclose information is influenced by how serious they estimate a misbehaviour to be. It was shown that receiving a cash reward increases one's urge to report anything to the appropriate external authority. They also noted a high and positive correlation between accountants' intentions to report misbehaviour to the proper external authority and their judgements of how serious the misbehaviour is. When it comes to the desire to disclose wrongdoing to outsiders, researchers found a substantial correlation between the likelihood of financial compensation and the perceived gravity of the violation. irrespective of whether there is a financial incentive, the desire to expose the financial data fraud to the public grows as the crime's relevance is believed to be increasing. Given that the perceived degree of relevance is lower and there are financial incentives available, there is a larger inclination to reveal financial data fraud outside.
3. **Ali, B. J., & Anwar, G. (2021).** One of the essential elements of human resource management is the measurement of employee pleasure. Employers must make sure that staff satisfaction levels are high in order to boost "productivity, responsiveness, quality, and recognition service". This survey aims to gauge employee motivation and satisfaction levels. It also discusses the impact of culture on employee happiness. The theoretical foundation for this thesis includes ideas like "work satisfaction, motivation, and incentives inequities". One of the most valuable aspects of the organisation is the contact and communication between the management and employees. The results show that rewards, incentives, and recognitions have a substantial effect on workers and serve as a motivator for job satisfaction.
4. **Siddiqi, T., & Tangem, S. (2018).** This article's objective is to examine the possible impacts of the workplace, pay, and motivation on employees' performance within the context of Bangladesh's insurance sector. For the first part of this study, a standard questionnaire employing a Likert 5-point scale was presented to 150 respondents who are now employed in various occupations for insurance companies in Bangladesh. The data acquired in the second phase was then subjected to structural equation modelling. Each factor significantly affects how well employees perform; the study revealed. The first piece of evidence that this research provides is that organisations may encourage higher-quality output from their workforce by ensuring intrinsic and extrinsic motivation, a healthy work environment, and a well-structured compensation plan. According to this research, managers of insurance companies need to pay special attention to the significant influencing factors that might change how their employees feel about the duties and responsibilities they have.



Objective of the Study:

To evaluate the impact of compensation packages on the overall performance of employees.

Hypothesis:

H0: There is no significant impact of compensation packages on the overall performance of employees.

H1: There is a significant impact of compensation packages on the overall performance of employees.

Research Methodology:

A systematic questionnaire was used to collect information from 215 employees of financial institutions. (At 0.3 effect size, statistical power 0.9, number of latent variables=2, number of observable variables=12 and probability level=0.05 the minimum necessary sample size=200). For the current investigation, non-probability purposive sampling was employed. The current study has employed both primary and secondary data gathering methods. Structural equation modelling is the method and SMART PLS is the analysis tool employed in the current study.

Variables	Category	Frequency
Gender	Male	153
	Female	62
Age Group	18 to 25 years	16
	26 years to 35 years	97
	35 years to 45 years	73
	45 years to 60 years	29
Income	0-2,50,000	36
	2,50,001-5,00,000	93
	5,00,001 – 10,00,000	86
Experience	Less than 5 years	9
	5 - 10 years	27
	10 - 15 years	93
	more than 15 years	86

Data was collected from 215 employees of financial institutions; it was seen that the majority of the employees were male i.e. 153 out of 215 employees. The majority of the employees belonged to the 26 to 35 years of age category followed by 35 years to 45 years with 73 employees. Most of the employees i.e 93 and 86 belonged to the income group of 2,50,001 – 5,00,000 and 5,00,001 – 10,00,000 category respectively. As for the Experience category 93 employees belonged to 10-15 years’ experience and 86 employees belonged to more than 15 years’ experience.

Data Analysis and Interpretation:

Table No: 1 Reliability and validity

Path	Cronbach’s alpha	rho_A	Composite reliability	AVE
Compensation package	0.879	0.893	0.866	0.576
Overall performance	0.928	0.947	0.923	0.712

As all the values of Cronbach’s alpha >0.7 indicating reliability of responses and it is also seen that composite reliability >0.7 and AVE >0.5 indicating convergent validity.



Table No: 2 discriminant validity

Path	Compensation package	Overall performance
Compensation package	0.759	
Overall performance	0.181	0.844

Square root of AVE > correlation (r) thus it can be concluded that their exist an adequate discriminant validity.

Figure No: 1 SEM model

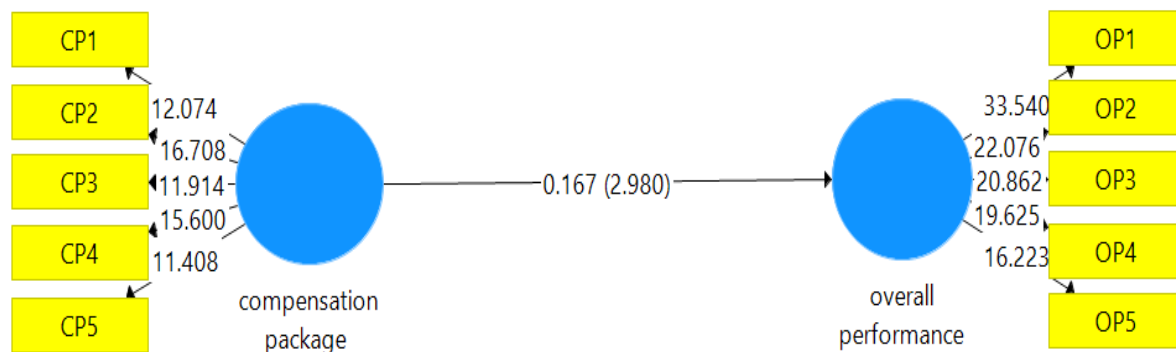


Table No: 3 Hypothesis testing

Path	Beta	T value	P value
Compensation package → overall performance	0.167	2.980	0.003

P (value) < level of significance 5% thus Ho is rejected and H1 is accepted indicating significant impact of monitoring incentives on overall performance of employees.

III. CONCLUSION

According to the research, giving employees compensation packages boosts their motivation levels, resulting in increased workplace engagement and a higher degree of job satisfaction. As a result of the employees' increased incentive to do better in order to receive the desired rewards, production has grown. The study also emphasizes how employees who get financial incentives see them as rewards for their efforts and contributions, strengthening their feeling of organisational commitment. The significance of the effect seen in this study highlights how crucial it is to include financial incentives in performance management systems inside organisations strategically. Organisations may successfully encourage people by matching rewards to desired performance results, improving overall performance and promoting organisational success.

It is important to remember, though, that the success of financial incentives might vary depending on the situation, including the type of job being done, personal preferences, and the workplace climate. Companies must carefully plan and implement incentive programs suited to their workforce's individual requirements and preferences. Additionally, it is critical to consider a comprehensive strategy for employee motivation and performance management by including non-financial elements like recognition, chances for career progression, and a supportive work culture. The results of this study have important ramifications for managers and practitioners working in the field of human resource management. It emphasises how crucial it is to properly craft incentive programs and policies that align with the organisation's aims and objectives. The study also emphasises routinely reviewing and improving incentive schemes to



maintain their applicability and efficacy. The findings add to the body of information on employee motivation and performance management and support the idea that properly planned and implemented financial incentives may be an effective strategy for raising employee performance.

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