
IMPACT OF COMPENSATION AND REWARD SYSTEM ON THE PERFORMANCE OF AN ORGANIZATION: AN EMPIRICAL STUDY ON BANKING SECTOR OF PAKISTAN

Ayesha Aslam

MS Scholar, University of Sargodha,
Women Campus, Faisalabad

Amna Ghaffar

MS Scholar, University of Sargodha,
Women Campus, Faisalabad

Tahleel Talha

Lecturer, University of Sargodha,
Women Campus, Faisalabad

Hina Mushtaq

MS Scholar, University of Sargodha,
Women Campus, Faisalabad

ABSTRACT

The most important resource of an organization is human resource. In an overall performance of an organization it is very important to retain an efficient and effective workforce. Motivated employees can add value to an organization by successfully achieving its targets. This present study will indicate some of the factors which contribute to an employee performance like reward and benefits, compensation, incentives and salary. In this paper we have targeted banking sector of Faisalabad. This paper will also find out the relation of all these factors with employee performance. The test used for analysis is SPSS.

Key words: Reward, Compensation, Employee performance, motivation, Incentives

Introduction:

Employees are valuable resource of any organization. Labor productivity now a day has been main concern of organizations. It is customarily accepted that employees discover valuable source of competitive edge for firms. There is current discussion on how human resource management policies impact the performance of employees. HRM theorists are making efforts and planning to try to construct a informal bond between HRM and performance. The impact of particular Human Resource planning on performance of employees in banking sector. There is too much interest in this field now days. This study tries to find this gap by investigating the effect of reward and compensation strategies on performance of commercial banks of Faisalabad.

Here we will introduce our variables. Our very first variable is compensation. Employee receives different kinds of benefits in the form of wages, salaries and pay. Half of cash flow of companies is usually equal to compensation, although it is more than half in service sector. Mostly individuals with good education are unsatisfied with their job and salary packages and it results in their turnover so organizations plans compensation plans for them to stop the turnover and to motivate them. In other words you can say that compensation motivates employee for better performance. The next variable going to be discussed is salary. According to a study if employees are paid well and earn more than their colleagues they feel happier at their work places. A handsome salary motivates an employee for better performance.

'Rajput (2011), describe the word motivation is come from a Latin word "Mover" which means "to move". They characterize motivation as "the individual's desire to exhibit the behavior and shows green signal to use effort". Motivation is further splits into 2 kind's extrinsic and intrinsic motivation. First kind of motivation includes rewards, Salary and benefits while intrinsic rewards include internal factors like job satisfaction, freedom and responsibility. Intrinsic motivation has a deeper and long lasting effect because the intrinsic motivators work for 'quality of working life'. Golembiewski (1973), also describes motivation for an organization as the degree of readiness, it pursue some specific objectives and implies the determination of the nature and center of forces. The concern of this study is to find the sector where development can be possible. Systems of rewards and compensations have much importance for the performance of any organization. A considerable setup for reward and compensation structure can highly enhance the profitability and effectiveness of an organization. The study will be highly motivated for employees and managers or human resource department of organization. There is a great need to work in this area of field. This study is conducted to find the effect of reward and compensation strategies on the Performance of banks in Faisalabad and provide appropriate understanding of the link between the variables. Main purpose of this paper is to judge the effect of compensation system and reward system on the employee's productivity in any organization. Some main goals are to investigate the benefits of timely salary to employees. To analyze extrinsic motivation affect the performance of employees. To explore the impact of congenial environment in the organization on the performance of the employees to discover the ways of employees motivation.

Literature Review

Reward and Compensation:

Nazir and Saif-Ur-Rehman Khan at (2013) examined the degree of organizational engagement and job comfort in the UK Higher Education sectors and universities and conclude that UK Higher Education system give rewards (cash and non-cash) to members of organization and makes them competent because it recognized that the members of organization are social agents. *Nguithomaskatuaat (2014)* study that reward and compensation have major influence on the function of banks In Kenya by using SPSS and MS Excel and conclude that rewards and compensation system have an important effect on the performance of banks employee.

Muhammad Ramzan, Ghazanfar Ali, Hafiz M. Kashif Zubair and Muhammad Arslan at (2014) the determination of this study is to estimate the effect of compensation on employee performance by using Spss and ANNOVA and gather the result that compensation has significance effects on employee Performance.

COMPENSATION:

Omoayo Adewale et al (2014) analyze the impact of compensation system on the job performance of employees and work on only preferred private institutes in Ogun State, South-West Nigeria by using questionnaire. He found that institutes which have more appropriate compensation packages embed an affirmative effect on employee's performance therefore

the turnover of employee become less and they sincere with their job and stay in organization. Muhammad riaz (2014) studied the impact of compensation of employee performance on organization commitment on the performance of employee, by using SPSS as a statically tool and concluded that Compensation in the form of incentives, salaries will perform an important part to enhance motivation of employee in Local Revenue Management.

IDEMOBI Ellis at (2011), studied the extent to which compensation management can be used as a tool for improving organizational performance in a typical public sector organization like the Anambra State of Nigeria Civil Service by using questionnaire and concluded that The outcome of hypothesis reveals that the reform programs of the Anambra State Government have not had a significant effect on financial compensation policies and practices of the civil service.

Tahira Nazi et al (2013), checked that what is the degree of organizational dedication and job satisfaction presently in the United Kingdom Higher Education sector and universities by using correlation technique and concluded that United Kingdom Higher Education sector propose both cash and non-cash basis rewards to members of organization and makes them capable as it count that the member of organization are social agents.

MOTIVATION:

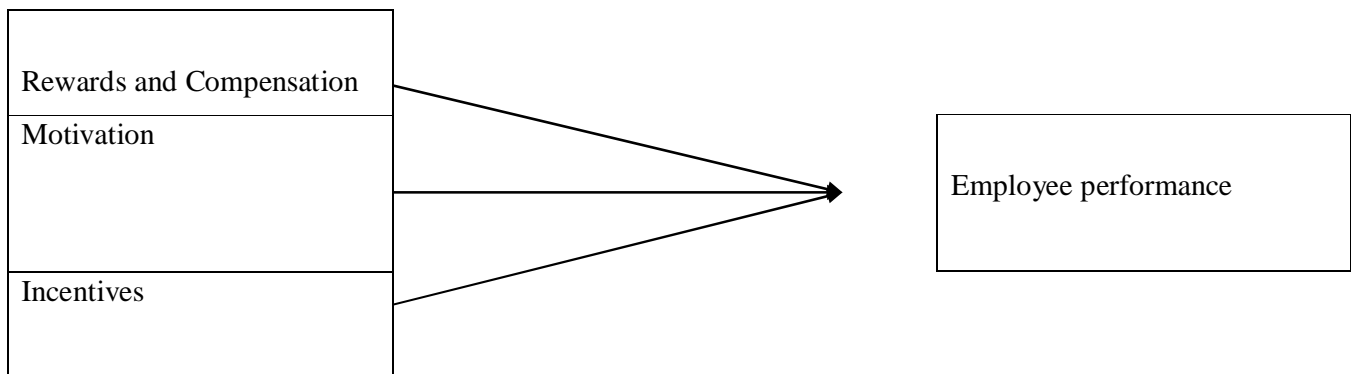
Opu Stella at (2008) task that what motivational measure can be accomplished to make sure that any improvement in job performance. The next step was to observe any relationship between the performance and the motivational measure at the work place and then to improve the ways to enhance the performance of the employee as well as motivation by using questionnaires and at the end to encapsulate that this study is not as strong because the issues in reality may differ from this study point. In the influence of motivation in Kitgom District Local Government is seen to be better and resulted in better performance, therefore the highlighted three quarter having heard the complaints in relation to the weak performance of workers. In the light of this study and its results it's necessary to work more on this research. M. Christen and G. Iyer at (2005) focuses on the relationship of effort job performance and job satisfaction. The need of the link between the

three “effort” as opposed to “job performance” and then resulted in “job satisfaction” is highlighted. In output of the research is that the positive and negative elements neglect each other. After working on first element, the effect of job performance can be achieved and so the job satisfaction but still less than the expected level.

Theoretical Frame Work:

Independent Variable

Dependent Variable



ANOVA

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	.455	1	.455	16.557	.000 ^a
Residual	1.044	38	.027		
Total	1.499	39			

a. Predictors: (Constant), RC

b. Dependent Variable: EP

Significance of at least one variable is contributing significance in this model. It puts a positive impact on employee performance because this table is showing the significance of 0.00 which is less than 0.05

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.428	.802		1.780	.083
	RC	.540	.128	.576	4.226	.000
	M	.121	.197	.115	.617	.541
	I	.066	.122	.102	.545	.589

a. Dependent Variable: EP

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.267	.498		4.550	.000
	RC	.517	.127	.551	4.069	.000

a. Dependent Variable: EP

$$EP = 2.267 + 0.517 RC$$

2.267 is the average value of employee performance when all other variables are constant. This table shows the increase in employee performance due to the per unit increase in reward and compensation. If we increase 1 unit of employee performance reward and compensation and then the average change in will employee performance be 0.517.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.551 ^a	.303	.285	.16578	1.460

a. Predictors: (Constant), RC

b. Dependent Variable: EP

30 % variation in the dependent variable is being explained by chosen independent variables.

Conclusion:

The purpose of this paper was to examine the effect of reward and Compensation system on the performance of employees. Our very first variable was compensation. Second is motivation third was incentive. The research shows that the most significant variable in the research is reward and compensation. It shows a great effect on the performance of employees. It boosts up the efficiency of employees. On the contrary the variables motivation and incentives contribute least to the employee performance.

Limitations:

First limitation is that this study only spread over the banking field of Faisalabad. There are so many variables contributing to employee performance but due to shortage of time we have excluded some of them. Financial resources were also another limitation. Except from above limitations this research may provide understanding to the managers to increase the performance of employees and their subordinates.

Reference

1. Aguinis, H., Pierce, C. A., & Culpepper, S. A. (2008). Scale coarseness as a methodological artifact: Correcting correlation coefficients attenuated from using coarse scales. *Organizational Research Methods*
2. Al Jenaibi, B. (2010). Job satisfaction: Comparisons among diverse public organizations in the UAE. *Management Science and Engineering*, 4(3), 60-79.
3. Armstrong, M., & Taylor, S. (2014). *Armstrong's handbook of human resource management practice*. Kogan Page Publishers.
4. Boswell, W. R., & Boudreau, J. W. (2000). Employee satisfaction with performance appraisals and appraisers: The role of perceived appraisal use. *Human Resource Development Quarterly*, 11(3), 283-299.
5. Boswell, W. R., & Boudreau, J. W. (2002). Separating the developmental and evaluative performance appraisal uses. *Journal of Business and Psychology*, 16(3), 391-412.
6. Jayachandran, G., & Seilan, A. (2010). A causal relationship between trade, foreign direct investment and economic growth for India. *International research journal of finance and economics*, 42, 74-88.
7. Nwinyokpugi, N. P., Nwibere, B. M., Orodho, J. A., Okafor, G. O., Malizu, C. F., John, V., & Barman, B. *Managerial Ethics and Organizational Effectiveness: The Nigerian Experience*.
8. Steel, W. F., & Andah, D. O. (2008). Rural and Micro Finance Regulation in Ghana: Implications for Development and Performance of the Industry. *THE ECONOMY OF GHANA: ANALYTICAL PERSPECTIVES ON STABILITY, GROWTH AND POVERTY*, Ernest Aryeetey and Ravi Kanbur, eds., Woeli Publishing Services and James Currey.
9. Wayne, S. J., & Kacmar, K. M. (1991). The effects of impression management on the performance appraisal process. *Organizational behavior and human decision processes*, 48(1), 70-88.