P-ISSN: 2709-6254	Journal of Development and Social Sciences	April-June 2023, Vol.4, No.1
O-ISSN:2709-6262	http://dx.doi.org/10.47205/jdss.2023(4-II)25	[276-285]

Journal of Development and Social Sciences
www.jdss.org.pk

RESEARCH PAPER

Effects of Compensation Packages on Employee's Performance in Financial Institutions

[1]Noor Hassan* [2]Nazar Hussain [3]Adnan Qamar Rajput

1. MS Scholar, Department of Public Administration, SALU Khairpur Mirs, Sindh, Pakistan
2. Faculty Member, Department of Public Administration, SALU Khairpur Mirs, Sindh, Pakistan
3. MS Scholar, Department of Public Administration, SALU Khairpur Mirs, Sindh, Pakistan

***Corresponding Author:** noor790shaikh@gmail.com

ABSTRACT

The purpose of research is to learn more about how different types of compensations effect on employee performance in financial institutions. In addition, the connection between compensation and employee performance is also examined. 117 employees of various Commercial Banks based at Sukkur were given structured questionnaire to implore data on salaries/wages, bonuses/incentives & indirect compensation and employee's performance. Different statistical tools were used to look at the data. This model helps to analyze how certain factors are related to each other. According to the study, there is a moderate relationship between how much an employee is compensated and their performance. This study found that, on average, employees who are paid more in salaries and bonuses perform better than those who are paid less. The study therefore suggests that organization must to embrace the right compensation tool that meets the desire of their workers so as to increase their output.

KEYWORDS Compensation Packages, Employee Performance, Financial Institutions

Introduction

There has been lot of research work covering to the topics like effects of compensation on performance of the employee. In an organization, people use resources to do their jobs. These resources can be things like materials, machines, money, or people. Except human beings; all other resources are incapable of producing anything. Employees, using these limited resources, make output without them. If these other resources were to become unavailable, output would cease and these assets would be useless. Therefore, human resource is the main asset for any organization and should be given the highest priority. There is a widespread belief that having a large, well-trained workforce is key to success in today's business environment. This advantage can be used to gain a competitive advantage over rivals. As every organization is competing in a dynamic business atmosphere, they need to develop different policies and plans to attract and retain the best workers in order to achieve favorable results.

The salaries, wages, bonuses, incentives and indirect compensation should target at motivating, attracting and retaining employees in an organization to augment business goals ultimately profitability, however in almost all financial institutions in Pakistan, compensation structure continues to be a key problem particularly after economic recession during 2007 to 2009 which adversely effected the developing and under developing economies including Pakistan. Performance management is a process that focuses the employee contribution to the accomplishment of goals and objectives of any organization. It is crucial for employees and organization to understand that performance management systems are the strategic scale to achievement or disaster of an organization in the long run. If the employees are not gratified or distress with the compensation system, then the organization's performance and output will fall due to employee incompetence and absence of proper compensation system. Depending on the compensation, employee's performance may be anticipated, valued and fortified. On the other hand, compensation is typically the first things that employees take into consideration when they are in employment or when they start a 1st job. For this reason, organizations should pay special attention to the compensation system and the pattern; they are paying their employees.

Literature Review

Compensation

Compensation can be thought of as money paid in return for work done, as well as other benefits and services that organizations offer to their employees. Compensation can include salaries, wages, bonuses, incentives, allowances, and medical benefits that are given to employees as a result of their service to the organization. This can be a result of obligations the organization has to the employees, or it can be an incentive for employment. Remuneration is the payment an employee receives in return for his or her services to an organization. This can include a basic salary, as well as any other bonuses or other economic benefits that the employee receives during employment at any organization. Benefits can also be considered indirect compensation, including bonuses, incentives, life insurance, accident insurance, health insurance, employee contributions to retirement benefits such as gratuity, pension, pay for vacation, pay for illness/ sickness, and more.

Compensation encompasses anything an employee may want from their employer in return for their services, such as salary, benefits, and promotion opportunities. A poorly designed compensation system can lead to an unhappy workforce, which can reduce employee productivity and may cause them to leave their jobs. Compensation is important for both employees and organizations for a variety of reasons. Primarily, it is used to attract and retain employees, motivate them to perform at their best, and help to produce and reinforce desired behavior. Organizations often use compensation to try to prevent employee dissatisfaction and to motivate employees, but this may not be the best motivator in the long term (Mossbarger and Eddington, 2003).

Today, most people expect more than just financial compensation for their hard work (Millmore et al, 2007). In current situation, employees are likely to search for other chances that are of value and meaningful to them in lieu of just monetary benefits (Johnson and Welsh, 1999). The benevolence industry is labor-intensive, and there is increasing pressure to keep costs down. That's why nonfinancial rewards, such as satisfaction, are being used gradually to motivate employees and improve their satisfaction (Chiang and Birtch, 2008). Today, the balance between employees' promises to their organizations and their performance is much more important than ever. Compensation is the most important tool for motivating employees and satisfying them, while good performance is the key to keeping them committed and satisfied.

The salaries of employees are going up in line with inflation, but their compensation packages are not. This means that businesses are getting an advantage because of the competitive workers they have, but salaries are not keeping up. We cannot ignore easily the importance of a strong compensation package when organizations are hiring their workforce but unfortunately organization are only focuses on their productivity and accomplishment of set targets; they don’t mean to worker’s welfare. Employee benefits are important for maintaining employee morale, but can also be costly to administer. Many businesses choose to ignore these benefits in order to save money, but this decision can have negative consequences if employees are not taken care of. It is unusual to find businesses that only compensate employees based on the market conditions. Many ways to compensate employees to help them compete better against rivals can be costly, but this practice is often ignored because it costs organizations a lot of money in the form of resignations. A good compensation package can be a key attraction for the best talent in the job market, and can improve working conditions in line with the current environment. Monetary benefits aren't just measured in terms of their financial value; many companies are also trying to offer employees valuable benefits without costing them anything. This helps them to feel appreciated and secure, and it makes us all stronger together.

Salaries and Wages

Salaries and wages are the sub components of compensation package payable to employees for his/her job done in any organization. The terms 'Salaries' and 'Wages' are often used interchangeably. The main difference between salaries and wages are that salaries are a fixed payment agreed by both the organization and employee. Wages, on the other hand, may vary depending on hours worked and performance; it means Salaries are fixed in nature whereas wages are variables in nature to some extent but both depend upon nature of jog and organization as well.

Salary is a regularly paid amount of money, usually paid on a weekly or less frequent basis, which is not subject to reduction based on the quality or quantity of work done. An employee can be paid on any basis; salary, hourly, commission, piece rate, flat rate, as long as they receive minimum wage for all hours performed in the pay time. Federal law states that a salaried employee is someone who is paid a set amount of money without having to worry about deductions for how much work he or she does. Salary is not always the same, regardless of the time of month, weekends and holidays, and the amount of time an employee is away from work.

Whereas in contract; wage is strongly oriented to the actual work done by any employee. This type of pay can vary each month depending on the hours worked has been done. Wage refers to compensation paid to workers based on hourly/piece rates or variable pay rates that are determined by the worker and are not based on seniority or experience. It is commonly said that Salaried persons are doing "white collar office jobs" which suggests that an individual is well educated, skilled and holds a good position in the society, Whereas the wage earner is typically considered to be engaged in "blue collar" job, which means an individual performing an inexpert or semi-skill and receiving pay on a daily basis, some people engage in wage-earning jobs that are more mentally or creatively stimulating.

Most common purpose of any employee of an organization is to earn something in the form of salaries or wages which meet their basic needs. Every organization is trying to determine an appropriate wage for its employees so that they can meet their basic needs. Salaries and wages are one of the main ways that a job pays its employees. This helps keep workers in their positions and helps ensure that they can afford to live and cover their basic needs, and they often take center stage in negotiations during employment terms and conditions. An experienced workforce can often expect more and more variable compensation packages, while a fresh one may be more easily negotiate able.

Indirect Compensation

When it comes to attract and retain the most efficient & effective employees, offering a competitive salary is one factor that can be important. Employees are increasingly want added benefits and perks keeping in view current market situation, growing inflation and decreased consumer confidence in the economy. Indirect compensation includes payments that don't involve giving employees a salary or wage. This type of payment can come in the form of bonuses, allowances, and other benefits. Indirect compensation such as Insurance, health etc. is used to pay employees for their work in contract, as well as in addition to their wages to build company devotion and retain employees. Non-financial benefits, such as company-sponsored social events and health insurance, are also used to supplement wages to make employees feel appreciated and to make them more likely to stay with the company. According to 2022 employee benefits survey report, the most valued employee benefits include Health insurance, vision insurance, dental insurance, life insurance, retirement benefits, and flexible work schedules, paid family leave, professional development, company technology, and pension fund. If there is no indirect compensation package, employees are more probable to leave for other chances because there are already many competitive employees available.

Money is important but it's not everything regarding firing and retaining employees. The most competitive companies know that creating an indirect compensation plan is one of the best tools for hiring and retention. Employee benefits have a direct relationship with morale. Indirect compensation represents sign can't opportunities for companies that want to attract top talent. Not to indicate, non-monetary benefits can boost morale, improve productivity and protect any organization from high turnover rates. Indirect compensation plays vital role in attracting to rated worker, retaining them and getting low turnover rates which subsequently decreases hiring cost and less opportunities for other competitors.

Bonuses and Incentives

A bonus is an amount added to any employee wages as a reward for good performance. Employees may receive bonus rewards for working hard throughout the year. This will encourage them to continue working hard and helping the organization succeed. Most companies give bonuses to employees to try to make them more productive. But it depends on what the company wants to accomplish after giving out bonuses. Some bonuses are paid out every month, while others are paid out once a year. Meanwhile, some bonuses happen on a regular basis, like monthly. There are multiple benefits of bonus which ranges increased motivation, lower voluntarily turnover, build team collaboration and healthy competition within the workforce.

An incentive is a plan which is progressive and attainment of specific objectives other than normal routine assignment that is told to that specific employee at the time of signing of employment contract. An incentive scheme is a system that uses special rewards to get people to do what we want them to do. This helps us reach our organizational goals (Bardot, 2014). Incentives are a way to reward people for doing good work. Some people may get paid in cash, while others might get something like a gift or travel pack. The incentive plan is not something you have to choose, but it is important that it aligns with the company's goals. An incentive program can boost employee engagement levels and harness a complete wellness strategy within the business. It can showcase to an employee that genuinely care about their wellbeing and can support in retaining talent. Incentives have a bigger impact on employee behavior and motivation than most people realize, and that's good for both the individual employees and the organization as a whole.

Employees Performance

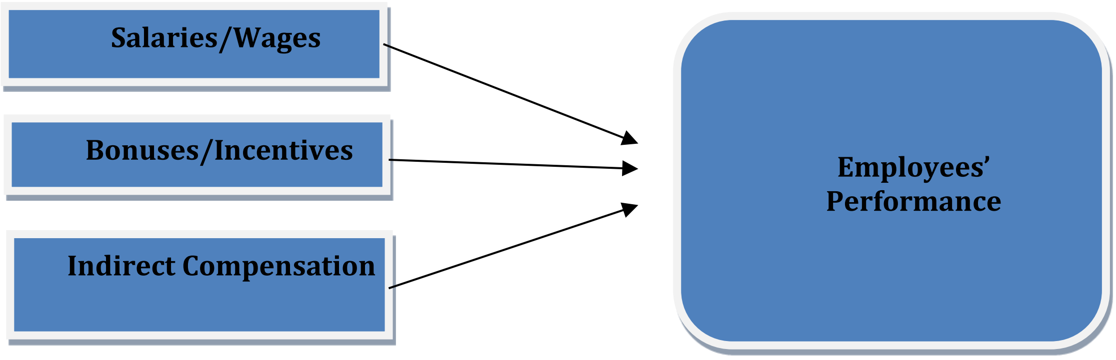
The employee's performance is measured by how well they do their job duties and completes their assigned tasks. The term 'performance' refers to the effectiveness, quality and efficiency of individual output. It is also used to evaluate how beneficial an employee can be for the organization. In terms of performance, each employee is a huge investment for a company, so the return that each employee provides must be remarkable. The level of performance a person can achieve depends on how well they have done so far in their career, given their level of effort. The performance of an individual will vary depending on their level of work attainment after applying all possible efforts. Task management can be viewed as a way to set goals and assign tasks to employees within a given timeframe, while taking into account the available resources. This helps to ensure that tasks are completed successfully, while limiting the amount of time and effort that employees have to expend. Motowidlo, Borman, & Schmidt (1997) defined job performance of an employee can be estimated by looking at their activities and how much value these generate over a given period of time. This can be used to assess an employee's worth to an organization.

The Performance Management Study has been involved in the study of human resource management. At each level of organizational analysis, it is presumed that an organization that has a good performance displays that achieves its objectives effectively, in other words, it is efficiently applying an appropriate plan (Otley, 1999). AMO Model defines there is a relationship between ability, motivation and opportunity in the workplace, which can affect workers' performance. Ability refers to a worker's natural ability and competence. Motivation is how interested a worker is in their work and how committed they are to achieving success. Opportunity refers to the availability of opportunities and resources in the workplace.

The performance evaluation of an individual should focus on employee conduct rather than employee's personality. Frey (1997) has determined that motivation increases employee results, persistence, output, and enactment that ultimately leads to achieve organizational goals. Motivated employees are more engaged and involved in their assigned duties; may be more involved in working with colleagues than those with a low level of motivation which means social life also affected due to lack of motivation. The effectiveness of each organization depends on the quality of its man force. The right person should first be selected within the organization and motivated to work. After evaluating and monitoring feedback, managers or organizations should apply the performance wage. Financial assessment is an appropriate tool to increase employee's desire for his work.

Performance of any employee can be judge through output they yield with respect to assigned duties & responsibilities and it will measure the compensation to be paid. In any organization, hiring process means a lot which ultimately determine the level of employee will perform and the compensation an organization desire to pay against their job duties. Performance can be measured with several tools and techniques which can decide the wage level to them.

Research Model



Hypotheses

1. There is positive and significant effect of salaries and wages on employee Performance.

2. There is positive and significant effect of Indirect Compensation on employee Performance.

3. There is positive and significant effect of Bonuses and Incentives employee Performance.

Material and Methods

The research I have conducted is a quantitative research that investigates to what extent compensation system will lead to a healthier performance of the employee in Financial Institutions of Pakistan and to determine the association between compensation package and employee's performance. The foremost theme was to collect data from financial institutions to understand how compensation system influences the performance of its employees. Different analytical techniques were used for the analysis of data. Among the descriptive analysis; mean and standard deviation were applied. Among the analytical techniques; correlation and regression were run to measure the effects and relationship among the variables. The dependent variable is employee's performance while the independent variables are salaries/wages, bonuses/incentives & indirect compensation. Precisely, it is using the method of organized questionnaires consisting of 13 questions for data collection. The questionnaire consisted of two sessions. Questions that contained general data were expressed in the first part, while in the second part additional short questions were framed about the purpose of the paper. The questionnaire consisted of two sessions. The 1st session was associated with the demographic information of respondent while in the 2nd part more summarizing interrogations were formulated about the purpose of the paper. The method the questionnaire was conducted self-reliance, self-direction, in which questionnaires were disseminated to 117 employees of various Commercial Banks based at Sukkur of which all questionnaires were successfully filled and returned. Five points Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree) was used to measure responses. Different statistical tests were used to see if the dependent and independent variables had an impact on the results. The results suggest that all three variables are related, and have necessarily cause and effect. The collected data were analyzed using the latest version of SPSS software.

Results and Discussion

Correlations Analysis

Table 1: Correlation Analysis

Variables	Mean	Std. Deviation	1	2	3	4	5	6	7
Gender	1.085	.280	-	-					
Age	2.906	.572	-.164						
Education	1.897	.443	.002	.064					
Experience	2.863	.453	.093	.050	.101				
Salaries/ Wages	3.677	.815	.033	-.017	-.020	.176			
Indirect Compensation	3.815	.789	.033	.018	-.022	.161	.768**		
Bonuses/ Incentives	3.321	.845	-.129	.122	-.034	-.101	.010	.144	
Employee's Performance	3.547	.824	-.030	-.085	-.027	.148	.591**	.544**	.209*

Notes: n=117; *significant p-value < 0.05; **significant p-value < 0.01

The above table shows correlation analysis of the variables. It can be perceived that Salaries/Wages, Indirect Compensation & Bonuses/Incentives are significantly correlated. Further, it can be analyzed that compensation system are positively related to employee performance. The salary, bonus, benefits, and other forms of compensation are all likely to have an impact on employee morale. Based on this information, it appears that all of these things will help improve the work performance of the people involved. The salary, bonuses, incentives, and indirect compensation all seem to have an effect on employee productivity. Standard deviation shows how widely different people's salaries or wages are from each other. The results of standard deviation show how much variation there is in salaries and wages across different employees. The mean results fall within the ranges shown, meaning that most employees think salaries and wages have positive effects on employee performance. There is a lot of variation in the bonuses and incentives offered to employees. This means that they are usually in the agreeable range. Therefore, it is likely that bonuses and incentives have positive effects on employee performance. Indirect compensation can have both positive effects on employee performance, but the range of values is fairly wide. Therefore; the standard deviation shows that a lot of people feel that indirect compensation, like giving employee's bonuses or giving those raises, has a positive impact on their work performance.

Regression Analysis

Table 2
Model Summary

R Square	Adjusted R Square	Std. Error
.401	.385	.646

a. Predictors: (Constant); Salaries/Wages, Indirect Compensation & Bonuses/Incentives.

Table 3
ANOVA Analysis

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	31.579	3	10.526	25.174	.000[b]
Residual	47.250	113	.418		
Total	78.829	116			

a. Dependent Variable: Employee's Performance
b. Predictors: (Constant), Salaries/Wages, Indirect Compensation & Bonuses/Incentives.

The table shows that when salaries/wages are increased, employee performance tends to improve for all groups. Similarly results depicts that when employee receive Indirect Compensation in any shape, performance tends to progress and when Bonuses/Incentives increases, performance tends to become more This means that all components of compensation package can have different positive effects on a person's work.

Table 4
Coefficients

Model	Un standardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.589	.371		1.587	.115
Salaries/ Wages	.471	.116	.466	4.043	.000
Indirect Compensation	.167	.121	.161	1.379	.171
Bonuses/ Incentives	.177	.073	.182	2.436	.016

a. Dependent Variable: Employee's Performance

The above table shows the effects of salaries, bonuses, and other forms of compensation on employee performance. It is clear that higher pay leads to better performance. In addition, bonuses and other forms of incentives help to motivate employees and encourage them to work hard. The results of these variables are given below:

Salaries/Wages

H1: There is a positive relationship between salaries/wages and performance levels of employees.

The table shows that the value of significance for salaries/wages is greater than the alpha value. This means that there are likely other factors involved in employee performance, but the findings are significant enough to support any specific hypotheses.

Indirect Compensation

H2: There is an association between indirect compensation and employee performance.

The regression results show that indirect compensation system has a significant impact on employee performance. Indirect compensation, such as Health insurance, vision insurance, dental insurance, life insurance, retirement benefits or other forms of payments that are directly related to the employee's job.

Bonuses/Incentives

H3: There is indication that giving employees bonuses or incentives can have a positive impact on their performance.

According to the regression results, bonuses and incentives have a Positive and significant effect on employee performance; therefore, the results shows that Bonuses/Incentives are directly related to the employee's performance. According to the regression results, bonuses/incentives have significant effect on employee performance.

Conclusions

It is determined from different consequences of this article that Salaries/Wages, indirect Compensation and bonuses/incentives have positive effects on employee's performance. The results of correlation and regression analyses show that all the factors that are being studied are related to each other in a positive way. However, the analysis also shows that the effects of those factors on employee performance are significant. The statistics reveals that Salaries/Wages; Indirect Compensation & Bonuses/Incentives have positive effects on employee's performance. Additionally, an analysis of the data reveals that different groups of employees do not experience the same effects from the different variables. As a result, the compensation system affects the performance of employees in an organization in a greater way. Motivation is an important factor in employee performance and compensation system is to be used in any organization to get employees motivated. When employees are motivated to achieve their goals, they are more likely to be successful. After analyzing the outcomes of this learning, it can be summarized that compensation package plays a considerable role in employee's performance in any organization which is also essential for any organization for their strategic objectives to get motivate their workforce. This research was intended at examining the association between compensation system and employee's performance in Financial Institutions of Pakistan. From the analysis carried out it was revealed that a significant relationship exists between compensation system and employee's performance. There is a need of effective and efficient compensation systems for management of the banks to ensure morale is high and employees are motivated to achieve organizational goals. All commercial banks should develop sound compensation strategies that will help the bank to achieve its purposes. To ensure that commercial banks achieve their objectives, they should develop effective compensation strategies. Compensation system should be used as a tool to improve employee's performance and should be determined depending on the organization and work performed by each employee in the organization.

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