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Role of Compensation Management Practices in Employee Satisfaction and Motivation : A Case Study

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Abstract

Employee satisfaction is a multi-dimensional concept that has been attracted the concentration of researchers and practitioners from different disciplines who believe they are well provided for by compensation and value their coverage are likely to develop a positive attitude or a sense of satisfaction with their compensation. The purpose of this paper is to explore the satisfaction level of employees toward compensation management practices in the software industry and also to examine relationship between compensation package, employees job satisfaction and motivation .Structured questionnaire was used to collect the data. And interviews were conducted to understand how the employees perceive the different compensation management practices and their importance in the organization. Descriptive statistics like percentage is used for comparative study of compensation management practices of sample companies. We used chi-square test to test our hypotheses whether compensation package (both financial and non-financial) and level of employee satisfaction, motivation are independent of each other .Results show that they are dependent of each other.

Keywords: Compensation, Job Satisfaction, Motivation, Incentives, Software Industry.

Introduction

Compensation systems are designed to attract, retain and motivate the employees in the organization so that a long lasting relation can be established between them. Employees particularly in private sector are always looking forward for better opportunity as they don't have a stable or permanent job and job security is also absent. So this compensation management practice is largely found in private sector undertakings; because here the employers want their employees should give their 100% (or even more than that)effort towards achieving organizational objectives. The increasing competitiveness of the labor market and turnover of employees had resulted in nightmare in compensation planning. Apart from this, the growing demands of the employees and competitive salaries offered by multinational companies had almost resulted in a compensation war in most of the industries. Therefore, the human resources managers and tax experts have to evolve proper compensation management practices for High end and qualified employees. The components of compensation have to be devised in such a way that, it focuses on the growing demands of employees while retaining the competitiveness and profitability of the company. So, in this regard if we consider the IT/software industries, they are the pioneer of implementing the "compensation management" concept during designing the pay structure for their employees

Objective of the Study

The objectives of the present study are
1. To explore the satisfaction level of employees toward compensation management practices in the software industry
2. To establish the relationship between compensation, job satisfaction of the employees in software industries.

Review of Literature

Various studies have established that salaries and benefits are closely related to job satisfaction (St. Lifer, 1994); and job satisfaction can bring about employee motivation which in turn affects employee job performance and organizational commitment. The happier people are within their job, the more satisfied they are said to be. Job satisfaction is

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defined as an individual's reaction to the job experience (Berry, 1997) and it includes various components such as pay, promotion, benefits, supervisor, co-workers, work conditions, communication, safety, productivity, and the work itself. A regular activity performed in exchange for payment, especially as one's trade, occupation, or profession is referred to as job. It may also be assumed to be a position in which one is employed. Job satisfaction on the hand can be defined as a pleasurable emotional state resulting from the appraisal of one's job or an affective reaction to one's job. it is defined as an individual's reaction to the job experience (Berry, 1997). To be effective, the managers must appreciate the value of competitive pay, their human resources, and have an investment view of payroll costs. Bhattacharya (2009) says that balancing the cost of compensation and retaining employees has now become the most important priority for today's organization. Sundhya and Kumar (2011) indentified motivation as one of the important factor for employer and argue that through employees" motivation, the employer can encourage them to enhance their skills and also by improving their morale. Motivation in its literary sense means "Reason that underlie behaviour that is characterized by willingness and violation. However it also refers to internal and external factors that stimulate desire and energy in people to be continually interested in and committed to a job, role, or subject, and to exert persistent effort in attaining a goal (Poonam & Jasleen, 2015). Substantive enhancement in

motivation level and practical handling of compensation may yield a correspondingly improvement in employees' retention (Muhammad Muneeb Ajmal et al,2016). If employees are positively motivated, it improves both their effectiveness and efficiency drastically for achieving organizational goals (Md. Nurun Nabi et al, 2017)

The present survey of literature indicates that, even a good number of studies have been conducted to analyze the concept of compensation management system; there is also a perceptible gap, which needs for further study. There is a lot of scope for empirical study on level of employee satisfaction and its relationship with compensation package in software industry.

Research Methodology

The data for the purpose was collected from both primary and secondary source:

For collecting data, the primary source contains methods like questionnaire and interviews. The objective behind this is to obtain information relating to their attitude and reaction towards compensation management system of the company. Under secondary method, the data will be collected from sources like websites, reference books, magazines, journals etc. Descriptive statistics like percentage, chi-square test is used for comparative study of compensation management practices of sample companies.

Data Analysis

Question regarding satisfaction with the overall compensations offered by the organization

Table-1

Name of the company	Total Sample Size	Variable X	Variable Y	% Variable X	% Variable Y
TCS	66	30	36	45.45455	54.54545
Infosys	60	20	40	33.33333	66.66667
Wipro	30	21	9	70	30
Mind fire	24	20	4	83.33333	16.66667
Discoverture Solution	25	10	15	40	60
Computer Lab	27	22	5	81.48148	18.51852
Microsoft Associates	25	13	12	52	48
ESSPL	30	9	21	30	70
S-Edge Software Solution	22	7	15	31.81818	68.18182
Exillant	42	27	15	64.28571	35.71429
Mahindra Satyam	39	24	15	61.53846	38.46154
Versatile IT services	10	5	5	50	50
Total	400	208	192	52	48

(Variable X=YES, Variable Y=NO)
Source: Compiled from the collected data from primary source

Figure-1
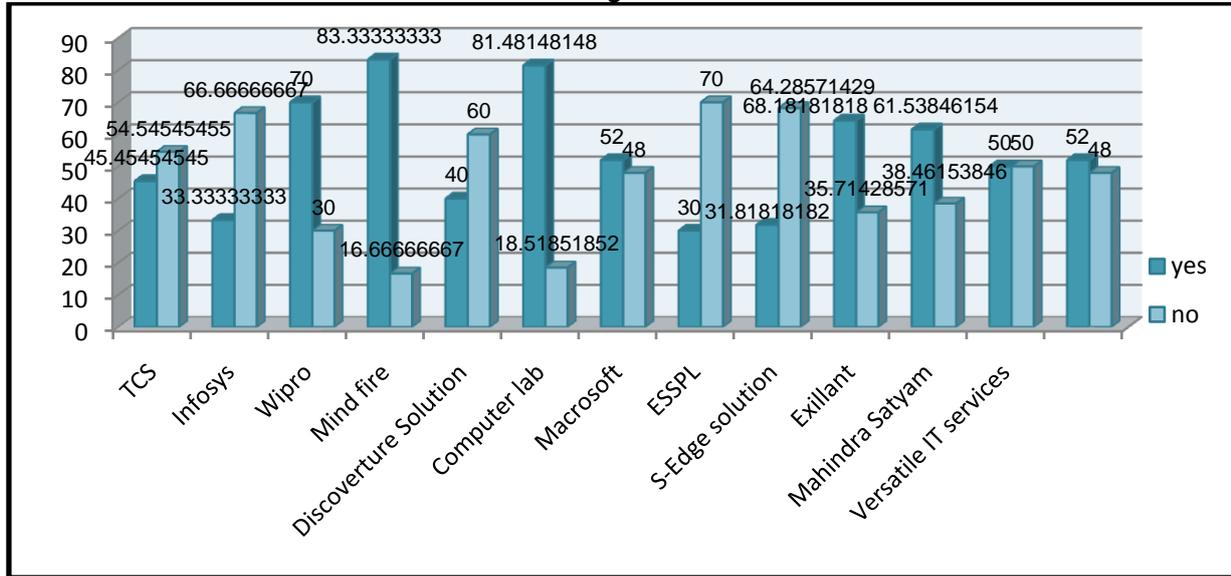
While asking the employees whether they are satisfied with the financial compensation offered by the organization or not? A mixed kind of response has been found from the employees. While the response of employees from leading companies like TCS, Infosys, ESSPL are 54.54%, 66.66%, 70% respectively towards dissatisfaction, at the same time75% employees from Wipro, 61.53% employees from Exillant, 81.48% employees from Computer Lab and 83.33% employees from Mind fire stated that they are satisfied with the financial benefits offered by the organization.

While asking the employees whether they like the culture of the organization where they work employees from organizations like TCS, Infosys, Mind Fire, Exillant, Mahindra Satyam, and Versatile IT Solution agreed on that. As per them, they like their organization culture and they are proud of be part of that.

Testing of Hypothesis
Testing of Hypothesis 1
Ho 1

Compensation package (both financial and non-financial) and level of employee satisfaction are independent of each other.

Ha 1

Compensation package (both financial and non-financial) and level of employee satisfaction are not independent of each other.

Table-2
(Data for testing of Hypothesis)

Compensation Package	Satisfied	Not-satisfied	Total
Financial	155	122	277
Non-financial	53	70	123
Total employee	208	192	400

Source: Compiled from the collected data from primary source

Table-3
(Calculation Observed variance and Expected Variance)

O_{ij}	E_{ij}	$(O_{ij} \cdot E_{ij})^2$	$(O_{ij} \cdot E_{ij})^2/E_{ij}$
155	144.04	120.12	0.8339
122	132.96	120.12	0.9034
53	63.96	120.12	1.878
70	59.04	1200.12	2.0345

i-number of rows, **j**- number of columns
O_{ij}- Observed Variance
E_{ij}- Expected Variance

$$E_{ij}= \frac{\text{Row Total *Column Total}}{\text{Grand Total}}$$

$E_{1\,1}= (277*208)/ 400=144.4$
$E_{1\,2} = (277*192)/400=132.96$
$E_{2\,1}= (123*208)/400= 63.96$
$E_{2\,2}= (123*192)/400=59.04$

$$x^2= \frac{\sum (O_{ij} \cdot E_{ij})^2}{E_{ij}}$$

= 5.6498 (calculated value or C.V.)
C.V. of x^2 = 5.6498
Degree of freedom = (Row-1)*(Column-1)
= (2-1)*(2-1)
= 1*1
=1

Tabulated value or T.V of x^2 at 5% level of significance = 3.841
So C.V > T.V
Ho1 is rejected.

So we conclude compensation package (both financial and non-financial) and level of employee satisfaction are not independent of each other. Hence they are dependent of each other.

Testing of Hypothesis 2
Ho: 2

Compensation management practice of the organization has no control over the employee motivation.

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H₁: 2

Compensation management practice of the organization has control over the employee motivation.

In order to find out the relation between compensation and employee motivation, during the study the employees have asked to view regarding their motivation in the following manner:

Table-4
(Data for testing of Hypothesis-2)

Components of Compensation	Motivating	Non Motivating	Total
Basic Pay	47	22	69
Reimbursement	31	13	44
Sickness/Medical Benefit	29	26	55
Fringe Benefits	32	10	42
Future Career Opportunity	41	24	65
Status/Recognition	34	10	44
Total	276	124	400

Source: Compiled from the collected data from primary source

Table-5
(Calculation Observed Variance and Expected Variance)

O_{ij}	E_{ij}	$(O_{ij} - E_{ij})^2$	$(O_{ij} - E_{ij})^2/E_{ij}$
47	47.61	0.3721	0.0078
22	21.39	0.3721	0.0173
31	30.36	0.4096	0.0134
13	13.64	0.4096	0.0300
29	37.95	80.1096	2.1107
26	17.04	80.1025	4.7113
32	28.98	9.1204	0.3147
10	13.02	9.1204	0.7004
62	55.89	37.3321	0.6679
19	25.11	37.3321	1.4867
41	44.85	14.8225	0.3304
24	20.15	14.8825	0.7356
34	30.36	13.2496	0.4364
10	13.64	13.2496	0.9713

O_{ij}- Observed Variance

E_{ij}- Expected Variance, **i**- Number of rows, **j**- Number of columns

$$E_{ij} = \frac{\text{Row Total *Column Total}}{\text{Grand total}}$$

$$x^2 = \frac{\sum (O_{ij} - E_{ij})^2}{E_{ij}}$$

x^2 = 12.5339

Calculated Value or C.V. of x^2 = 12.5339

Degree of freedom = (Row-1)*(Column-1)

= (7-1)*(2-1)

= 6*1

=6

Total Value or T.V. of x^2 at 10% level of significance is 10.645

So C.V $>$ T.V

H₀1 is rejected

Hence we conclude that compensation management practice of the organization has control over the employee motivation. It plays a great role in increasing motivation of employees for higher performance.

Conclusion

Compensation (financial & non-financial/ direct & indirect compensation) has been a topic of discussion for various authors for quite a long period, as it plays a vital role in the business world. It put intense effect on the most important factor of production i.e. labour (employee or manpower). Starting from increasing motivation to increasing productivity and increasing job satisfaction, everything depends on the compensation practice of an organization. Organizations are now very much concerned about the fact that happier the employee more will be the performance. So they put more interest on making compensation policy well suitable for their employees in order to increase their motivation, performance and job satisfaction. Hypotheses of the study which is based on finding out relationship between compensation, employee job satisfaction revealed that there is a relationship between compensation offered by the organization and employee satisfaction. And also we find that compensation management practice of the organization has control over the employee motivation.

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