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IMPACT OF COMPENSATION MANAGEMENT ON PERFORMANCE OF TECHIES IN IT COMPANIES

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Abstract

This research article aims to "To study the impact of compensation management attributes on performance of techies". The paper applies data reduction using Exploratory Factor Analysis (EFA) on a sample of 274 respondents drawn from IT companies in the Bengaluru and condenses a set of 14 compensation management statements converted into a four attributes. The present study proposes a model of the impact of compensation management attributes on performance of techies. The present study proposes a model of the impact of compensation management attributes on performance of techies. The study found that pay, recognition, recreational facilities and awards are impacting significantly the performance of techies. Therefore, managers of IT companies should focus on the above factors to improve compensation. The study investigated the impact of compensation management attributes on performance of techies. Multiple linear regression analysis highlights that pay, recognition, recreational facilities and awards have significant impact on performance of techies.

Key words: Compensation, Pay, Recognition, Recreational Facilities, Awards, Performance and Techies.

Introduction

One of the fundamental tasks in human resources management is compensation management. It is a complex task that occurs periodically, demand accuracy and must not be delayed. Compensation management requires integrating employees' processes and information with business process and strategies to achieve optimal organizational goals and objectives. This can be attributed to the fact that compensation management is an essential tool to "integrate individual efforts with strategic business objectives by encouraging employees to do the right things with ever improving efficiency". (ASH.1993). In other words, compensation management is' a powerful means of focusing attention within an organization. They send clear messages to

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all employees of the, organization informing them about expected attitudes and behaviors (Schell and Solomon, 1997).

Furthermore, researchers have argued that compensation management system can create and sustain a competitive advantage for organizations (Milkovich and newsman, 2003). In recent years, the inclusion of non-financial measures has gained some popularity in compensation management, while some schools demonstrate positive effects of incorporating non- financial measures in to the compensation management system empirically (Widmier, 2002). He further states that, human resources model of compensation generally assume that higher performance requires greater effort or that is in some other ways associated with disutility on the part of workers. In other to provide incentives, these models predict the existence of reward systems that structure compensation so that a worker expected utility increase with' observed productivity. This reward can take many different forms including praise from suspensor and co-workers, implicit promise of future promotion opportunities, feelings of self-esteem that comes from superiors' achievement and recognition and current and future cash rewards related to performance.

Schmitz, J. (1993), argues that failure of compensation system is due to inadequate assumption about human motivation, reason for this can be attributes rather to the measurement of employee satisfaction and employee loyalty' to the organization, Hence, there is a strong need for the development of a holistic reward and performance measurement model enabling an organization to derive company specific success drivers and identify cause and effect relationship when linking rewards to measure such as employees satisfaction and loyalty.

According to Ojo (1997) there are three components of employees' compensation in an organization which arc (i) the basic pays (ii) the fringe benefits and (iii) performance incentives or bonus. The basic pay is the basic wage in form of salary; fringe benefits are supplementary compensation awarded to employers over and above the basic wage or salary. Since the coming of the term "Fringe Benefits" during World War II, the scope of employees' benefits has widened markedly in bath developed and developing countries. Such benefit covers a wide range of rewards which provides security, deferred remuneration and various services for employees. The significance of the subject matter, Compensation emanate mainly from the fact that it provides income to workers and constitutes an important cast item to the employers, the largest single cast item for many organizations. For the workers, wage provides the means of satisfying their wants and needs.

Literature Review

Eneh, S. I., & Awara, N. F. (2016) human resources are the most vital resources for any organization. It is responsible for each and every decision taken, each and every work done and

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each and every result. Compensation is the remuneration received by an employee in return for his/her contribution to the organization. It is an organized practice that involves balancing the work-employee relation by providing monetary and non -monetary rewards to employees. Compensation management is an integral part of human resources management which helps in motivating the employees and improving organizational effectiveness. According to Bowman (2006), Compensation management can be defined as all the employers' available tools that may be used to attract, retain, motivates and satisfy employees. This encompasses every single investment that an organization makes in its people and everything its employees value in the employment relationship.

Simplistically, the notion of compensation management just says that there is more' to rewarding people than throwing money at them, or as Adekoya, I. (2013). puts it, "the monetary value in the compensation package still matter but they are not the only factor". They also stress that compensation policies are based building a much deeper understanding of the employee agenda across all elements of reward". The compensation management process was summed up by work force (2008) as follows: Creating a fun, challenging empowering work environment in which individual are able to use their abilities to do meaningful jobs for which they are shown appreciation is likely to be a more certain way to enhance motivation and performance even though creating such an environment may be more difficult and take more time than merely turning the reward lever.

In the word of Brown as quoted by Armstrong (2008), compensation and reward process are flows of events that determine the level, forms and differentials of financial rewards, fringe, benefits and non-financial rewards received by each member of the organization. Typically found in this complex process are method of assessing competitive wage in external' labor market, for job evaluation, for the establishment of wages, rates and salary ranges for different job categories and for decision making processes to establish salaries and wages according to differential performance. In recent years, the inclusion of non-financial measures has gained some popularity in compensation management while some scholars demonstrate positive effects of incorporating non- financial measures into the compensation management system empirically (world at work, 2008). Thus Dalton McFarland asserted that "among the various devices for eliciting the loyalty, corporation and effort of individuals are the various forms of economics reward both financial and non-financial".

Mintzberg (2006), perceive strategy as a pattern in a stream of activities. It is not necessarily a rational and continuous process. Quinn (2006), believes that organization typically construct their strategy with process that is fragmented, evolutionary and largely intuitive. He produced the concept of logical incrementalism which states that strategy evolves in several steps rather than being conceived as a whole.

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Brown in workforce (2008), asserted that changing, evolving, testing improving as we go as part of a continuous long term process; this is the key to successful reward and recognition management.

According to Naukrihub (2009), compensation provided to an employee can be direct in the form for monetary benefits and or indirect in the form of non-monetary benefits known as perks, time off e. t. c. compensation does not include only salary but it is the sum total of all rewards and allowances provided to the employees in return for their' services. If the compensation is effectively managed, it contributes to high organizational productivity.

Rekha, Y. C. (2015). Describe benefits as the component of a compensation package provided in addition to cash pay. He goes on to look at the impacts that benefits can have in employees' attraction, retention and motivation and to identify the three main type of employees benefits, namely; welfare benefits which includes pension and health insurance; family friendly benefits which might include family leave and child care vouchers and job related benefits which might include company car or product discounts.

According to Folayan (2006), the fact that profitability should be prominent among the determinants of executive compensation in any market oriented economy does not need many explanations. The private sector CEOs are awarded high remunerations that IS absolutely unrelated to the performance' (profitability) of the enterprise concerned. The performance causes satisfaction represented by porter and Lawler believes that the feelings of satisfaction does not just happen but is remotely caused by Performance and achievement in the recent part which is subsequently transferred into for example, higher pay which is subsequently reflected in the employees' feelings of satisfaction on his job. In this sense "reward constitute a necessary intervening variable and thus, satisfaction is considered a function of performance related rewards".

Job evaluation is the process of determine the relative of work or money value of the various jobs (within the organization) as the basis for the balanced and equitable work structure (Hating and wood, 2003). Its attempt to determine and compare the demands that normal performance of specific jobs makes on employees without considering individual activities of performance of employees involved.

The immediate objective of job evaluation IS to ensure internal consistency as regards relatives' wages within the organization and external consistency between the organization wage structure and the wage structure of competing or comparable organizations in the area of the industry or the nation. Thus, Rao and Rao in workforce management (2008), asserted that the main objective of job evaluation.

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Research Problem

The employee receives both direct and indirect rewards and benefits in exchange for their contribution to the company, in addition to their salary. Health insurance, disability income protection, retirement benefits, daycare, tuition reimbursement, paid and unpaid vacation, education funding, and flexible and alternative work arrangements are among the benefits of an employee's performance. As a result, employers only have a narrow perspective on employee compensation issues because compensation is typically limited to cash. The employee's total compensation package, which includes other aspects of compensation, receives little attention.

Research Objectives

1. To identify the compensation management attributes in IT companies.
2. To study the impact of compensation management attributes on performance of techies.

Research Hypothesis

H01: There is no significant relationship between compensation management attributes on performance of techies.

- **$H0_{1.1}$:** There is no significant relationship between pay on performance of techies.
- **$H0_{1.2}$:** There is no significant relationship between recognition on performance of techies.
- **$H0_{1.3}$:** There is no significant relationship between recreation facilities on performance of techies.
- **$H0_{1.4}$:** There is no significant relationship between awards on performance of techies.

Statistical Tools

- Reliability Test
- Exploratory Factor Analysis
- Multiple Linear Regression

Research Methodology

The study is proposed to be conducted among techies in IT industry of Bengaluru City. The study adopts convenience sampling to collect the responses of the techies in Bengaluru City. The questionnaire is distributed personally to the techies and the soft copy also is floated to all the contacts of techies in turn. Techies who have been full time employees with at least 8 months of work experience in the selected IT companies were taken as sample. 600 questionnaires were mailed to techies and received 326 filled questionnaires. Out of 326 questionnaires 274 were useful with full information in all aspects. Hence the sample size of this study is 274 employees.

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Data Analysis & Results

Reliability Test

Table: 1. Case Processing Summary

		N	%
Cases	Valid	274	100.0
	Excluded[a]	0	.0
	Total	274	100.0

a. Listwise deletion based on all variables in the procedure.

Table: 2. Reliability Statistics

Cronbach's Alpha	N of Items
0.892	14

The questionnaire's 14 items have an internal consistency of 0.892, which indicates that the data are 89.2 percent reliable.

Exploratory Factor Analysis

Table: 3. KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.874
Bartlett's Test of Sphericity	Approx. Chi-Square	1687.466
	Df	78
	Sig.	.000

KMO-Bartlett's test needs to be used to determine the data's eligibility prior to factor analysis. Multivariate normality and sampling adequacy are measured by this test. In this study, the KMO value is 0.874 > 0.5, indicating that the sample taken is sufficient. A value of 0.000 < 0.05 on the Bartlett's Test of Sphericity indicates that multiple variables are normal. As a result, Factor Analysis is regarded as an appropriate method for further data analysis.

Eigen Values

The initial components are the numbers of the variables used in the Factor Analysis. However, not all the 13 variables will be retained. In the present research, only the 4 factors will be extracted by combining the relevant variables. The Eigenvalues are the variances of the factors. The total column contains the Eigenvalue. The first factor will always account for the most variance and hence have the highest Eigenvalues. The next factor will account for as much of the leftover variance as it can and the same will continue till the last factor. The percentage of variance represents the per cent of total variance accounted for by each factor and the cumulative

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percentage gives the cumulative percentage of variance account by the present and the preceding factors. In the present research, the first 8 factors explain 71.525 per cent of the variance. The rotation sums of the squared loading represent the distribution of the variance after the varimax rotation with Kaiser Normalization. The varimax rotation tries to maximize the variance of each of the factor.

Table: 4. Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	5.604	43.106	43.106	5.604	43.106	43.106	2.984	22.952	22.952
2	1.621	12.467	55.573	1.621	12.467	55.573	2.793	21.481	44.433
3	1.232	9.480	65.053	1.232	9.480	65.053	1.767	13.590	58.023
4	.841	6.472	71.525	.841	6.472	71.525	1.755	13.502	71.525
5	.688	5.291	76.816						
6	.525	4.040	80.856						
7	.475	3.651	84.508						
8	.468	3.602	88.109						
9	.421	3.237	91.347						
10	.337	2.596	93.943						
11	.322	2.480	96.423						
12	.265	2.039	98.462						
13	.200	1.538	100.000						

Extraction Method: Principal Component Analysis.

On the basis of Varimax Rotation with Kaiser Normalization, 4 factors have been extracted. Each factor is constituted of all those variables that have factor loadings greater than 0.5. 13 variables were clubbed into 4 factors. These 4 extracted factors explained 71.525 per cent of the variability.

Rotated Component Matrix

The Rotated Component Matrix represents the rotated factor loadings, which are the correlations between the variables and the factors. The factor column represents the rotated factors that have been extracted out of the total factor. These are the core factors, which have been used as the final factor after data reduction.

Table: 5. Rotated Component Matrix[a]

	Component			
	Pay	Recognition	Recreational Facilities	Awards
Additional inputs of the employees get rewarded by the organization.	.787			

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The existing salary system is applicable to all the employees in the organization	.765			
Well organized & efficient salary system	.735			
Salary received by staff meets by immediate needs of the staff.	.685			
Salary system in the organization is poorer than what operates in other organizations.	.629			
Thank you note.		.856		
Lunch on the house.		.818		
Time off with pay.		.795		
Full appreciation of work done.		.610		
Company celebrates occasional system relievers day.			.822	
Fun at work is in place in the company.			.800	
Best employee award.				.708
Team of the month award				.673

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.
a. Rotation converged in 12 iterations.

Multiple Linear Regression

In order to access the impact of compensation management attributes on performance of techies, enter method of multiple linear regressions was applied.

Table: 6. Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.623[a]	.589	.580	1.040	1.971

a. Predictors: (Constant), Awards, Pay, Recreation Facilities, Recognition
b. Dependent Variable: Performance of techies.

- R: R is the multiple correlations co-efficient, and its value ranges from -1 to +1. Since the R-esteem is 0.623 truly intends that there is a high sure connection between the compensation management attributes on performance of techies.

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- R^2: It represents the coefficient of assurance which lies somewhere in the range of 0 and 1. Since the R square value is 0.583, the techies' performance accounts for 58.9 percent of the explained variation.
- The Durbin-Watson figure: The Durbin-Watson statistic value is 1.971, according to table 6. It's closer to the average of 2. Therefore, the assumption almost certainly has been fulfilled.

Table: 7. ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	184.803	4	46.201	42.748	.000[b]
	Residual	290.730	269	1.081		
	Total	475.533	273			

a. Dependent Variable: Performance of techies.

b. Predictors: (Constant), Awards, Pay, Recreation Facilities, Recognition

The regression model's F statistics are statistically significant at 0.05 levels, as shown in ANOVA table 7, indicating the regression equation's goodness of fit. There is statistical significance in the model).

Table: 8. Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.265	.251		1.057	.291
	Pay	.192	.075	.166	2.558	.011
	Recognition	.221	.080	.191	2.770	.000
	Recreation Facilities	.385	.073	.341	5.295	.000
	Awards	.049	.070	.038	4.709	.001

a. Dependent Variable: Performance of techies.

The table 8, denotes standardized regression coefficients that indicate the level and direction of the impact. It also includes t and significant values to confirm the measured-hypothesis formulation. significant impact of various compensation management attributes on the performance of techies.

The multiple regression equation of this model is: $Y = MX + C$

$$Y\ (Performance\ of\ Techies) = 0.166\ (Pay) + 0.191\ (Recognition) + 0.341\ (Recreational\ Facilities) + 0.038\ (Awards) + 0.265\ (Constant)$$

H0$_{1.1}$: There is no significant relationship between pay on performance of techies.

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The positive effect of pay on performance of techies is shown by the Beta value of 0.166 in Table 8. Value and sig have been 2.558 since t. sig. value is 0.011, or less than 0.05, so pays have a significant impact on performance of techies. As a result, the null hypothesis $H0_{1.1:}$ stating that there is no significant relationship between pay on performance of techies is rejected.

$H0_{1.2:}$ There is no significant relationship between recognition on performance of techies.

The positive effect of recognition on performance of techies is shown by the Beta value of 0.191 in Table 8. Value and sig have been 2.770 since t. sig. value is 0.000, or less than 0.05, so recognition have a significant impact on performance of techies. As a result, the null hypothesis $H0_{1.2:}$ stating that there is no significant relationship between recognition on performance of techies is rejected.

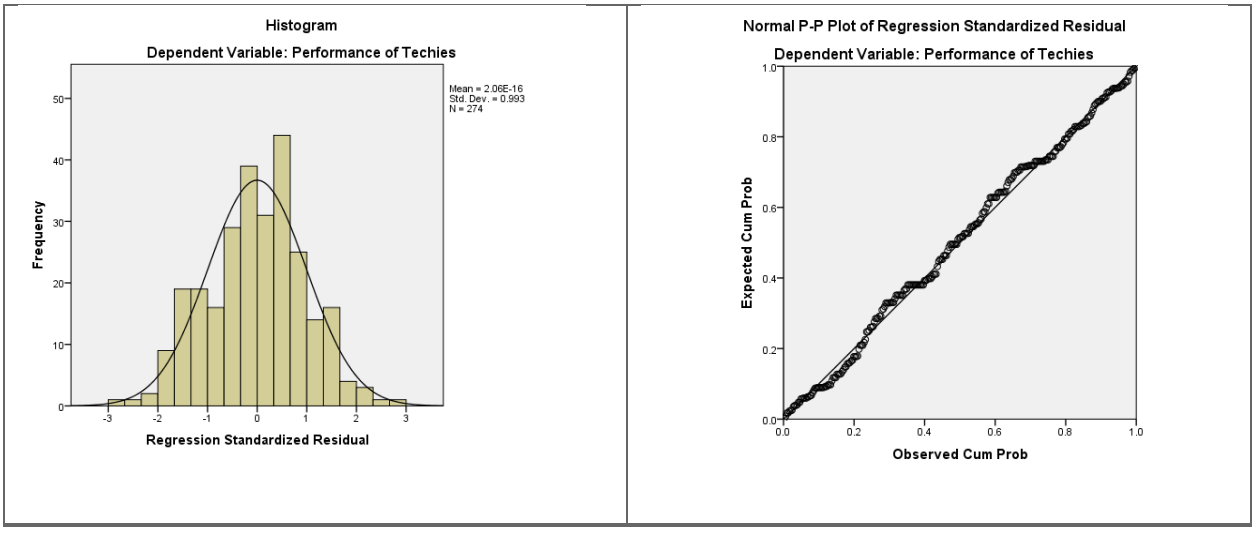
$H0_{1.3:}$ There is no significant relationship between recreation facilities on performance of techies.

The positive impact that being able to recreational facilities has on performance of techies is shown by the Beta value of 0.038 in Table 8. Value and sig have been 5.295 since t. sig. value is 0.000, or less than 0.05, so performance of techies is significantly influenced by their recreational facilities. Hence, null hypothesis $H0_{1.3:}$ stating that there is no significant relationship between recreation facilities on performance of techies is rejected.

$H0_{1.4:}$ There is no significant relationship between awards on performance of techies.

The positive impact that being able to awards has on performance of techies is shown by the Beta value of 0.341 in Table 8. Value and sig have been 4.709 since t. sig. value is 0.001, or less than 0.05, so performance of techies is significantly influenced by their awards. Hence, null hypothesis $H0_{1.4:}$ stating that there is no significant relationship between awards on performance of techies is rejected.

Histogram and P-P plot for Normality test



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A normalized histogram of the residuals distribution is depicted in figure 1. When the points plotted match the diagonal line on a normal P-P plot, the distribution is said to be normal.

Practical Implication

The present study proposes a model of the impact of compensation management attributes on performance of techies. The study found that pay, recognition, recreational facilities and awards are impacting significantly the performance of techies. Therefore, managers of IT companies should focus on the above factors to improve compensation.

Conclusion

The study investigated the impact of compensation management attributes on performance of techies. Multiple linear regression analysis highlights that pay, recognition, recreational facilities and awards have significant impact on performance of techies.

Scope for further research

In terms of both breadth and depth, this study has a lot of room for growth. As a result, these areas are listed below:

- The current study only examines the IT sector and excludes all other industries. As a result, relevant compensation management factors may be identified by conducting additional research on other sectors.

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