IMPACT OF COMPENSATION PACKAGE ON EMPLOYEE PERFORMANCE LEADING TO ORGANIZATION'S FINANCIAL PERFORMANCE: STUDY FOCUS ON SOME SELECTED PRIVATE ORGANIZATIONS IN DHAKA CITY

Md. Asad Noor *
Mohammad Tamzid **

Abstract

The purpose of this paper is to show how firms can use their compensation package to increase employee performance and thus financial performance? In answering this question, three factors (i.e. employees, compensation, financial performance) are critical to the success of any firm. The purpose of this research is to provide a research framework that examines relationships among employees, compensation package and financial performance of an organization. This research develops valid and reliable instruments to measure employee performance, compensation package and financial performance. Principal Component Analysis and Z-test model were used to identify the causal relationship with dependent and independent variables. KMO and Bartlett's Test, Cronbach's Alpha were used to check the validity and reliability of the research framework. And Z-test modeling is employed to test hypotheses following the research framework. A sample of 80 respondents from 20 different private organizations around Dhaka City were chosen purposively for this research. The results of this research showed that compensation package has a positive influence on employee performance. And for this level of performance would be increased among employees which play a vital role in enhancing the financial performance of the organization.

Keywords – Compensation Package, Employee Performance, Financial Performance, Relationship.

1. Introduction

While we talk about compensation, usually it refers to the payment paid by an employer to an employee in the form of a salary, wages and benefits. However, it's important to add that compensation may also be referred as money that is paid to someone for something that has been lost or injured, such as "workers reimbursement" for unemployed or injured workers. It can also refer to a payout as the consequence of a lawsuit. Moreover, compensation can mean anything of value given to make up for a loss, such as a paid dinner to "compensate you for your time and trouble". One of the ways to classify the different classifications of compensation is to differentiate direct compensation from indirect compensation. Both of these categories of compensation are financial, meaning that the compensation takes the method of money or can be valued as money. Direct compensation consists of money compensated to employees as cash, such as hourly wages, salaries, bonuses and commission. Wages and salary as you would expect fall under the type of base pay whereas bonuses and commission fall under the form

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* Assistant Professor, Green Business School, Green University of Bangladesh
** Assistant Professor, Green Business School, Green University of Bangladesh

of variable pay. Indirect compensation is still monetary in nature — meaning it has a financial value that can be planned — but is not a direct payment in the form of cash. What is deliberated indirect compensation can vary across organizations but naturally includes much of the assistances package that comes with employment, such as employer subsidized health insurance and employer contributions to an employee's provident fund. Stock options and profit sharing also usually fall under indirect compensation as can some other employee benefits such as teaching assistance or a company-paid gym membership.

Employee performance defined as how an employee accomplishes their job responsibilities and executes their required tasks. It refers to the effectiveness, quality, and efficiency of their output. Performance also contributes to the assessment of exactly how esteemed an employee is to the organization. Each employee is a solemn asset for a company, so the return that each employee provides must be noteworthy.

Total compensation covers more than the monetary payment for work, it is the total of all the rewards provided to an employee in return for their services (Monday, 2008). Total compensation is the arrangement of four core fundamentals: - pay, benefits, financial incentives and non-financial compensation. Altered names have been recognized "Total Pay" (Zingheim and Schuster, 2008), "Compensation package" (Sturman, 2001), and "direct and indirect compensation" (Heneman and Schwab, 1985). Compensation is the methods and practices of keeping balance between interests of operating the company within the financial budget and attracting, developing, retaining, and rewarding high worth team through wages and salaries which are competitive with the predominant rates for parallel employment in the competitive market. There is empirical indication that pay rise in line with expectancy theory increases performance. The relationship between compensation and performance is a little bit like the relationship between two people. They both depend on each other to function, but it's tough to forecast how an action by one might influence the other. Indeed, it's a complex relationship. But it's a significant relationship to understand – exclusively if you care about building a joyful and productive situation. So by giving close care to the compensation employer paying, might not be aggregate individual performance. But nurturing the overall performance profile of the organization.

Professionals say that the commitment, participation and contentment of the employees should be the major apprehension of the organizations. While they are actively involved, it can directly affect the efficiency and financial standing of the company. While it may not rightly add to your profits but it certainly helps in numerous indirect ways. There are several signs that show that employee performance has a strong impact on the financial performance of a company.

However, the direct results are still arguable. There have been countless numbers of studies viewing the link between employee performance and financial profitability of an organization but none of them produces enough signs to establish it as a hard core fact.

2. Literature Review and Theory Development

"For any organization to function effectively, it must have money, materials, supplies, equipment, ideas and finally people, which is the human resource" (Asfaw, Argaw & Bayissa, 2015). In organization employees are key resource through which all other objectives are achieved. "Employees will demonstrate positive attitude when they have favorable and standard compensation package" (Mabaso and Dlamini, 2017). "Compensation is a useful instrument in the hand of a management to make positive impact on the behavior and productivity of the employees and thus contribute to the organizational effectiveness" (Bustamam, Teng and Abdullah, 2014). The quality and performance of your company is usually directly dependent on how well you execute your compensation package. Many researches have been conducted on the relationship between compensation and job satisfaction or employee commitment. But we extend this work to see whether compensation has any impact on the financial performance of the organization or not.

2.1 Compensation Package.

"The growing needs of people with the high living costs force employees seeking higher income that can guarantee their future and life satisfaction" (Mabaso and Dlamini, 2017). "Compensation is the pay provided by the employer to its employees for the services rendered (i.e. time, effort, skills). This includes both fixed and variable pay for the performance levels of the employees" (Bhattacharya, 2009). Swanepoel et al. (2014) stated that "compensation as financial and nonfinancial extrinsic rewards provided by an employer for the time, skill and effort made available by the employees in fulfilling job requirements aimed at achieving organizational objectives". "Compensation is important for both employers and employees regarding attracting, retaining and motivating employees" (Mabaso and Dlamini, 2017). Ray and Ray (2011) regarded compensation as an important factor for employees since it is one of the main reason people work for. "Compensation includes claim on goods and service paid to an employee in the form of money or a form that is quickly and easily exchangeable into money" (Nel et al, 2011). Compensation is the total of all rewards provided to employees for their services to the organization.

2.2 Employee Performance

According to Mabaso and Dlamini (2017) compensation plays a vital role in attracting, motivating retaining talented employees. A good compensation package encourages effective employees to remain in employment for a longer period of time

(Ibrahim and Borerhaneoddin, 2010). Additionally Ibrahim and Borerhaneoddin (2010) suggested generous reward retains employees and ultimately results in job satisfaction, commitment and loyalty. These are the some of the key factors that leads to effective employee performance. Moreover, if employees believe that they are not compensated well, therefore a state of emotional dissatisfaction grows in the mind of the employees and these emotional discrepancies will grow and accumulate over time which in turn leads to low employee performance for the organization (Mabaso and Dlamini, 2017). Greenberg and Baron, (2008) indicated that a perceived low salary leads to job dissatisfaction and a major contributor to employee turnover. Khan et al, (2014) also agrees that employee commitment can be enhanced and their degree of satisfaction can be improved through the adjustment in the compensation package. As a result, we can say that there is some sort of relationship between compensation package and employee performance.

2.3 Financial Performance

Financial performance is the most important consideration for management. It is needed for the firm's survival. "Customer satisfaction is significantly and positively related to financial performance" (Yu et al, 2013). There are different internal organizational factors that lead to better financial performance. Chun et al, (2011) found that organizational commitment among employees leads to better financial position. If employees are happy, they can make the customers happy. As a result, researchers focus greatly on employee well-being on organizational performance. Voorde, Paauwe, & Veldhoven, (2012) found that employee happiness and interpersonal relationship appears to be key factor for organizational success. Employees influence the financial performance by providing superior service which enhance customer satisfaction and financial performance (Yoo & Park, 2007). In this research financial performance is conceptualized as the increase of sales, profit and return on equity.

2.4 Hypothesis Development

Mangi et al, (2011) revealed that there is a positive relationship between compensation and job satisfaction. Netswera, Rankhumise and Mavundla, (2005) stated that unfavorable working condition and unattractive remuneration package have in most industries led to job migration. Adeoye and Fields, (2014) reported that compensation is a major factor in attracting and retaining staff. Nawab and Bhatti, (2011) also stated rewards influences performances of the employees in higher education institutes. Thus, we hypothesize:

H1 Firms with high level of compensation package will have high level of employee performance.

Management is eager to learn how the service quality of the employee related to an organizational performance (Sousa and Voss, 2002). Financial performance ultimately reflects whether or not service quality is realized in a

firm (Yoo and Park, 2007). Employee will demonstrate positive attitude when they are satisfied with their job resulting in high employee performance which in turn increase overall organizational performance (Millan et al, 2013).
Thus, we hypothesize:

H2 Firms with high level of employee performance will have high level of financial performance

Compensation Package $\xrightarrow{\text{H1}}$ Employee Performance $\xrightarrow{\text{H2}}$ Financial Performance

3. Research Methodology

3.1 Research Design

The study was a survey type in the form of cross-sectional study in which data were collected once across a population through random sampling technique. This research developed a set of valid and reliable instruments to measure compensation, employee performance and financial performance. Item generation began with a theory development and literature review. The first three variables of the questionnaire were about compensation. The second four items were about employee performance. The third group was about financial performance. Questions were assessed on a five-point Likert scale, where 1 meant "strongly disagree" and 5 meant "strongly agree". 110 questionnaires were sent and 80 responded to the questionnaire, resulting an overall response rate of 72.73%.

3.2 Tools for Data Analysis

In order to ensure completeness and logical consistency of responses, data editing was carried out each day by the researcher. Once editing was done with, the data were analyzed using quantitative techniques. The analysis was done using Statistical Package for Social Sciences (SPSS IBM Version 20). Tables, charts and graphs were used to ensure easy understanding of the analyses. "Principle Component Analysis" and "Z- test" model was used to identify the causal relationship with dependent and independent variable. To claim statistical significance tests, the cut-off value set is $P < 0.05$.

4. Results

A total 110 employees were invited to be the part of this study but 80 completed questionnaires were included in the analysis with a response rate of 72.73%. The "Descriptive Statistics" table simply reports the mean, standard deviation, and number of cases for each variable included in the analysis.

Table 1: Descriptive Statistics

	Items	Mean	Std. Deviation	Analysis N
Q1	Existing compensation package is designed based on the requirements of the job.	3.04	.987	80
Q2	Revision of the salary structure is done after a regular interval.	2.90	1.001	80
Q3	Benefit plan (Leave, Gratuity, P.F., Leave encashment etc.) is available.	2.85	.873	80
Q4	Compensation you received helped you to enhance service.	3.38	.905	80
Q5	Compensation package drives you to increase productivity.	3.65	.901	80
Q6	Compensation package helps you to reduce absenteeism and turnover.	3.43	.839	80
Q7	Compensation package increases motivation to the job.	3.59	1.002	80
Q8	Existing compensation package helps the organization to ensure the best use of resources.	3.01	.893	80
Q9	Compensation is revised to increase the net profit of the organization.	2.95	.980	80
Q10	Compensation package designed to decrease the production cost of the organization.	3.31	.821	80

The Correlation Matrix Table is the correlation matrix for the variables included. Generally speaking, a close review of this table can offer an insight into how the PCA results will come out.

Table 2: Correlation Matrix[a]

		Q1	Q2	Q3	Q64	Q75	Q86	Q97	Q108	Q139	Q1410
Correlation	Q1	1.000									
	Q2	.850	1.000								
	Q3	.800	.909	1.000							
	Q4	.735	.586	.585	1.000						
	Q5	.784	.732	.753	.814	1.000					
	Q6	.715	.609	.676	.721	.735	1.000				
	Q7	.822	.791	.811	.786	.833	.723	1.000			
	Q8	.603	.667	.717	.433	.619	.399	.656	1.000		
	Q9	.696	.743	.746	.607	.639	.535	.765	.739	1.000	
	Q10	.705	.639	.632	.760	.680	.651	.743	.565	.744	1.000

a. Determinant = 9.107E-006

The next table is used as to test assumptions; essentially, the Kaiser-Meyer-Olking (KMO) statistic should be greater than 0.600 and the Bartlett's test should be significant (e.g. $p < .05$). KMO is used for assessing sampling adequacy and evaluating the correlations and partial correlations to determine if the data are likely to coalesce on components (i.e. some items highly correlated, some not). The Bartlett's test evaluates whether or not our correlation matrix is an identity matrix (1 on the diagonal & 0 on the off-diagonal). Here, it indicates that our correlation matrix (of items) is not an identity matrix--we can verify this by looking at the correlation matrix. The off-diagonal values of our correlation matrix are NOT zeros; therefore, the matrix is NOT an identity matrix.

Table 3: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.906
Bartlett's Test of Sphericity	Approx. Chi-Square	868.553
	df	45
	Sig.	.000

The rotated component matrix table shows which items/variables load on which components after rotation. We suppress small coefficient value below 0.60. This provides a clear depiction of our principal components. The Rotated Component Matrix displays the loadings for each item on each rotated component, again clearly showing which items make up each component. Item 10 was loading with another component. So, for the good fit of the model we exclude the item.

The reliability was determined using Cronbach's Alpha. According to the alpha value more than 0.6, shows that the scale can be considered reliable (Hales, 1986). Alpha value more than 0.80 are considered as very good (Nunnally, 1978).

Table 4: Rotated Component Matrix[a]

	Component			Cronbach's Alpha
	1	2	3	
Q4	.909			.929
Q5	.756			
Q6	.743			
Q7	.657			
Q8		.879		.848
Q9		.761		
Q2			.784	.944
Q3			.755	
Q1			.639	

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.
a. Rotation converged in 6 iterations.

H1 suggested that a high level of Compensation package would be related to a high level of Employee performance. The results of the ***z-test (two tail)*** model supported it statistically because p value is 0.000 which is lower than alpha value of 0.05. So, our hypothesis falls in the area of acceptance. Thus, we conclude that Compensation package was significantly related to Employee performance.

Table 5: Z-Test

	Compensation	Employee Performance
Mean	2.92	3.50
Variance	0.821	0.689
Observations	79	79
z	4.201	
P(Z<=z) one-tail	0.000	
z Critical one-tail	1.645	
P(Z<=z) two-tail	0.000	
z Critical two-tail	1.960	

H2 suggested that a high level of Employee performance would be related to a high level of financial performance. The results of the ***z-test (two tail)*** model supported it statistically because p value is 0.000 which is lower than alpha value of 0.05. So, our hypothesis falls in the area of acceptance. Thus, we conclude that Employee performance was significantly related to financial performance.

Table 6: Z-Test

	Employee Performance	Financial Performance
Mean	3.5	2.98
Variance	0.689	0.762
Observations	79	79
z	3.829	
P(Z<=z) one-tail	0.000	
z Critical one-tail	1.645	
P(Z<=z) two-tail	0.000	
z Critical two-tail	1.960	

5. Discussion

This study examines the relationship among compensation package, employee performance and financial performance and the impact of compensation package on organization's financial performance through employee performance. Findings of this study show that company's financial performance depends upon employee performance and compensation package. Compensation package helps to increase the motivation for the work of the employees. Hence, higher employee performance in terms of increased productivity, reduced turnover and absenteeism, enhanced service leads to higher financial performance.

Basically, this research suggested that compensation is one of the most important determinants of employee performance and can also influence the firm's financial performance. Results suggest that there is a direct positive relationship between compensation and employee performance. On the other hand, findings clearly show that there is an impact of employee performance on organization's financial performance.

Therefore these, result suggests that employees those have good compensation are satisfied and motivated and thus perform well in the organization. And through high employee performance, organizations achieve high level of financial performance.

6. Conclusion

Compensation package, employee performance and financial performance are some of the important variables for understanding any organization's performance, which are studied in this research paper. Through this research we found empirical evidence in supporting the rich interrelationships among three variables. It also offers valuable organizational understandings for better execution of service quality. Service is immaterial, fragile and concurrent production, distribution and consumption in nature. So, organization cannot directly control the quality of service. Organization's financial performance mostly depends on the quality of service it provides. A good level of employee performance, however, permit organization to regulate service quality and accomplish a chosen result for the organization. So greater the employee performance, the greater will be the organization's financial performance. And an organization's compensation package plays a vital role in improving the employee performance in the organization. Organization needs to pay attention to its employees and customers concurrently. More attention to relationship among compensation package, employee performance and financial performance may enable firms to have a good position in the world economy.

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