

## A Study towards the Role of Compensation System for Pulling and Retaining Fresh Talents

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### ABSTRACT:

One of the important questions to every employee is —does money matter to them? The answer is definitely—yes. Money definitely provides a means for having a more affluent lifestyle. How much we earn often determines how we view our social status and ourselves. In this business world, money in terms of compensation, motivates behavior and gives satisfaction when employees get any financial rewards or extra benefits with relation to their performance or contributions towards the organizational objectives. Hence, at different stages in one's life and career, pay and compensation are perceived differently. Therefore, in this regard a small attempt has been made to look into the field of compensation management, which plays a vital role for an organization and for the employee's work performance.

**KEYWORDS:** Compensation, compensation management system, compensation approach, employee, job satisfaction, employee turnover

### INTRODUCTION:

Compensation is the basic component of an employment agreement which facilitate to attract qualified personnel to the organization. Other things being equal, an organization that offers a higher level of compensation can pull a larger number of qualified people than its competitors. Compensation provides an incentive to motivate employees to put forth their best efforts. It can be said that compensation is the “glue” that binds the employee and the employer together and in the business sector, this is further codified in the form of a contract or a mutually binding legal document that spells out exactly how much should be paid to the employee with reference of work performance from employer. The management of all the compensation costs in an organization goes a long way is not ensuring that the organization is able to manage its budgetary constraints well enough; and also to attract and retain personnel or staff with the required level of skills and expertise. So that high employee turnover is avoided. For an effective compensation administration plan, the organization must make deliberate efforts to ensure that whatever plan that is put in place is both effective and reliable. This will give employees the trust they need in order to be able to work without having to worry about their savings and compensations being delayed or misappropriated at the end of their terms with the organization. The more competitive term for the compensation is the ability to be the more likely the organization will be in a position to achieve its short-term and long-term goals. Every organization, depending on, among other factors, the industry in which it operates and the pay system that it uses to compensate its employees, different compensation plan is used.

### REVIEW OF LITERATURE:

Employee compensation practices differ across employment units (e.g., organizations, business units, and facilities) on several dimensions (Gerhart & Milkovich, 1990, 1992; Gerhart, Milkovich, & Murray, 1992). The focus of the employee compensation literature has been on defining these dimensions, understanding

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why organizations differ on them (determinants), and assessing whether such differences have consequences for employee attitudes and behaviors, and for organizational effectiveness. In the following discussion, we briefly describe the basic dimensions of compensation and summarize some of the key aspects to explain the consequences of different compensation decisions. A discussion of pay determinants can be found in Gerhart and Milkovich (1990, 1992). As Herzberg (1968) has argued, just because too little money can irritate and demotivate does not mean that more and more money will bring about increased satisfaction, much less increased motivation. It is reasonable to assume that if someone's take-home pay was cut in half, his or her morale would suffer enough to undermine performance. But it doesn't necessarily follow that doubling that person's pay would result in better work. Human resource management practices (including compensation) may give a competitive edge to one corporation over its rivals Schuler and MacMillan (1984). From a managerial perspective in addition to the significant cost of doing business associated with compensating employees, the implications of compensation decisions are among the most important in remaining viable and competitive. From a human resource management perspective, the successes of major human resource activities are related to and are dependent on compensation policy and practice. The success in attaining goals in human resource planning related to attracting and recruiting human capital is directly linked to compensation offered. Also, the ability to motivate workers and retain desired employees is largely influenced by compensation offered Dulebohn and Werling (2007).

### **RECENT SCENARIO OF COMPENSATION:**

Today, the idea of compensation continues to evolve as part of a system offer to employees. Compensation is coming to be seen as part of a "total reward" system which includes salary, bonuses, incentive pay, and commissions, benefits and perquisites and various other tools which help employers link rewards to an employee's measured performance. Today's compensation systems have come from a long way. With the changing organizational structures workers' need and compensation systems have also been changing. From the bureaucratic organizations to the participative organizations, employees have started asking for their rights and appropriate compensations. The higher education standards and higher skills required for the jobs have made the organizations provide competitive compensations to their employees. Compensation strategy is derived from the business strategy. The business goals and objectives are aligned with the HR strategies. Then the compensation committee or the concerned authority formulates the compensation strategy. It depends on both internal and external factors as well as the life cycle of an organization

### **TRADITIONAL COMPENSATION SYSTEM:**

In the traditional organizational structures, employees were expected to work hard and obey the bosses' orders. In return they were provided with job security, salary increments and promotions annually. The salary was determined on the basis of the job work and the years of experience the employee is holding. Some of the organizations provided for retirement benefits such as, pension plans, for the employees. It was assumed that humans work for money, there was no space for other psychological and social needs of workers. The traditional pay system compensates an employee on the basis of either a fixed hourly rate or an annual salary. Under this system, pay hikes are dependent on factors including seniority and performance and occur on a scheduled basis. This model assigns a grade level to each position in light of the education and experience that is required to perform the job, which, in turn, infers a job's relative significance to other positions within an organization.

### **CHANGE IN COMPENSATION SYSTEMS:**

With the behavioral science theories and expansion of employee and trade unions, employees started asking for their rights. Maslow brought in the need hierarchy for the rights of the employees. He stated that employees do not work only for money but there are other needs too which they want to satisfy from their job, i.e. social needs, psychological needs, safety needs, self-actualization, etc. Now the employees were

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being treated as human resource. Their performance was being measured and compensation is based on the organizational and individual performance. Competition among employees existed. Employees were expected to work hard to have the job security. The compensation system was designed on the basis of job process and related proficiency of the employee. Considering that the current trend in many sectors (particularly the knowledge intensive sectors like IT and Services) is to treat the employees as “creators and drivers of value” rather than one more factor of production, companies around the world are paying close attention to how much they pay, the kind of components that this pay includes and whether they are offering competitive compensation to attract the best talent.

### **NEED FOR COMPENSATION SYSTEM:**

Compensation and Reward system plays vital role in a business organization. Since, among four Ms, i.e. Men, Material, Machine and Money, Men has been most important factor, it is impossible to imagine a business process without Men. Every factor contributes to the process of business. It expects return from the business process such as rent is the return expected by the landlord, capitalist expects interest and organizer i.e. entrepreneur expects profits. Similarly the employee expects wages/salary from their works. She/he plays a vital role in bringing about the process of business in motion. The other factors being human have expectations, emotions, ambitions and egos. Therefore she/he expects to have fair and proper share in the business process. That's why a fair compensation system is a must for every business organization.

### **OBJECTIVES OF THE STUDY:**

1. To study and analyze compensation administration system.
2. To study the gap in terms of compensation components offered by the organization and expected by employees.
3. To study the factors that affects the compensation expectation of fresh talents.
4. To find out the effects of compensation management system on work performance of employees.

### **RESEARCH METHODOLOGY:**

The analysis of literature enabled to disclose the importance of the compensation administration and rewards program. Synthesis of literature allowed finding out the key elements of decision making process in compensation and rewards program design and the main indicators affecting incentive system. Literature was systemized and summarized by applying the logical, comparative and graphic representation.

### **RESEARCH DESIGN:**

The researcher has concerned the Descriptive Research Design for Study the compensation administration system in attracting and retaining fresh talent.

### **SAMPLES & SAMPLING TECHNIQUE:**

It was quite difficult to conduct census study in terms of covering all fresh talents at Kanpur City, so I have relied upon Sample Study by selecting samples through Convenience Sampling Method from Management Level acting as a representative of census population. Sample Size Selected is 100 Fresh Management talents from various colleges of Kanpur city.

### **TOOLS ADOPTED FOR THE STUDY:**

Survey method is used for Data collection work which is commonly practiced to collect primary data from the respondents. I relied upon Questionnaire as a tool for collecting primary data to carry out Research Work. Structured Questionnaire was used to elicit the necessary information from the respondents which is a combination of both Close ended and open ended questions.

**HYPOTHESIS:**

H0: There is no relationship between employee's compensation and work performance of employees.

H1: There is a relationship between employee's compensation and work performance of employees.

H2: There is difference between compensation offered by organization and expected by employees.

Hypothesis testing: Chi-square test is applied for testing the hypothesis.

**CALCULATION:**

Satisfaction Productivity	Satisfied	Dissatisfied	Total
Yes	72	8	80
No	14	6	20
Total	86	14	100

**Observed Frequencies:**

$E_{ij} = R_i * C_j / N$  For,

$E_{11} = (80/100) * (86) = 68.8$

$E_{12} = (80/100) * (14) = 11.2$

$E_{21} = (20/100) * (86) = 17.2$

$E_{22} = (20/100) * (14) = 2.8$

Expected Frequencies Table

Satisfaction Productivity	Satisfied	Dissatisfied	Total
Yes	68.8	11.2	80
No	17.2	2.8	20
Total	86	14	100

Calculation Table

O	E	(O-E) <sup>2</sup>	(O-E) <sup>2</sup> /E
72	68.8	10.24	0.14
14	11.2	7.84	0.7
8	17.2	84.64	4.9
6	2.8	10.24	3.6
Total			9.34

$$\chi^2 = (O-E)^2 / N$$

$$= 9.34$$

Degree of Freedom:

$$= [C-1] [R-1]$$

$$= [2-1] [2-1]$$

$$= [1] [1]$$

$$= 1$$

Table Value:

Looking into  $\chi^2$  table at 10% & degree of freedom 1, the value is 2.706.

The calculated value of  $\chi^2$  9.34 is greater than the table value. Thus, the Null (H0) hypothesis is rejected.

Hence, Employee work's performance & Employee satisfaction level towards compensation has significance relationship.

**FINDINGS OF THE STUDY:**

1. Major parts of compensation structure are Basic Salary, Performance Bonus, HRA, Medical Reimbursement, Retirement benefits & Employees are agreed that compensation structure is as per the expectation of the fresh talents.
2. It is found that the combination of monetary, non monetary and quality of work life is the main factor, salary revision is the next important factor followed by the inflation rate in deciding upon the compensation.
3. Major factors which interrupts compensation management system are Market Rate in industry ,organization capability to pay are most critical components & at last availability of skilled employee in the market & Demand & Supply of employees also choke the compensation system.
4. Organization increase compensation on half yearly basis along with awarding bonus & it is based on the performance of employees during the preceding year.
5. From the Study, it can be conclude that majority of respondents agreed that compensation system help an organization to pull the talent employee from fresh talent pool.

**CONCLUSION:**

It is an important task of Reward Specialist & HR Professional to maintain a competitive reward package that will help an organization to pull & retain the talent pool with them. From Study, we observed that Compensation management System is quite complex and few points must be kept into mind while designing the compensation package, in order to pull and retain a fresh pool of talent in any organization. All the organization operating in this competition is offering more or similar components as their compensation structure. They are having Competitive Compensation structure that will help them to attract the talent from the talent pool. In last, I as a Researcher has identified that employee satisfaction towards compensation has a positive relationship with the employees work performance & also identified that good compensation practices will help them in terms of pulling the employees as well as in terms of retaining the employees

1. Compensation is a base of any employment exchange, and it serves as a defining characteristic of any employment relationship.
2. Decision making process in the design of rewards program involves decision on compensation procedures and compensation systems.
3. Important elements of incentive for system's success are the following: vision, mission, business model and goals, culture of organization and communication process. Incentive promises should be fulfilled— by both employer and employee; different rewards programs should be applied on different levels of employees; and compensation structure should match with the economic situation.
4. Over the course of time, incentive programs should be reevaluated and refined in the respect of incremental organizational goals.

**SUGGESTIONS :**

It has been observed through the study that the Compensation system in attracting and retaining fresh talents is good but certain to make it better as under:

1. Organization should ensure that the key in designing any compensation system is to develop and understanding of the firm's vision and direction. A well-designed compensation plan becomes a supporting tool for a firm by which it can easily to reach its strategic goals.
2. Organizations should try to design its pay as per competencies. It should continuously analyses its key position to determine what competencies i.e. skills, knowledge, attributes that differentiate average from outstanding performance. Particularly that competencies which are most critical to achieve the organization future focused objectives.
3. Model & Simulate the budget impact on salary and compensation action.

4. Analyze all aspects of compensation with detailed reports, analytics and interactive dashboards to make more important decisions.
5. Ensuring that Compensation managing system reduces complexities and improve visibility by centralized compensation practice data.

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