IMPACT OF COMPENSATION AND REWARD SYSTEM ON ORGANIZATION PERFORMANCE: AN EMPIRICAL STUDY

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ABSTRACT   *Compensation is important for attraction, retention and motivation of suitable employees for an organization. It plays a very important role in performance of employees and organization. This concept of compensation as a crucial factor is very relevant in case of banks as efficient, skilled and motivated human resources areneeded in banking sector, just like other sectors of the economy.Therefore, this study has been undertaken to investigate the impact of Compensation and Reward System on Organizational Performance of Punjab National Bank, Varanasi Uttar Pradesh. From this study it was found that reward and compensation strategies have a significant positive impact on performance of the bank. The study recommends that banks should embrace the use of both Extrinsic and Intrinsicrewards in addition to other incentives and should combined it with overall banks strategy to gain competitive advantage in the industry.*

Keywords: Compensation &Reward System, Organizational Performance, Human Resources.

INTRODUCTION

One of the main management strategies of the organizations is to invest in employees. Organizations are seeking to develop, motivate and increase the performance of their employees in a variety of human resources applications because the survival and competitive advantage of any organization depends on the quality of itshuman resources (Armstrong 2005).One of most effective way to invest in employees and motivate them is through Compensation and Reward System (CRS) which includes extrinsic rewards like pay, fringe benefits, praise and promotion and Intrinsic rewardse.g. sense of being a part of organization, valuable members of a team, variety in job content, increased responsibility and autonomy, sense of accomplishment, feedback information, Recognition, opportunities to learn and grow etc.It seeks to attract and retain talented employees, encourage good employee- management relationship and organizational commitment.

Compensation is defined as adequate and equitable remuneration in the form of financial returns and tangible benefits of employees for their contribution to the achievement of organization objectives as part of an employment relationship. According to Bernadin (2010), in organizations compensation is to be effective, it have to include the following: adequate, equitable, balanced, and cost effective, security pay, incentive providing pay and acceptable to the employees. Some researcher argues that paying is tied with performance, the intrinsic reward that a person gets from job.Now days, organizations are also realizing that they have to establish an equitable balance between the employee's contribution to the organization and the organization's contribution to the employee. Establishing this balance is one of the main reasons to reward and recognize employees. Organizations that follow a strategic approach to creating this balance focus on the three main components of a reward system, which includes, compensation, benefits and recognition (Deep rose, 1994).

CRSis the instrument used by the organizations to increase employee productivity as it is concerned with employees and organization performance development by which better result can be achieved.In the wake of this importance of CRS, this study intended to examine its impact on performance of organization and to find out whether CRS could be usedas a key strategic tool to achieve competitive advantage.

REVIEW OF LITERATURE

Erbaşı A. and Arat T. (2012) obtained results that the attitudes towards financial incentives have a stronger effect on job satisfaction than the attitudes towards non-financial incentives. This research plays an important role to provide significant data for strategical administrative institutions of food chain premises in terms of financial and non-financial incentives, job satisfaction and some demographical characteristics of the employees.

Hameed A. & others (2014) in their study found that Compensation has positive impact on employee performance. It is proved from correlation analysis that all the independent variables have weak or

moderate positive relationship to each other. Regression analysis shows that all the independent variables have insignificant and positive impact on employee performance. Descriptive analysis also reveals that all the independent variables have positive impact on employee performance.

Taufek F. H. B. M. (2015) observed that Reward system have an effect towards the Work Engagement. Demographics factors also affect the work engagement. This shows that Reward system is needed to be upgraded more to increase work engagement.

Ndung'u A. W. and Kwasira J. (2016) established that there existed a positive and statistically significant relationship between performance-based reward system, career reward system and employee motivation. It is inferred that the surveyed commercial banks had performance based reward system in place and regularly evaluated performance of employees. The study thus concluded that the career rewards were crucially important in enhancing employee motivation.

Ranjan R. and Mishra U. (2017) The result indicate that there is a statistical significant relationship between all of the independent variables with dependent variables employee work performance and all the independent variables have a positive influence on employee work performance.

The available literature shows that though there many studies available which links the CRS with employee performance but less research work is available on assessing impact of CRS and Organisational Performance(OP). The present study is an attempt to fill this research gap.

STATEMENT OF THE PROBLEM

Organizations mostly see its employee as additional cost and liability to their operations and focus more on other resources such as materials, machines and money. They make more efforts on improving the business and production process with little or no consideration for human resource contribution.Therefore they do not appropriately remunerate efforts and skills of employees put into the organizations activities.This results in inability of such organizations to attain theirgoals and objectives. Organization success along with other factors also relies heavy on how much attention its pay to employees reward policies. Such focus is also very important in banking sector as it is most crucial part of the economies in modern times.In the view of this, the present study seeks to know how Compensation and Reward System (CRS) affects organization performance.

SIGNIFICANCE OF THE STUDY

Research has proven that employees who get rewarded and recognized tend to have higher self-esteem, more confidence, more willingness to take on new challenges and more eagerness to be innovative (Mason, 2001). The study of linkage between Compensation and Organizational performance is also importance when in a first-of-its-kind move in public sector banks, State Bank of India, Punjab National Bank and Bank of Baroda are planning to introduce performance-linked salary structure for their top management. They are planning to introduce this pay structure for individuals above the general manager grade. However, for this move to follow through, the government will have to give its affirmation.

OBJECTIVES OF THE STUDY

The main objective of the studyis to examine impact of Compensation and Reward System (CRS) on Organizational Performance (OP) of Punjab National Bank in Varanasi Circle, Uttar Pradesh.

HYPOTHESIS

To give the proper direction to the study, following working hypothesis has been developed:

H0: Compensation and Reward System (CRS) has no significant impact on performance of the bank.

RESEARCH METHODOLOGY

Data Collection

The present study covered both primary as well as secondary data. The primary data have been collected using structured questionnaire covering close-ended statements and five point Likert scale. The present study also used secondary data related to the study which are extracted from the various sources like annual reports, websites, thesis, dissertation, journals and past studies etc.

Sampling Design

Purposive convenient random sampling has been used. The main goal of purposive sampling is to focus on particular characteristics of a population that are of interest, which will best enable the researcher to answer research questions. Target respondents are the employees at managerial, officer and clerk cadre of Punjab National Bank.

Instrument Development

The study adopted the survey research technique. A Questionnaire was developed on the guidelines of the model questionnaire. Respondents had to state the extent up to which each of these statements was true in their organization. A Five point Likert's rating scale was used for the instrument drafting. The scoring scale of the questionnaire was 5=Strongly Agree, 4=Agree, 3=Neutral, 2= Disagree and, 1=Strongly Disagree.

Sample Unit:

The research work is carried out in Punjab National Bank (PNB), Varanasi Circle of Uttar Pradesh. PNB is one of leading public sector bank in India. The Bank opened for business on 12 April, 1895. The Objective was to provide people of India with a truly national bank which would keep economic interest of the country as a top-most priority. As of 31 March 2017 the bank has over 80 million customers, 6,937 branches, and 10681 ATMs across 764 cities as per annual report of the year 2012-13.Varanasi circle of PNB consists of ten districts namely, Varanasi, Balia, Jaunpur, Mau, SantRavidas Nagar, Azamgrah, Sonbhadra, Mirzapur, Ghazipur and Chanduali. All ten districts have been chosen from Varanasi Circle of Punjab National Bank to elicit the responses from employees. The total number of respondentsemployees working in Punjab National Bank in all three cadres namely Managerial, Officer, Clerks were 820.

Sample Size

The Sample size was determined by **Yamane Formula (1967)** for sample size determination and constitutes of 270 employees in total. Out of these 270 respondents 64 are from managerial level, 71 from officer level and rest 135 are from clerk level.

Description of Variable Understudy

Demographic variables:

Total of five demographic variables were studies including gender, age, designation, educational qualification and work experience, which forms the first part of the questionnaire.

CRS Variables:

Second part of questionnaire seeks the perception of respondents related to **independent variable**Compensation and Reward System (CRS)followed in their bank. The three **variables of** CRS taken are:

- Salary
- Incentives and Rewards
- Recognition

Organisational Performance (OP) variables:

The **dependent variable** selected is Organizational Performance of the bank. This Variable consisted statements on following dimensions:

- Organizational and Employee Performance,
- Market Performance and
- Financial Performance.

Statistical Tools

Statistic Tools such as One Way Analysis of Variance: (ANOVA) and Multiple Regression are used for the assessing the impact and relationship of perceived CRS and OP. In addition to this, various descriptive statistics tools such as Percentage and frequencies etc. are also used.

RESULTS AND DISCSSIONS

Demographic Profile of the Respondents

Table 1: Gender of Respondents

Gender	Frequency	Percentage
Male	227	84.1
Female	43	15.9
Total	**270**	**100.0**

From the 270 respondents analysed, 227 or 84.1% are male; while the remaining 43 respondents or 15.9% are female.

Table 2: Age groups of Respondents

Age Group	Frequency	Percentage
< 30	105	38.9
30-49	86	31.9
>49	79	29.3
Total	**270**	**100.0**

As far as the age group of respondents is concerned, the biggest group in the age category is of 105 or 38.9% who are below 30 years old, 86 or 31.9% are falls under the 30 to 49 years old age group, 79 respondents or 29.3% are above 49 years old.

Table 3: Educational qualification of Respondents

Educational qualification	Frequency	Percent
High School	6	2.2
Intermediate	4	1.5
Graduation	139	51.5
Post-Graduation	121	44.8
Total	**270**	**100.0**

When it comes to educational background of respondents 6 or 2.2% are 10 pass, 4 or 1.5% are 12 pass and the larger portion of respondents which is 139 or 51.5% are graduates. While rest 121 or 44.8% respondents are post graduates.

Table 4: Designation of Respondents

Designation	Frequency	Percent
Manager	64	23.7
Officer	71	26.3
Clerk	135	50.0
Total	**270**	**100.0**

Out of total 270 respondents 64 are from managerial level, 71 from officer level and rest 135 are from clerk level.

Regression Results

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.919a	.845	.845	2.413
a. Predictors: (Constant), CRS				

In table *R* value represents the simple correlation and is 0.919 which indicates a high degree of correlation. The *R*square value indicates how much of the total variation in the dependent variable, can be explained by the independent variable. In this case 84.5.2% can be explained, which is very large.

Table 6: ANOVA Results

ANOVAa						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8515.278	1	8515.278	1462.396	.000b
	Residual	1560.518	268	5.823		
	Total	10075.796	269			
a. Dependent Variable: OP						
b. Predictors: (Constant), CRS						

This table indicates that the regression model predicts the dependent variable significantly as $p < 0.0005$, which indicates that the regression model significantly predicts the outcome variable i.e., it is a good fit for the data.

Table 7: CoefficientsResults

Coefficientsa						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	15.575	.599		25.987	.000
	CRS	.806	.021	.919	38.241	.000
a. Dependent Variable: OP						

Result shows that CRS explains a significant 80.6% (B=0.806, p=0.000) variance in the performance of commercial banks .The regression model exemplified by the results is: Y=15.575 + 0.806(x) + 0.599.

Multiple regression predicts OP from CRSvariables statistically significantly as $F(1, 268) = 1462.396$, $p < .0005$, $R^2 = .845$. All three variables added statistically significantly to the prediction, $p < .05$.

Hence the Null hypothesis **H0: CRS has no significant impact on organizational performance** stands rejected and alternate hypothesis that there is significant impact of CRS on performance of the bank is accepted.

CONCLUSION

It is concluded from results that the independent variable CRS hassignificant and positive impact on dependent variable OP. CRS is key in enhancing employee motivation in the bank. Therefore, the PNB in particular and other banks in general should make more and more efforts towards rewarding employees based on group and individual performance through financial and non-financial rewards.It will not only boost up the efficiency and performance of employees but also going to contribute in overall organizational performance. It is suggested that CRS could be used as key tool for gaining competitive advantage by banks in combination with other factors.

SCOPE FOR FURTHER STUDIES

The scope of this study was limited to one selected bank. However future research could go ahead to include more banks and could also expand the scope to other sectors of the economy. The research design method, which was adopted through the questionnaire, collected the perception of employees on CRS and OP Variables. Hence future researchers could also adopt the longitudinal research design to elicit a more reliable response and could also measure the impact by adopting different variables.

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