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## **Impact of Compensation on the Employee's Performance**

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### **ABSTRACT**

Compensation is the payment made to an employee in exchange for their services to the company. Giving employees financial and non-financial perks is an organized process that seeks to balance the relationship between employer and employee. Payments for compensation include overtime, profit sharing, and bonuses. Pay, awards for achievement, and commission from sales. An essential component of human resources is compensation. management that enhances corporate productivity by inspiring personnel. Normally, compensation consists of wage payments and health benefits. the development of pay scales and Staff members who work in compensation management is mostly in charge of setting pay scales for various roles within the organization. Employees are given the confidence that they are being paid properly when they receive direct remuneration that is in line with industry standards. The focus of indirect compensation is on the unique reasons why each person chooses to work. Although pay is crucial, employees are most productive in positions where they are in line with the goals and values of the organization. These perks may include things like cost-free training sessions for workers, subsidized child care, the chance for advancement or transfer within the organization, notoriety, the power to influence change at work, and volunteer work. By giving employees the highest pay and benefits in accordance with industry norms, employers may effectively manage and inspire their staff. The high compensation will also help with the requirement to recruit and keep the top workers. The organization's current compensation and performance management programs determine how remuneration and benefits affect employee performance and organizational effectiveness. Generally speaking, most workers react favourably and more productively to wage and benefit increases. Employees may not always be aware of the benefits of a pay raise until the day it is announced to them and the day, they receive their first paycheck with the new pay. In this essay, I'd like to go over the elements and significance of pay, with a focus primarily on how it affects workers' productivity inside an organization.

**KEYWORDS:** Financial compensation, non-financial compensation, Employee Performance

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### **INTRODUCTION**

One of the key purposes of HRM is to provide and maintain the appropriate balance of human resources for an organization's smooth operations. Currently, HR work goes beyond the customary processes of recruiting, selection, training, and development, but it now encompasses a wide range of noteworthy and novel fields. Rewards are immediate. indirect benefits of providing fair wages to those who work for an organization. Performance of employees and organizations. Human resource management includes compensation as a crucial component that aids in employee motivation, increasing corporate effectiveness, and employee morale. Compensation and benefit effects on the employee. The current remuneration and performance are what determine performance and organizational effectiveness, and management training programs at a certain business. Generally speaking, most workers react favourably and more productively to wage and benefit increases. However, the inverse is also accurate. Employees may not always be aware of the benefits of a pay raise until the day it is announced to them and the day, they receive their first paycheck with the new pay. The organizations that pay the highest salaries and provide the most opportunities for promotion are frequently the ones that attract the best talent. Despite the pay offered, there are still certain workers who have a very strong work ethic and never lose their motivation. On the other side, some workers demand ongoing wage rises, better perks, greater work-life balance, etc., in order to perform well on a consistent basis.

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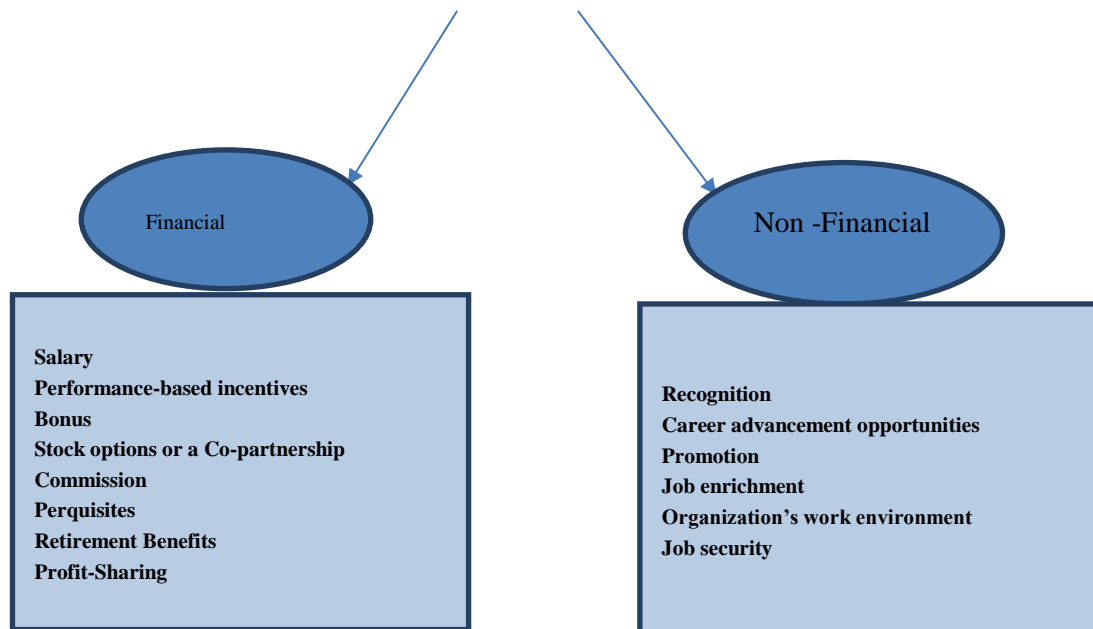
### **LITERATURE REVIEW**

The human resource management approach to improving efficiency inside the business involves compensation management. It focuses on the creation, implementation, and management of compensation systems that are generally aimed at enhancing the performance of organizations, teams, and people. The creation and implementation of strategies and policies with the goal of compensating individuals fairly, equally, and consistently in accordance with their values to the organization is the focus of compensation management. As the name suggests, compensation management includes creating a compensation structure in which the employees who perform better are paid more than the employees who perform on average. This motivates workers to put forth more effort in order to earn higher compensation.

The human resource management (HRM) approach to managing people includes compensation management, and as such, it supports the achievement of business objectives. Compensation management is strategic in that it addresses a longer-term issue relating to how people should be valued for what they want to accomplish. "Compensation is a useful instrument in the hand of management to make a positive impact on the behaviour and productivity of the employees and thus contribute to the organizational effectiveness". In their study, Harrison and Liska (2008) assert that compensation is the focal

point of the employment contract since it is the primary driver of labour. This includes any rewards - intrinsic or extrinsic, that employees earn as a result of working for the company. In a different study, Brown (2003) argues that remuneration should be seen as a return on investment between employers and employees, or as a reward for work well done.

## DOMAINS OF COMPENSATION



### *Financial Compensation:*

In the socioeconomic climate of today, money has taken on a significant role in all of our lives. Almost all of our demands can only be met by money as it has purchasing power. As a result, financial incentives are defined as rewards that have a direct monetary value, such as money, or that may be valued in monetary terms. Financial incentives can be given to individuals or groups and meet their demands for current and future security.

The following are the various economical compensation:

- Salary

The fundamental financial incentive for any employee is to put forth serious effort on behalf of the company. It consists of things like a base salary, a rent allowance, a cost-of-living allowance, and other benefits.

- Bonus

A bonus is a sum of money that an employer gives to a worker in recognition of good performance. It may serve as a strong motivator for the worker. The bonus may also be given out for particular events, such as holidays or other significant occasions for the business. The bonus could take the shape of cash payments, free time off, gifts, etc.

- Performance-based incentives

In addition to the annual increase in base pay, employees may also receive raises depending on their performance. It may compel the worker to maintain their efficiency.

- Stock options or a Co-partnership

The employee is provided with ordinary shares of the company under the Employees Stock Option Plan at a price below the market price for a predetermined length of time. These deals are non-standard, and the employee and employer enter into a private contract before issuing the shares. These are typically provided to management as a part of their compensation package for serving in that capacity. Employees that are given stock options feel more invested in the business and work harder. Among the businesses that have adopted the stock option plan are Infosys, GoDaddy, and The Cheesecake Factory.

- Profit-Sharing

Employees occasionally receive a cut of the company's profits. This encourages people to work hard and efficiently in order to boost the organization's earnings.

- Retirement Benefits

After retirement, employees receive financial stability via retirement benefits like gratuities, pensions, provident funds, and leave encashments, among others. As a result, they function properly when in use.

- Commission

For exceeding goals, some companies pay their employees a commission in addition to their income. The personnel is encouraged by this incentive to grow the organization's clientele.

- Perquisites

Many companies provide their employees with perks and fringe benefits in addition to pay and allowances, including housing, a car allowance, medical, educational, and recreational facilities. The staff are encouraged to work effectively by these incentives.

### ***Non-Financial Compensation:***

Employees also have non-financial demands, including social, psychological, and emotional needs. If these demands are not met at work, individuals may depart in search of greater chances elsewhere. These requirements for motivating employees to perform better in their roles are met by non-financial incentives.

The following are the various non-financial incentives:

- Recognition

An expression of appreciation for a level of performance, achievement, or contribution to a goal is called recognition. It could be informal or formal, private or public. One of the most efficient methods to give employees more authority is to show them appreciation.

It boosts employee recruitment and retention since it makes them feel appreciated. The correct kind of acknowledgment can increase productivity and give workers a greater sense of ownership over the work being done by the organization.

- Career advancement opportunities

Lack of opportunities for career advancement affects motivation and success. Assume that employees are given the chance to advance their careers by acquiring the new abilities, technologies, and skills necessary to boost output and get promoted. They will then feel appreciated and motivated. Since they will frequently be reminded that their efforts will help them reach their goals and boost their prospects for success, employees' productivity will also increase.

- Promotion

An employee's present title corresponds to their place in the organisational structure. It establishes their degree of accountability and power, as well as their wage, bonus, and other benefits. Companies can give employees promotions to raise their status inside the company and motivate them to keep up their good work in order to keep them engaged.

- Job enrichment

In order to inspire employees, organisations might create occupations that demand higher knowledge and skill levels, more responsibility, and autonomy. They will get an opportunity to express themselves, and it will present more opportunities for professional advancement. Additionally, they can form committees with representatives from several departments and ask for their feedback on enhancing work duties.

- Organization's work environment

A better workplace environment leads to higher individual performance because it makes employees happier, and happier employees produce higher levels of output. People are driven by an environment at work where they believe they have incentives to complete tasks and are valued for accomplishing their jobs. Working conditions that are uncomfortable for employees and reduce productivity include those that lack adequate hardware, software, ventilation, suitable furniture, and illumination.

- Job security

Businesses must offer positions that are more secular than those of their rivals. It provides employees in a company more courage to show their originality. One of the most important non-financial incentives that can guarantee higher performance from employees within the organization is job security.

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## **OBJECTIVE**

1. To understand the effects of financial compensation on employee performance
2. To study the effects of non-financial compensation on employee performance

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## RESEARCH SCOPE

Working professionals from different organizations served as the study's population pools. Employees participated in the study's sample. The location of this study was Delhi, Maharashtra, Tamil Nadu, and Madhya Pradesh. This study uses random sampling because it gives an unbiased representation of the total population. The qualitative method was employed in the conduct of this study. The sample of the population was interviewed.

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## SIGNIFICANT OF RESEARCH

The purpose of this study was to learn more about the relationship between employee performance among working professionals and remuneration and perks. The importance of compensation in boosting employee performance motivation cannot be overstated. This is due to the fact that it might enhance the employee's life and ensure their future. The worker will perform better in order to receive a bonus or a promotion as pay and benefits.

Additionally, a robust wage and benefit plan will boost an employee's engagement and retention. Reduced employee turnover will reduce the cost of hiring new employees for the company. The company will have to spend money on hiring a new employees and sending them for training. Additionally, this study can serve as a reference for other studies that want to delve deeper into the topic.

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## RESEARCH METHODOLOGY

The present study utilizes the exploratory research methodology to explore the extent of the 'impact of Compensation and Benefits on Employees. We conducted a personal face-face interview where the target population used in this study were all working individuals of different age groups, all mass eligible for working, and who are currently working. We also personally interviewed the working population to get better insights and identify key factors and various individuals' perspectives and points of view. The majority of the population is from four states - Delhi, Maharashtra, Tamil Nadu, and Madhya Pradesh. A pre-structured question was formed related to Compensation Benefits & their impact on employee performance where we wanted to understand the effect of both Financial & Non-financial benefits and all factors that encourage high performance. performance. We got a total of 88 respondents.

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## SAMPLING METHOD

A convenient sampling method was adopted to select the total sample size of 88 respondents consisting of 40 males and 48 females. Primary data was collected from the respondents with the help of interviews consisting of open-ended questions.

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## COMPENSATION EFFECT ON EMPLOYEE PERFORMANCE

The findings of interviews demonstrate that pay has a favourable and significant impact on worker performance. This demonstrates that, on average, employees do better when they are paid more, and vice versa, when they are paid less, they perform worse. According to the study's findings, pay will aid in raising employees' productivity. Employees will experience compensation that is commensurate with their roles and responsibilities and with governmental regulations, which will enhance their performance.

As per the findings, Millennials and Gen-Z were more concerned about the financial incentives and they were content with the same. Whereas half of the Gen-Z is also concerned with non-financial incentives, at the workplace factors such as growth in the company, well-being, and culture play an influencing factor. The success of a company is also greatly influenced by employee happiness. Employees are more prone to experience migraines, cardiovascular illness, insomnia, and absences from work when they are under financial stress. The younger generations in the workforce responded that if their employer-provided financial wellness benefits, they would feel less bothered about their overall financial condition (61% of Gen-Z and 57% of Millennials). You can have more engaged and effective workers by doing all you can to reduce their financial worries.

It was identified that female employees these days are looking for both Financial as well as non-financial benefits with a higher preference towards non-financial after a certain period as women tend to take care of household responsibilities and traditionally a lot of things are expected out of them. Even though there is a shift in trend with improvements and modernization at an incredible rate yet, workforce flexibility, medical allowances, 3-day menstrual leave policy, childcare leaves, Child plan insurance policy, Special day leaves, etc., play a major role in better performance and increased connectivity towards the organization as the individual feels they are cared for and brings in differentiation factor for the company too. A lot of companies provide high compensation to attract the employees in the beginning but the policies, work culture, rewards & recognitions, appreciation, and work environment are the major factors that play a key role in improved performance as that builds employee confidence, value, and a sense of bonding towards the organization that leads them to provide back to the company, resulting in better performance. These were the unsaid key elements, but financial benefits such as incentives, bonuses, extra hour pay, and extra day pay play a direct role in motivation as the employee can gain more by putting in extra, so they perform better or beyond what is required to get direct rewards again resulting in improved performance. In the end, we can conclude that both the financial & non-financial factors play a major role depending on the company and the organization must induce a balance of both not only to improve performance but also, to increase retention.

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## IMPORTANCE OF COMPENSATION ON EMPLOYEE PERFORMANCE

- Retention

Employers must be proactive in their attempts to retain talented workers in a competitive labour market. Because everyone is fiercely fighting for high performers, compensation is closely correlated to retention. Nearly half of all firms have experienced an increase in attrition rates in recent years, according to a survey from Willis Towers Watson. This might be a result of the fact that 70% of employees with high retention risk think they need to quit their current job in order to develop their careers.

Recently, annual raises have not kept up with inflation, resulting in many employees' salaries decreasing. But many younger workers have discovered that changing employment might result in a considerably bigger wage raise.

- Job satisfaction

According to a report from the Society for Human Resource Management, compensation is the main factor influencing how satisfied workers are at their jobs. In fact, 96 percent of the workers surveyed believe that remuneration plays a significant or very significant role in how happy they are overall at work.

To gauge employee satisfaction levels, employers should regularly conduct surveys and feedback sessions with their staff. Low levels of employee happiness can cause a turnover, absenteeism, and poor productivity. Employers must seek out alternative means of remunerating workers for their labour if salary increases are not an option. Non-monetary incentives like team trips and flexible schedules can support these efforts.

- Productivity

There is a large discrepancy between salary growth and worker productivity. While wages have only increased by 114.7 percent since 1940, productivity has increased by 246.3 percent, according to statistics from the Economic Policy Institute. Productivity growth and pay growth increased together between 1940 and 1970. Due to changing economic policies, wage growth and productivity growth have been at odds since the 1970s.

In essence, many large businesses have the choice to raise salaries but have decided against doing so. They could have to use this choice when the labour market becomes more competitive.

- Motivation

Employees who believe they are being underpaid may not be driven to put forth more effort. When people feel they have performed work in relation to their pay, they may feel it would be preferable to spend their time on personal pursuits or they may simply mentally leave the job. Employee motivation may be significantly increased by increasing compensation rates through performance-based reviews or sales incentives. Track salary and productivity rates using analytics to gauge employee motivation.

Employees will therefore endeavour to maintain and even raise their performance levels within the organization. This result is consistent with the theory that was used, which is the hierarchy theory of wants, namely the desire for rewards. is the requirement for respect and admiration from superiors and co-workers, as well as for self-esteem. If the employee receives the prize, he will feel appreciated, which will help him work better.

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## CONCLUSION

Compensation management is one of the strategies used by businesses to draw in, keep, and inspire their workforce. In order to properly manage an organization and achieve its objectives, compensation is necessary. The motivation of employees and, ultimately, their performance are closely related to compensation. Employee performance is influenced equally by financial and non-financial pay. Each person prioritizes a different form of pay according to their age and responsibilities. A person will prioritize non-financial remuneration if he or she has few obligations and is primarily focused on their career; yet, if they have many family obligations, they would prioritize money pay. Regardless, both forms of pay have a role in encouraging workers to deliver greater work depending on the circumstance.

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