

Original Article

Impact of Compensation on Employees' Performance: Empirical Investigation

Muhammad Sufyan Ramish^a,  Aruba Shoaib^b &  Mahwish Mumtaz Niazi^c

^a Karachi Institute of Economics and Technology, Karachi

^b AERC, University of Karachi

^c National College of Business Administration and Economics, Multan

Abstract

This study aimed to validate the impact of compensation on employees' performance in freight forwarding companies based in Karachi. A sample of 65 respondents was obtained using unrestricted non-probability convenience sampling technique. Adjusted R-square (57%) and R-square (57.7%) are very close, indicating no sampling error. The instrument has been adapted and consists of a 5-point Likert scale. The variables were found reliable (Cronbach's Alpha > 0.7). The results suggest that there is a positive and significant association between both the variables ($r = 0.795$, $p < 0.01$), and Compensation has 57.7% explanatory power ($F = 85.79$, $p < 0.01$), which is highly significant. Moreover, regression result also suggests that Compensation has a positive significant impact on Employees' Performance. It is recommended that organisations take care of compensation as it is a vital factor that motivates employees to perform.

Keywords: Compensation, Employees' Performance

1. INTRODUCTION

Employees are the assets of any organisation. Usually, it is accepted that employees discover the important source of competitive advantage for firms. Employee compensation is generally one of the major expenses or costs for any company or organisation. Employees who are satisfied with their jobs will positively affect the organisation. According to Yulia & Iskandar (2023), incentives and compensation always influence employees' performance. For employee productivity, organisations try to motivate the employees; a compensation plan has to be implemented. Compensation refers to the paybacks, such as bonuses, vacations, etc., that employees get in return for the services they provide to the organisation. It may be defined as rewarding employees for their benefit or increasing their motivation. Compensation plays a significant role between an employee and an employer. In developing an appropriate compensation system, human resources plays an important part in developing it. (Djazilan & Arifin, 2022; Putra & Mujiati, 2022).

Effective compensation systems also retain capable individuals who can influence the achievement of any organisation's mission and goals. (Dessler, 2002). Compensation has been renowned as the most important motivator of employees. Ivencevich (1998), Compensation also plays a significant role in motivating any employee. Employees who think they are underpaid automatically reduce good work or efforts by working slowly or being absent (Byars & Rue, 1997). Compensation is key to better performance, motivating workers to focus on their jobs. The basic reason for employee turnover is the Lack of an appropriate compensation system (David, 2002). If there is a failure to frame an appropriate compensation system, it will impose an unfavourable impact on employees' job satisfaction and productivity (Neo et al., 2006). Human Resource Management also plays a vital role in increasing employees' morale through



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Corresponding Author: Muhammad Sufyan Ramish, Karachi Institute of Economics and Technology, Karachi

 sufyan.ramish@kiet.edu.pk

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different means. This research investigated the role of compensation in employee performance. (Rao, Mubeen, & Abhilasha, 2023; Reddy, 2020).

Employees who are satisfied or highly motivated can make decisions by themselves. They know how to arrange the workflow. There are different factors which contribute to employee performance. If they are satisfied, they do Multi-tasking. A positive employee can succeed in multiple projects in one go. They have enough skills in Problem-Solving. If a company or organisation is going through any problem, a positive employee does their best to solve it. They have enough confidence in themselves and know how important they are to their organisation. A positive employee then thinks and works like it is their own company. They work in any condition or environment if the compensation plan is just in a manner. Organisations are also responsible for providing a healthy workplace to employees so that they work according to their motivation level. If the employees are happy, ultimately, it results in productivity. There is no phenomenon or method to figure it out; one can only judge the behaviour. Positive employees who like their jobs will feel authorised for the work done. If an employee is unhappy, they do not work for their organisation's productivity and are just like robots.

2. LITERATURE REVIEW

Compensation plans are an essential part of human resource management that deals with implementing, designing, and maintaining a compensation system that improves the organisational structure and employee performance. Compensation management is also concerned with developing policies or strategies that aim to compensate people equitably, fairly or consistently according to the values of any organisation (Armstrong, 2005). The productivity of the workers in several aspects provides sufficient failure compensation for hard work (Mark & Ford, 2001; Nurlina, 2022). In a study on Factors that affect employee motivation, Golzadeh (2001) concludes that in any industrial or business organisation, human beings are seen to be one of the important factors for the achievement of company goals and to achieve this, the organisation should analyse the motivational factors of the employee to improve the efficiency of their workload. Motivation is a complex behaviour with several dimensions in nature.

There are many questions, like why some people in the organisation are active and why they are not, what factors influence the motivation level to the higher side, and why employees are willing to work long-term. In order to get these answers, managers take some fruitful actions to motivate the employees to perform their roles effectively. The organisation's main goal is to satisfy employees with their jobs and make them interesting workplaces. If the reasons for Dissatisfaction are clear, any organisation must make more efforts and enhance the working environment and conditions of workers in a manner so that he or she become more satisfied and do the job efficiently (Alam, 2022). Another descriptive study takes place by (al, 2010) on factors that influence the motivation of employees working in private and public hospitals in Isfahan for all job levels. As a result, the study shows that employees and managers have reliable views about the pyramid of needs. There was not any significant difference in the views of employees and managers about motivational factors. However, it was observed that employees and managers have similar views about the needs and the job satisfaction.

Another research has been done by Bakhshi Ali Abadi et al. (2004) among Rafsanjan University of Medical Science faculty members. The study concludes that 72% is the intrinsic factor and 81% is the external factor for job motivation. The intrinsic factors include appreciation and job success, and the extrinsic factors are the variables that affect job motivation, job security, quality of communications, and salary. The study also concludes that intrinsic factors are less important in creating job motivation than extrinsic ones. It is also observed that job security and salary are the main contents of job motivation, which results in performance. The research study by Amirkhani (2010) examined the relationship between client satisfaction and employee motivation in Tehran's security social organisation. The assumption is that if employees' health needs are satisfied, it ultimately leads to customer satisfaction. The study conducted by Al-kharabsheh et al. (2023) also endorses the impact of employees' motivation and performance.

The study of Vioasami et al. (2001) concluded that crisis management, decision-making, interpersonal relations, conflict management, reward management, error management, supervision, trust, etc., are the different factors influencing employee motivation levels and will increase employees' involvement in decision-making. The most important motivational factors which affect employees are job security and honesty in management (Franco, 2004). Management and manager's researchers have believed that company mission and organisational goals are unachievable or impossible without employees' lasting commitment or contributions. Satisfaction is a psychological phenomenon that ultimately contributes to

high commitment.

According to (Dessler, 2005), compensation is a composite or complex topic that significantly influences any organisation's success. Another factor in employee benefits is the encirclement elasticity. A bachelor employee may choose the currency instead of caring for the child (Crane, 2005)

Hypothesis

H1 : Compensation has a positive impact on employees' performance.

3. RESEARCH METHODOLOGY

This study is mainly based on primary data collected through a questionnaire designed to know about the influence of compensation on employee performance.

Variables

This research identifies two variables: compensation (Independent Variable) and employee Performance (Dependent Variable).

Sampling Size and Sampling Technique

A non-probability convenience sampling technique is used to collect data. The size of the sample used in this research is 65 employees.

4. RESULTS & FINDINGS

SPSS was used to test the collected data by using different techniques in order to serve the basic purpose of this chapter. The reliability approach was used to check the reliability of the variables, which is the first technique.

Table 1
Descriptive Analysis

Variable	Kurtosis	Skewness	Mean	Std. Deviation
Compensation	-0.382	-0.134	3.6588	0.69208
Employee Performance	1.004	-0.781	3.9391	0.61005

The compensation has a mean value above 3, which indicates it is greater than 2.50, which shows that almost all the respondents gave answers affirmatively. The standard deviation is less than 1, which shows less variation in the responses. Skewness measures the symmetry, which is in a negative value, so it is negatively skewed. As the kurtosis value is greater or less than zero, it concludes that the tails are heavier or lighter than a normal distribution.

Table 2
Reliability of Data

Variable	No. of Items	Cronbach's Alpha
Compensation	10	0.868
Employees' Performance	10	0.840

The reliability test was conducted to check the reliability of the variables. As suggested by Wu and Lee (2015), if a value of Cronbach's α is greater than 0.6, then the reliability of a study is good.

Table 3

Correlations: Compensation and Employees' Performance

		Compensation	Employee Performance
Compensation	Pearson Correlation	1	.759**
	Sig. (2-tailed)		.000
	N	65	65
E. Performance	Pearson Correlation	.759**	1
	Sig. (2-tailed)	.000	
	N	65	65

**. Correlation is significant at the 0.01 level (2-tailed)

Compensation and employee performance have very good reliability values, i.e., 0.868 and 0.840, respectively, showing that the items' internal consistency is excellent as both exceed the benchmark (0.7). It shows that the correlation is significant. This shows that compensation and employee performance are positively associated.

Table 4

Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. error of the Estimate
1	0.759a	0.577	0.570	0.39807

a. Predictors: (Constant), Compensation

b. Dependent Variable: Employee Performance

The above table shows the regression model summary; it can be observed from the table that the value of R is 0.759; on the other hand, the R square value is 0.577, which depicts that the Compensation explains 57.7% of variations in the Employees Performance. Moreover, the adjusted R-square (57%) is closer to the R-square (57.7%), indicating no sample error.

Table 5

ANOVA

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	13.595	1	13.595	85.794	.000b
	Residual	9.983	63	.158		
	Total	23.578	64			

a. Dependent Variable: E. Performance

b. Predictors: (Constant), Compensation

The ANOVA table shows that the overall model is significant as $F=85.79$ ($F \geq 4$), followed by a sig value of less than 0.01. Moreover, it also shows that the model's explained variations (R-square) are also significant.

Table 6Coefficients^a

	Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta			
1	(Constant)	1.473	.270		5.455	.000
	Compensation	.675	.073	.759	9.263	.000

a. Dependent Variable: E. Performance

Discussion

The study was conducted to determine what makes an employee perform well to grow the freight forwarding organisations in Karachi. The variables of the study provide a deep understanding of employees. Thus, it can be concluded that compensation boosts the performance of employees.

Lastly, the variable compensation obtained a sig. value of $0.000 < 0.01$, which implies that a significant relationship is there between performances.

5. CONCLUSION

The study investigated the determinants of employee performance. From the results, we conclude that employee performance is affected by compensation if the employee is equally dealt with, if their compensation is according to their qualification or experience, if the management supports the employee if the working conditions and tools are according to the job descriptions, it will boost their performance will ultimately result in organisation growth. The Human Resources department should plan such plans for employee development from which the employee gets motivated.

Limitations

This study has limitations as this research is done only on the freight forwarding companies of Karachi regions, so these limitations provide the basis for future studies.

Recommendations

Researchers recommended collecting data from all over Pakistan or adopting the items from the updated survey questionnaire. These can take other variables that affect the employee's performance or are hurdles for organisational growth.

Competing Interests

The authors did not declare any competing interest.

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