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Impact of Compensation Management on Employee Motivation: A Case Study of Malviya Urban Cooperative Bank

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ABSTRACT

In this changing scenario compensating the employees according to the performance and which motivates them is the priority and right of employees. There is a strong link between compensation management and employee motivation. The paper is an effort to determine the relationship between compensation management and employee motivation in Cooperative banks. The variables which have impact on employee motivation are wages & salary, working hours and promotion system. The objective of this research paper is to analyze compensation management practices required to retain employees and maintain them. The main aim of this Research paper is to study compensation management and related aspects and to know the impact of compensation management on employee motivation in private sector banks in Jaipur city. The research paper makes use of structured questionnaire administered to the selected respondents for data collection has been done. The results revealed that there is positive relationship between compensation management and employee motivation. The rank analysis showed that the factor which contributes more to the employee motivation is job security of employees whereas promotion system results in more satisfaction.

KEY WORDS: Compensation Management, Employee motivation, Malviya Urban Co-operative Bank, Monetary incentives

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“If you pick the right people and give them the opportunity to spread their wings - and put compensation and rewards as a carrier behind it - you almost don't have to manage them.”

— *Jack Welch*

1.1 INTRODUCTION

Human Resource Management is an integral function of an organization which needs focus on many factor including compensation, retention, performance appraisal and quality of work life, but by far compensation has strong relation with employee motivation.

1.1.1 Concept of Compensation Management

“Compensation refers to all forms of financial returns and tangible services and benefits employees receive as part of employment relationships¹ Compensation comprises of all the benefits provided to employees in return of the services given by employees. Compensation not only satisfies employees but also motivates employees. Compensation is all about the financial and non- financial benefits which are the rights of employees for their contribution to the organization. Compensation directly or indirectly affects the performance of the employees. The different components of compensation makes employees feel that they are secured and working under a better organization that is fulfilling their needs. When the employees feel secured and satisfied they perform better.

1.1.2 Concept of Motivation

Rensis Likert, in his book *Motivation: The Core of Management*, explained motivation as “The core of management which shows that every human being earnestly seeks a secure, friendly and supportive relationship which gives him a sense of worth in face-to-face groups which are not most important to him.....A supervisor should strive to treat individuals with dignity and a recognition of their personal worth.”² As the theory of Abraham Maslow explained Motivation is the drive of a person to carry out a task which he desires to do so. Employee Motivation factors prevailing in banking sector are:

- **Fair wage and salary:** Salary is compensating the employees for their services and performance given to the organization. Salary is an amount which employees get every month act as a motivation factor to satisfy their needs.

- **Health and other services:** Health and services include the hygiene factors, cafeteria. This also includes employee health insurance and life insurance schemes. Banks also organize regular checkup of employees, blood donation camps etc.
- **Work environment:** Organizational culture contributes more towards motivating the employee to perform better. Relation with peers, superiors and management plays an important role.
- **Prestige and recognition:** Every time employee performs better need to be praised and recognized so that he/she gets motivated to perform better and better. Banks have targets for employees if reached in a stipulated time period the employee gets bonus.
- **Management policies and style:** The management should also have flexible policies related to compensation. Private Banks provide cab facility and mobile allowance are also motivation factors.
- **Non-cash benefits:** Some banks provide Non cash benefits like promotion; job security, working hours, and workplace flexibility are also some of the factors which motivate employees.

1.1.3 Relationship between Compensation Management and Employee Motivation

Motivation is a drive or force which directly or indirectly contributes towards the performance level of employees. But it can only be accomplished if that force is linked with the individual satisfaction and fulfillment of individual objective. Compensation management is that force which motivates the employees to perform better. Compensation management has two main factors i.e. monetary and nonmonetary incentives. Employees are not satisfied with either monetary or neither non-monetary but the efficient use of both monetary and nonmonetary incentives.

These motivation factors can be working hours, salary and wages, benefits, perks performance appraisal and benefits. Compensation management is a dependent variable which motivates employees and has a positive impact which contributes towards the achievement of organizational goals.

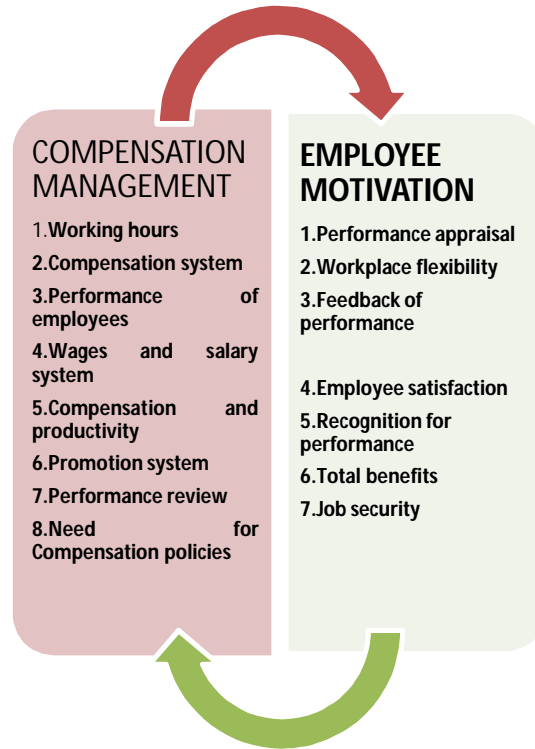


Fig 1. Variables of Compensation Management and Employee Motivation.

1.2 HISTORICAL BACKGROUND

Malviya Urban Cooperative Bank

Malviya Urban Co-Operative Bank Ltd. is a credit cooperative society, initially registered under Rajasthan Co-operative Society Act 2001. Malviya Urban Co-Operative Bank Ltd. strictly abides by the State Co-operative Societies Act. Society is not a personal institution owned by an individual but is a fully democratic organization managed by the 'Board of Directors' who are elected by the members of the society in the Annual General Meeting and the Board of Directors take decisions unanimously with total transparency. More so, the Department of Co-operative of the Central Government constantly reviews the functioning of the society at regular intervals.

The Malviya Urban Co-operative Bank Ltd., Jaipur is registered under the Rajasthan Cooperative Societies Act 1965 dated 28.08.1999 vide registration number 269/LC having its registered office at Jaipur. The date of commencement of business was 24.01.2000, as the license to carry on banking business had been issued by R.B.I. vide No. UBD. Rajasthan 0003 (P) dated 29.10.1999. Since commencement of its business from January 2000 the bank is running as a profitable entity. The bank's business has expanded over the years and now has 6 branches at various locations in the city as under:

1. Manokamna A-48, Sudarshanpura Enclave, Golimar Garden, SahakarMarg, Jaipur.
2. Vasundhara, Tonk Road, Jaipur.
3. 61/224 Rajat Path, Mansarovar, Jaipur.
4. Shop No.72 Bardiya Market, Johari Bazar, Jaipur.
5. Plot No. 1 Vijay bari path No.7, Murlipura, Sikar Road, Jaipur.
6. 86/174 A- KumbhaMarg, Pratap Nagar, Jaipur.
7. Manokamna A-48, Basement, Sudarshanpura Enclave, Golimar Garden, SahakarMarg, Jaipur.

1.2.1 Compensation Management and Motivation Practices in Malviya Urban Cooperative Bank

Malviya Urban Cooperative bank has its 6 branches in Jaipur city. This Cooperative bank has less complex compensation policies. The bank has proper wages and salary management, benefits, bonus and ESOPs. As the no. of employees are not too many so it is of prime focus for the management to motivate its employees. The bank doesn't link compensation with productivity which is highly motivating factor.

The bank doesn't follow the compensation policies according to the market or recent trends. It has also been found allowance facility, total benefits package and employee feedback practices are not attractive in comparison to public and private sector banks. The employees of the bank have job security, workplace flexibility and performance appraisal sessions time to time. The bank needs to work more on HR practices for better results and employee satisfaction.

1.3 LITERATURE REVIEW

The author opined that compensation management contains five main factors which include basic salary, short term incentives, long term incentives, benefits & services and perquisites. The study was conducted on 753 respondents to know the impact of different components of compensation on the motivation level of employees. The study was conducted on public and private banks of New Delhi. The study revealed that basic salary and benefits & incentives motivate more to the employees of public sector banks whereas the employees of private sector are motivated more by short term and long term incentives.³

The study conducted in Pakistan viewed the effect of compensation on motivating the employees of public and private banks. The author has described compensation contains three components as flexible pay, fixed pay and benefits. The study has been conducted on 95 employees of private and public banks of Peshawar. The study concluded that the employees of private bank should be rewarded with the benefits that they value whereas the employees of public banks get highly motivated with vacations, medical insurance and retirement benefits.⁴

The study in Ujjain has focused on the Employee perception towards compensation management system in selected branches of SBI banks in Ujjain. The author described that compensation policy is an important part to attract and retain employees. But the study has revealed that employees of SBI bank were not satisfied with compensation system. The study concluded that the employees are not properly compensated for their services proper job evaluation methods are lacking and there is no match between the organizational and personal objectives.⁵

The author has analyzed the compensation methods and employees motivation with reference to national commercial bank Riyadh. The study has been conducted on 50 employees of NCB bank. The results of the study revealed that extrinsic and intrinsic rewards both motivated the employees around 50% of employees were satisfied with extrinsic rewards i.e. basic salary, bonus, benefits etc. whereas 50% of employees were satisfied with intrinsic rewards i.e. training and autonomy. So, it can be concluded that the mix of both extrinsic and intrinsic rewards is necessary to motivate employees.⁶

1.4 RELEVANCE OF THE STUDY

This paper is an attempt to analyze the different types of compensation policies used in banking sector with special reference to cooperative banks and their impact on the employee's motivation. The study has tried to identify the impact of bonus, basic salary, incentives, perquisites, short term and long term incentives on the motivation and performance level of employees. It also helps to determine from these factors which factor motivates them more. It also shows on what basis employees are compensated i.e. how the performance and job evaluation methods are being implemented.

2 OBJECTIVES

- To study compensation management practices prevailing in Malviya Urban Co-operative Bank.
- To understand different factors of employee motivation in Banks.
- To identify the linkage between compensation management and employee motivation.

- To analyze the impact of compensation management on employee motivation.

3 HYPOTHESES

The following hypotheses have been formulated for the present study:

Null Hypothesis

- H_{01} : There is no significant relationship between *Compensation Management and Employee Motivation in Banks*

Alternate Hypothesis

- H_{A1} : There is a significant relationship between *Compensation Management and Employee Motivation in Banks*

4 RESEARCH METHODOLOGIES

The present study is exploratory as well as descriptive in nature. Both primary and secondary sources of data collection have been used for collecting the data. Structured questionnaire has been administered for the purpose of collecting primary data. The questionnaire was distributed amongst 50 respondents. The simple random sampling method is used. The questionnaire was designed using 5 pointlikert's scale. Coding and tabulation was done and data collected so was analyzed by using SPSS software.

5 DATA ANALYSIS AND INTERPRETATION

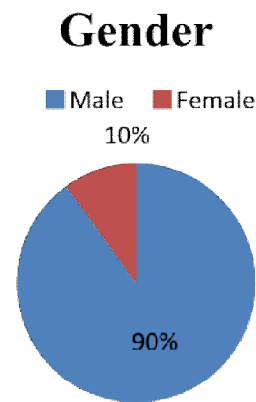
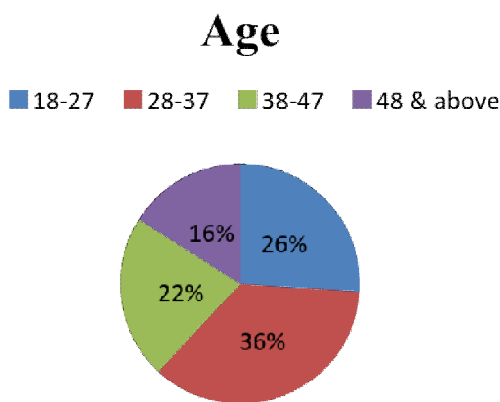
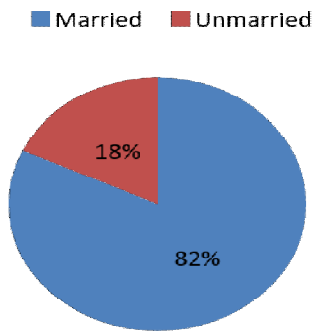


Fig 2 (A) Pie chart representing Age, Gender, Marital status and Income profile of respondents.

Marital Status



Income

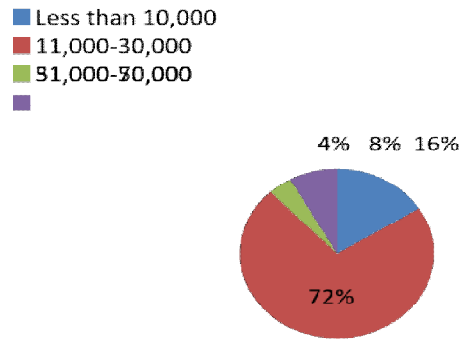


Fig 2 (B) Pie chart representing Age, Gender, Marital status and Income profile of respondents.

Table 1. Demographic profile of respondents

Demographic Profile of Respondents			
Parameters	Category	Frequency	Percentage
Age	18-27	13	26.0
	28-37	18	36.0
	38-47	11	22.0
	above 48	8	16.0
	Total	50	100.0
Gender	Male	45	90.0
	Female	5	10.0
	Total	50	100.0
Marital Status	Married	41	82.0
	Unmarried	9	18.0
	Total	50	100.0
Income	Less than 10000	8	16.0
	11000-33000	36	72.0
	31000-50000	2	4.0
	51000-70000	4	8.0
	Total	50	100.0
Work Experience	Less than one year	4	8.0
	1-5 years	22	44.0
	5-10 years	12	24.0
	Above 10 years	12	24.0
	Total	50	100.0

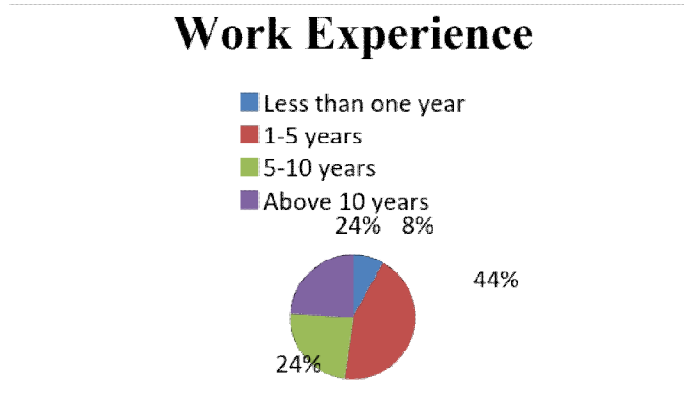


Fig 3 Pie chart representing Work Experience of respondents.

Inference: It is evident from the above demographic details of respondent that research has been conducted on different parameters of respondents. As in the current study the total sample size is n=50.

Table 2 Rank analysis of Compensation Management variables

COMPENSATION MANAGEMENT									
Variables	5	4	3	2	1	Total	Weighted Total	Weighted Mean	Rank
Working hours	21	14	2	12	1	50	192	12.8	6
Compensation system	19	18	9	2	2	50	200	13.33	4
Performance of employees	2	31	12	3	2	50	178	11.87	8
Wages and salary system	24	17	4	5	0	50	210	14	3
Compensation and productivity	3	26	19	1	1	50	179	11.93	7
Promotion system	20	28	2	0	0	50	218	14.53	1
Performance review	25	18	5	1	1	50	215	14.33	2
Need for Compensation policies	7	33	8	2	0	50	195	13	5

Inference: From the above table it can be inferred that **Promotion** is the major factor in Malviya Urban Co-operative Bank and it is ranked first by respondents. The next major factor is **Performance reviews** which and it is ranked second by the respondents. The factor which is ranked third by the

respondents is **Wages and salary**. The next factor which is ranked fourth by the respondents is **Compensation system**. **Need for Compensation policies & working hours** is ranked as fifth and sixth by the respondents. The factor which is ranked seventh & eighth by the respondents is link between **Compensation & productivity and performance of employees**.

Table 3 Rank analysis of Employee Motivation variables.

EMPLOYEE MOTIVATION									
Variables	5	4	3	2	1	Total	Weighted Total	Weighted Mean	Rank
Performance appraisal	23	8	19	0	0	50	204	13.6	3
Workplace flexibility	14	30	6	0	0	50	208	13.87	2
Feedback of performance	9	23	18	0	0	50	191	12.73	6
Employee satisfaction	12	26	12	0	0	50	200	13.33	5
Recognition for performance	13	26	11	0	0	50	202	13.47	4
Total benefits	2	32	14	1	1	50	183	12.2	7
Job security	21	25	4	0	0	50	217	14.47	1

Inference: From the above table it can be said that **Job security** is the major factor in Malviya Urban Co-operative Bank and it is ranked first by respondents. The next major factor is **Workplace flexibility** which and it is ranked second by the respondents. The factor which is ranked third by the respondents is **Performance appraisal**. The next factor which is ranked fourth by the respondents is **Recognition for performance**. The **Employee satisfaction & Feedback of performance** is ranked as fifth and sixth by the respondents. The factor which is ranked seventh by the respondents is **Total benefits package**.

6 HYPOTHESES TESTING

H_{A1}: There is a significant relationship between *Compensation Management and Employee Motivation in Banks*

Table 4 Descriptive analysis

Descriptive Statistics			
	Mean	Std. Deviation	N
CM	3.9675	.48564	50
EM	4.0143	.40329	50
Correlations			
		CM	EM
CM	Pearson Correlation	1	.746
	Sig. (2-tailed)		.026
	N	50	50
EM	Pearson Correlation	.746	1
	Sig. (2-tailed)	.026	
	N	50	50

Inference: From the above table it can be clearly evident that *Pearson's correlation value is .746* and *sig. value is .026* which indicates that there is a strong positive correlation between *compensation management* and *employee motivation*. From the results shown above it can be said that if compensation management will improve than employee motivation will also increase accordingly.

7 LIMITATIONS OF THE STUDY

1. The research has been conducted on Cooperative banks due to which sample size taken is very small.
2. Employees were not cooperative.
3. Motivation level may differ from person to person.

8 FINDINGS

The above analysis shows that compensation management is very important for employees but it should be linked with their productivity. The employees in the bank are less aware about the prevailing compensation policies in different banks. Compensation policies at Malviya Urban Co-operative bank need to be evolved more and should match the prevailing industry norms. The rank analysis showed that the factor which contributes more to the employee motivation is job security of employees whereas promotion system results in more satisfaction. The results also revealed that there is a strong positive correlation between compensation management and employee motivation. It can also be seen that the main drawback is the efficient use of the same and well defined and explicit compensation policies. The bank should make use of both monetary and nonmonetary incentives to motivate the employees.

9 SUGGESTIONS

The employees should be given proper allowance facility, salary and job security according to the market trend. The objective of the bank should be linked with the objective of the individual so that both the objectives are accomplished and employees feel motivated to work. The needs of the employees should be determined and accordingly be accomplished by the banks through different motivational techniques. The bank should make use of different non-monetary incentives also so the employees feel connected with the bank.

10 CONCLUSIONS

The research paper helps to arrive at a conclusion through the discussion and analysis of data the motivation is an important aspect of employee's job satisfaction. But to motivate the employees one of the important aspects is compensation management i.e. proper compensation policies. The results also showed that if the compensation policies are managed effectively it will directly affect the motivation level of employees. It can be concluded from the above results that variables which contribute to compensation management are promotion system, performance reviews and wages and salary. The factors which influence motivation level of employees in Malviya Urban Cooperative Bank are job security, workplace flexibility and performance appraisal.

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