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The Impact of various components of Compensation on the Motivation level of employees – A comparative study of selected Indian Public and Private sector Banks

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ABSTRACT

The objective of this paper is to analyze the impact of different components of compensation on the motivation level of employees in the banking sector. For the purpose of study, the compensation has been classified into five components namely Basic salary, Short-term incentives, Long-term incentives, Benefits & services and Perquisites. Data has been gathered from 753 employees at different managerial levels of different public and private sector banks of India. The questionnaire, used for the purpose, has been tested by using Cronbach's Alpha for validity and reliability. The value of alpha is calculated as 0.75, which is considered to be reliable. Convenient sampling technique has been used to collect data from both public and private sector banks. The principal statistical tools used for data analysis are mean, standard deviation and t-test. The results of the study reveal that a significant difference exists in the motivation level of the employees of public and private sector banks at different managerial levels with regard to various compensation components. Based on the findings of the study, some suggestions for the banking industry has been given which can be useful in designing the compensation structure of the employees.

Keywords: Compensation, Motivation, Indian banks, Reward, Pay

1. INTRODUCTION

Like many other key industries of the Indian economy, the banking industry has undergone major changes with the implementation of liberalization policy by Government of India some twenty years ago. The private banks, with their emphasis on the use of technology and professional management, have gained a noticeable position in the banking industry. The popularity of these banks can be gauged from the fact that in a short span of time, these banks have gained considerable customer confidence and consequently have shown impressive growth rates. In nutshell, the new generation private sector banks have leveraged on their better strengths and competencies viz. management, operational efficiency and flexibility and higher employee productivity skills in comparison to the public sector banks. Competition in the industry has become intense with an advanced technological base and highly skilled manpower of private sector banks as compared to public sector banks.

While keeping pace with the technological changes is one important and achievable aspect of the strategy to survive and succeed in such a fiercely competitive environment, the challenge lies in efficient management of the human resources especially in case of service institutions like banks. An important outcome of effective and efficient Human Resource management is the high motivation level of its employees leading to commensurately high performance. The motivation level of employees in any organization cannot be analyzed without taking into consideration the compensation arrangements of that organization.

For an organization to have a "one size fits all" approach while devising the compensation policies for all of its employees may not be appropriate. The compensation structure needs to be elaborated dividing it into various components to address the needs and aspirations of the employees at different hierarchical levels. For the purpose of the present study, five **basic components of managerial compensation** are considered. The first component, Basic salary, is usually the single largest and fixed component of compensation package. This is a function of an organization's competitive market, pay strategy in that market and the individual executives' positions in their salary ranges. Further the most components of compensation are measured relative to basic salary levels. The second component is Short-term incentives, which is granted upon the achievement of a certain result within current accounting year. This includes payment for overtime, bonus and commission, achievement awards and profit sharing etc. The objective of this component is to motivate the employees for their performance. The third component of compensation is Long-term incentives which are means to provide cash incentives or equity for employees to improve the overall performance of the organization by linking the employees' long-term rewards to the organization's long-term results and these plans become invalid if the employee leaves the organization before a specific period. Hence this component can serve as a means of retention. Benefits & services are the in-kind payment which employees receive in addition to money. It includes medical and retirement benefits. The objective of this plan is to enhance the motivation of the employees and to reduce the absenteeism and turnover by providing them security. Services include the pay for holidays, vacations and leaves etc. The fifth component of compensation is non-cash component known as perquisites given to the key officials and senior management employees to enhance quality of their lives. It includes club memberships, foreign trips, reimbursements of mobile phone bills & transportation, hotel stays, free refreshments, leisure activities during work time etc.

2. REVIEW OF LITERATURE

An empirical study conducted by Alsabari et al. (2012) shows that nowadays the banking services are highly competitive and banks regardless of size, technology and market forces are facing employee retention challenges. To overcome this challenge banks must focus more on employees' satisfaction and motivate them to increase the effectiveness of banks. According to the author rewards and recognition are essential factors in enhancing employees' job satisfaction and work motivation which is directly associated to organizational achievement. Shrivastava & Purang (2009) conducted a study on 340 employees of both public and private sector banks to examine their job satisfaction level and found that was found that private sector bank employees perceive greater satisfaction with pay, social, and growth aspects of job as compared to public sector bank employees. On the other hand, public sector bank employees have expressed greater satisfaction with job security as compared to private sector bank employees. An empirical study was conducted by Malik et al. (2011) on bank employees of 21 different banks. The result of study reveals that a positive relationship exists between rewards and employee motivation and if reward is increased by one unit then motivation increased by 0.527 units. So the rewards are directly proportional to employee motivation and employee motivation depends on rewards. Sangwan (2005) conducted a study to find out the most important motivational factors among some private and public sector companies Including some public sector banks by taking variables as salary, career prospects, organisational image, nature of job, organisation culture, job security, work environment, working hours, power and authority, freedom of work, staff welfare and fringe benefits, value addition and proximity to residence. The outcome of the study shows that for the 31 percent of the respondents salary is the most important motivational factor, but for the other 20 percent the career prospects comes first. There is a huge difference in the responses with regard to salary as the first choice between the employees of private and public sector organizations. This is based on the fact that that 41 percent of the private sector employees give highest weightage to salary as a motivating factor as compared to just 29 percent of the public sector employees. This may be because unlike the public sector organizations, the compensation structure is negotiable and flexible in private sector organizations. Loganathan (2006) suggests that banks in India will have to think of different strategies to motivate employees. The employees of the banks should be differentiated in terms of performance and there should be incentive for the better performance, as salary is the most important factor for motivation. Reward and recognition programs can positively affect motivation, performance and interest within an organization. While a little more problematic, team-based incentives, if designed appropriately, can also encourage and support a range of positive outcomes. Khan & Mufti (2012) conducted an empirical study to analyze the effect of different compensation components on the motivation level of the bank employees. The result of the study reveals that there is a strong relationship of compensation with motivation. The employees are not motivated because of believe in their skills neither are they motivated when told that they would be rewarded on the other hand, they get motivated if rewarded by something they value.

From the literature review, it is evident that many factors contribute to the motivation level of employees and compensation arrangement of an organization is one of most important factors. Therefore to gain more insight into the subject matter, the researcher has opted to study the impact of various components of compensation on the motivation levels of the employees at different managerial levels in banking industry.

3. PURPOSE OF THE STUDY

The purpose of this empirical study is to increase present knowledge and understanding of the effectiveness of compensation when seen in respect to the motivation levels of employees at different managerial levels in public and private sector banks. The study, thus, encompasses a comparative analysis of compensation arrangement in a public sector and private sector banks with following objectives:

- To analyze the impact of compensation components on the motivation level of the employees of public and private sector banks.
- To suggest the compensation strategies to motivate employees in banking industry.

4. METHODOLOGY

The study was based on survey method. The data for the study has been collected through two sources - Primary Data and Secondary Data. Convenience sampling was administered in the study. The responses to the questions prepared for the purpose were sought from a sample of 800 managers in the selected banks. The responses in respect of 753 respondents could be finally approved for the analysis. For the study, participants were selected from the three management levels - senior, middle and junior in the ratio of 2:3:5 that are numbering 80, 120 and 200 respectively in each type of bank. The questions were framed on 5-point Likert's scale ranging from 5-greatly increase, 4-tends to increase, 3-has no effect, 2-tends to reduce and 1-greatly reduce. The data has been analysed with the help of statistical techniques such as t-test.

5. DATA ANALYSIS AND INTERPRETATION

For the better understanding of the study, the profile of the respondents in terms of management level has been provided in the **Figure 1**.

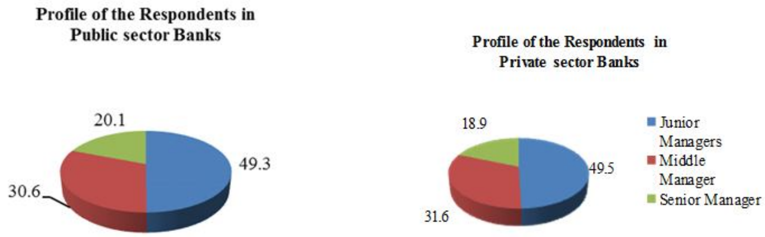

Figure 1 Profile of respondents (percentage)

The present study is based on the perception of the employees regarding their motivation level with various components of compensation. To examine the difference in the motivation levels of the employees between public and private sector banks, t-test has been applied for the various components of compensation. The hypothesis formulated in this regard is given below.

The Null hypothesis formed is as follows:

H0: There is no significant difference between the effect of compensation components on the motivation level of the employees of public and private sector banks at different managerial levels.

The data collected from the survey has been compiled and presented in the Tables 1 to 4 below for further analysis and interpretation. Table 1 depicts the t-test results comparing the effects of various compensation components on the motivation level of the public and private sector bank employees at the three managerial levels taken together. Tables 2, 3 and 4 show the level wise comparison of the same at junior, middle and senior level management respectively.

Table 1: Comparison of effect of various Compensation Components on the motivation level of the public and private sector bank employees

Compensation components	Public sector Banks (N=383)		Private Banks (N=370)		t-value
	Mean	Std. Dev.	Mean	Std. Dev.	
Basic Salary	4.24	0.86	4.65	0.54	7.80**
Short-term incentives	4.11	0.93	4.47	0.67	6.08**
Long-term incentives	4.05	0.83	4.33	0.70	5.00**
Benefits and Services	4.24	0.74	4.12	0.53	2.55*
Perquisites	4.11	0.84	4.02	0.51	1.77^{ns}

* *Significant at 0.05 level* ** *Significant at 0.01 level* ns *Not significant*

Table 2: Comparison of effect of various Compensation Components on the motivation level of the public and private sector bank employees at junior management level

Compensation components	Public sector Banks (N=189)		Private Banks (N=183)		t-value
	Mean	Std. Dev.	Mean	Std. Dev.	
Basic Salary	4.22	0.85	4.70	0.52	6.54**
Short-term incentives	4.13	0.89	4.70	0.46	7.72**

Long-term incentives	4.11	0.80	4.43	0.55	4.48**
Benefits and Services	4.29	0.68	4.10	0.50	3.06**
Perquisites	4.16	0.79	4.00	0.45	2.39*

** - Significant at 0.05 level ** - Significant at 0.01 level ns - Not significant*

Table 3: Comparison of effect of various Compensation Components on the motivation level of the public and private sector bank employees at middle management level

Compensation components	Public sector Banks (N=117)		Private Banks (N=117)		t-value
	Mean	Std. Dev.	Mean	Std. Dev.	
Basic Salary	4.36	0.84	4.67	0.53	3.37**
Short-term incentives	4.21	0.92	4.23	0.74	0.18^{ns}
Long-term incentives	4.05	0.92	4.26	0.64	2.03*
Benefits and Services	4.31	0.83	4.10	0.50	2.34*
Perquisites	4.16	0.85	4.08	0.58	0.84^{ns}

** - Significant at 0.05 level ** - Significant at 0.01 level ns - Not significant*

Table 4: Comparison of effect of various Compensation Components on the motivation level of the public and private sector bank employees at senior management level

Compensation components	Public sector Banks (N=77)		Private Banks (N=70)		t-value
	Mean	Std. Dev.	Mean	Std. Dev.	
Basic Salary	4.09	0.89	4.50	0.58	3.27**
Short-term incentives	3.91	1.01	4.29	0.71	2.61**
Long-term incentives	3.91	0.78	4.19	0.90	2.02*
Benefits and Services	4.00	0.69	4.19	0.61	1.95^{ns}
Perquisites	3.90	0.93	3.97	0.50	0.56^{ns}

** - Significant at 0.05 level ** - Significant at 0.01 level ns - Not significant*

From the tables 1, 2, 3 and 4 it is observed that all the components of compensation namely basic salary, short term incentives, long term incentives, benefits & services and perquisites tend to increase the motivation level to work in respect of employees of both public and private sector banks. This also holds true for different managerial levels – junior, middle and senior management levels. Of all the components, basic salary and benefits & services are perceived to play an important role in increasing the motivation level to work in respect of public sector bank employees at all levels, while in private sector banks, basic salary and incentives - both short term and long term are found to motivate more at all levels. While basic salary component is commonly seen as motivating factor in banking industry as it is a fixed component of compensation which provide a sense of security to the employees and all other components are measured relative to basic salary. The difference in perception in regard to other components being important factors influencing the motivation levels can be attributed to their working environment. In public sector banks the employees face certain problems due to their service conditions i. e. transfer liability and remote area posting which makes them perceive the benefits & services component as major factor in increasing their motivation level in addition to basic salary. The employees in case of private sector banks do not face such problems. They consider incentives - both short-term and long-term as major motivating factors in addition to basic salary since they can get more remuneration if they perform better.

The hypothesis that there is no significant difference between the effect of compensation components on the motivation level of the employees of public and private sector banks at different managerial levels is rejected on the basis of the results of T-tests in the tables 1, 2, 3 and 4. **Therefore there is significant difference in the motivation levels of the employees of public sector and private sector at all managerial levels with various components of compensation.**

6. FINDINGS AND CONCLUSION

The findings of this study state that of all the components, basic salary and benefits & services are perceived to play an important role in increasing the motivation level to work in respect of public sector bank employees at all the managerial levels, while in private sector banks basic salary and incentives - both short-term and long-term are found to motivate more at all managerial levels. The major challenge to banking industry is to design the compensation structure of their employees with a proper blend of these components. On the basis of the survey and the focus interviews during the course of study, the researcher offers to make following suggestions

- The industry level compensation agreements make it difficult for public sector banks to retain and motivate the talented employees. This study recommends that public sector banks should be given more freedom in deciding their own HR policies rather than industry level agreement. Autonomy needs to be given to public sector banks to decide on their compensation policies including compensation levels, structure and delivery depending upon market forces. Simply revising the compensation levels and structure and freezing it for a fixed period will not serve the purpose. These policies should continuously respond to the changes in the environment.
- In public sector banks, the issue is not limited to low compensation levels. The incremental growth is also slow and not many people are willing to wait long when other sectors are offering better initial as well as incremental packages. The public sector banks while framing their compensation policies should not only benchmark their compensation levels with the banking industry but they should observe the changes in the economy at large including other government establishments which have the potential to attract the same talent pool.
- The employees of the public sector banks feel that the quantum of the allowances given is not commensurate with the work performed by them. Public sector banks should design the compensation structure in such manner that the allowances match with the job requirements of the employees.
- The benefits programmes in banks provide equal benefits for all the employees at same level of management. But there will be a difference of interests between a person who has just joined and the one who is to retire in the next five years. Older people are interested in greater retirement benefits while younger want more monetary benefits. The 'Cafeteria-style' benefit compensation programme can be explored here. According to this plan an organisation develops a comprehensive list of benefits it is willing to offer, each of which is costed. Out of these, basic benefits like contribution to the Provident Fund goes to the whole staff, while for the remainder, the managerial staff may be allowed to choose periodically, say, once in five years, so that pay packets can be changed according to their needs.
- The high compensation levels of the private sector banks, if applied in public sector banks to address the external inequities, would bring with them the need for similar high performance standards as any increase in compensation is not justified without corresponding increase in performance levels of the employees. This calls for an element of variable pay in public sector banks which should be linked to the performance. At the same time the social objectives of the public sector banks require them to have different criteria to judge the performance levels as compared to the private sector banks where profit maximization is the main objective. The public sector banks must compete by offering a different compensation model that should have the element of performance aligned to the objectives of the organisation. Thus it is suggested to have a transparent incentive policy to be formulated by the banks individually including provisions for both team and individual achievements.
- The banks should have Employee Stock Option Plans (ESOPs) for making employees a stakeholder in the organisational growth.
- Public sector banks should also introduce generous post-retirement medical benefits as a tool for retaining talent, as some public enterprises already do.
- In public sector banks, the rural areas postings do not entitle the officers for sufficient monetary incentives leading to reluctance on their part for such postings, especially in the branches located in remote areas. It is very essential to incentivise sufficiently the officers posted to rural branches to motivate them and help in achieving the socio-economic objectives of the government.
- There are a number of benefits other than performance linked pay that can be deployed — accelerated promotion, foreign postings, deputation to subsidiaries (for which period the higher pay at subsidiaries can be made applicable), assignment to a high-quality training programme, a paid holiday with family, etc.
- The compensation structure may include new and enticing ways to retain and motivate employees with a wide range of perquisites designed to enhance individual effort. For instance, banks may use various methods to support education of its employees e.g. by reimbursement of the tuition fees etc. While this would improve their skills, it would also bring new ideas and concepts back to the department that can be used to improve their workplace. It would lead to increased job satisfaction thus helping the banks retain and motivate its employees.

The research undertaken here indicates that employees of the banking sector, especially in public sector, are not satisfied with their compensation mix which calls for improvement of the compensation policies by these organisations to attract, retain and motivate the talent pool. It is suggested that banks can address the issues through the effective use of each component of compensation while formulating the compensation policies for the employees.

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