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IMPACT OF COMPENSATION MANAGEMENT ON EMPLOYEE RETENTION- A THEORITICAL REVIEW

D.Babjohn
G.Roja
V.Naga Bindu
Gates Institute of Technology, Gooty, Andhra Pradesh, India.
babjan87@gmail.com
rojag300@gmail.com
vnagabindu@gmail.com

ABSTRACT
Success or failure of the organization depends up on employees of the organization. Employees are vital for meeting organizational goals. Employees are the assets to develop the organization growth in the world. Compensation management plays a vital role because it is the heart beat of Human Resource Management. It refers to all forms of financial benefits employees receive for the exchange of their contribution of work. Compensation is at the core of any employment trade. Compensation packages helps to motivate employee's that to perform better for the given tasks related to their work and improves organization effectiveness . It is very important for the performance of employees and for the organization too. It is a systematic approach for providing monetary and non-monetary benefits to the employees. Compensation may achieve various purposes assisting in recruitment, work performance and satisfaction. An ideal compensation management system will help significantly boost the performance of employees and create more interest that is willing to do effective work by the employees. With effective compensation system the employees will enjoy the engaged work for them. The compensation system built the competitive strategy for attracting and retaining suitable staff as well as maintaining peak performance. The management has to set up compensation system in the organization in pursuit of increased performance and general growth to ensure. This study focuses on the total compensation factors explores that which organization is providing the incentives to the staff and explains the relationship between compensation and productivity.

KEYWORDS:
Compensation management, factors, productivity, retention, employee performance.

INTRODUCTION

"Compensation management is the process of formative cost effective pay structure, designed to attract and retain, provide an incentive to work hard, and structured to make sure that pay levels are perceived as fair"

-Stephen P Robbins.

Employees are pivotal for meeting organizational goals. Employees are the assets to develop the organization growth in the world. Compensation management plays a vital role because it is the heart beat of Human Resource Management. It refers to all forms of financial benefits employees receive for the exchange of their contribution of work. To improve the employee's contribution towards work the compensation is involved in the organization. Compensation packages helps to motivate employee's that to perform better for the given tasks related to their work and improves organization effectiveness . It is the output for the employee's work performance in the form of payment like salaries, bonuses, allowances, incentives etc. It is the recognition for work done by the employees and a transaction between employee and employer. In fact, in the management of human resource in any organization compensation management is complex and controversial. It creates conflicts between employee and employer. Compensation management was introduced to satisfy and retain the employees. It was designed to provide relief to worker, who suffer with injuries and it must be equivalent for all the employees by work done.

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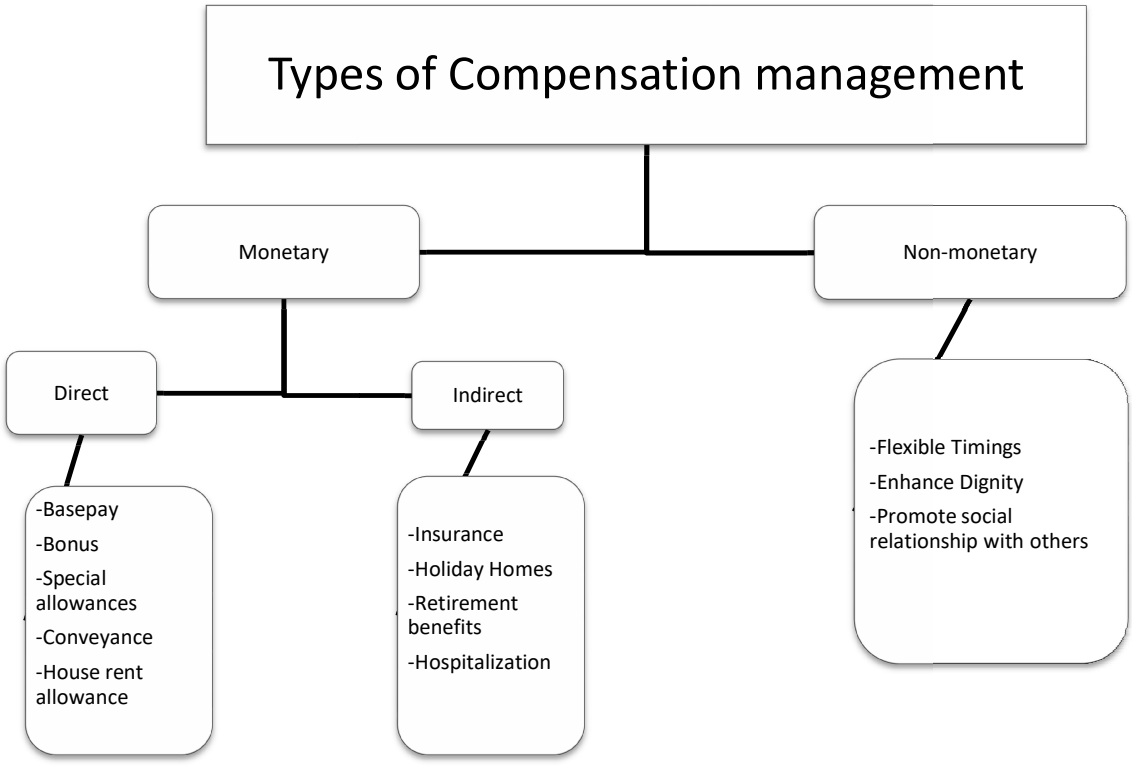
Concept:
Compensation Management, also known as wage and salary administration or reward management, is related with designing and implementing total compensation package. Total compensation is used within organizations to encourage performance of employees through motivation. According to **Zigon (1998),** Managers have a wide variety of rewards to offer employees at various cost levels which employees may find appearing. This requires understanding of individual employee preference since employees are different. As well as monetary rewards, non-monetary rewards can be strategy of comprehensive performance improvement. Employee compensation is a major staff function in any organization. In any organization it is usually in the form of financial reward given to the employees in exchange for their services. Compensation directly influences three personnel management functions. These are recruiting/selection, benefits and career planning and development.

Definitions:
"Compensation is remuneration received by an employee in return of his/her contribution to the organization. It involves balancing the work employee relation by providing financial and non-financial benefits or incentives to employees
"Compensation system is the financial reward structures, organizations use to compensate individual for the work they perform for the organizations".

-Linda K Stroh.

Types of Compensation Management:



Source: Author's Compilation

Monetary Benefits:
Basic salary, Bonus, Special allowance, Conveyance, House rent allowance etc are included in monetary benefits. These are given at regular intervals at a definite time.

Direct Compensation:
It refers to the monetary benefits offered and provided to the employees in return for their services towards organization.

- **Base Pay**
  Basic Salary is the money receives from the organization who done the work for a certain period say a day (daily wage), a week (weekly wage), a month (salary). It is the amount an employee receives from their employer by rendering services.
- **Bonus**
  Bonus is to be paid during festive seasons to motivate the employees. The bonus payment, it is a one month's salary to the employees. In some organizations, they will pay when they will get profits which are not expected by them.
- **Special Allowance**
  It includes overtime, meals, commissions, club memberships, travelling expenses, reduced interest loans, mobile and laptop allowances, etc. These provided to the employees for their social security and motivate them in increasing organizational productivity.
- **Conveyance**
  It provides cab facilities to the employees. Few companies provide vehicles and petrol allowances to their employees to motivate them.
- **House Rent Allowance**
  Organizations provide either accommodation that are from different locations like state, country or else they provide house rent allowances if not possible to accommodate them.

Indirect Compensation:
It also refers to monetary benefits but it will not be provided directly to the employees, it will be provided to third parties through which the employee will be benefited.

- **Insurance**
  Organizations provide accidental insurance and life insurances to the employees. This gives the employees emotional security.
- **Holiday Homes**
  Organizations provide guest homes to the employees at different localities. These holiday homes are usually located at hill stations and other holiday spots and the organization will take care of employees that they do not face any kind of difficulties during their stay at holiday homes.
- **Retirement Benefits**
  After retirement of the employees, organization provides pension plans and other benefits for their employees which benefits after they retire from the company.
- **Hospitalizations**
  Organizations provide money to their regular medical check-ups, say at an interval of one year. Even their family members should be eligible for the medi-claims that give them social and emotional security.

Non-monetary Benefits:

- **Flexible Timings**
  The employees are provided with adjustable timings who cannot come to office during regular shifts due to their valid reasons.
- **Enhance Dignity**
  The enhancement of dignity in the organization refers that giving awards to the employees to motivate them.
- **Promote social relationship with co-workers**
  The organization arranges get together and picnic to the employees. They spend whole day with colleauges and their family members. They enjoy their moments like making fun with others and playing games etc.

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OBJECTIVES

1. Factors influence compensation management.
2. Strategies to entice and retain personnel.
3. Relationship between compensation and productivity.

Factors influence on compensation management

- **Productivity**
  Compensation will increase with the increasing of production. In the way, the employees need to work efficiently, that can improve productivity.
- **Ability to pay**
  This is most significant factor of compensation. It depends upon the organization's profitability for the payment of workers. If the firm has ability to pay wages it refers the reduction of turnover of employees.
- **Business Strategy**
  The organization's strategy influences the compensation. If the company wants high skilled employees, so as to overtake the competitor, the company will offer more payment as compared to other company.
- **Employee**
  The worker influences by himself about the compensation. So the employee gets motivated regarding compensation because the better performance of an employee fetches more pay.
- **Labor laws**
  There are several laws passed by the government to the preserve workers from mistreatment of employers. The Payment of Wages Act 1936, The Minimum wages Act 1948, The Payment of Bonus Act 1965, Equal Remuneration Act 1976, Payment of Gratuity Act 1972 are acts passed in the welfare of labor, and all the employers must stand for these.
- **Equity Considerations**
  This also influences the compensation, it holds the values that compensation should be genuine and equal for all the workers and employers. That means, the compensation should be parallel for the same type of occupation within the organization and it should be comparable with other organization. If the compensation system is not fair that leads to work dissatisfaction, employee turnover and absenteeism.
- **Government Regulations**
  The government has introduced to protect the salary misuse by powerful employer; the government pass many laws and judicial decisions. Such laws and regulations influence the compensation system. Because, they highlight on lowest pay rate, working hours, equal pay for equal work, payment of bonus, etc.
- **Labor Market**
  The demand and supply of labor influence compensation system because the low pay is set to the workers, when the demand is less than the supply labour. Likewise, the high pay is set, when the supply of labor is less than the demand.
- **Labor Unions**
  The labor unions also affect the compensation system in the firm. These unions are created where the requirement is more and the labor material is less. And they demands more amount while working in hazardous tasks for endangering their lives. The non-unionized firm has a lot of freedom regarding to set the compensation plan.

Strategies to entice and retain personnel

In this business competition, the employers pay high amount to attract the qualified workers. In the organization point of view, the compensation management focuses on attracting and retaining the personnel. Not only the organization requires the talented and well qualified employees but they are also retained. If the competitive organization offers high payment then the labour turnover will exit. This is expensive for organizations in terms of recruiting the employees and giving training to them. If the compensation levels fall down, the workers would leave the organization. So, the company have to concentrate on compensation planning to retain the existing powerful workers. Compensation should be high to retain the employees otherwise they may quit from the organization. Depending on the compensation packages the organization can minimize the employee turnover. The intension of this objective is to discuss the strategies which are used to attract and retain the employees the company. Compensation is a very necessary element to acquire the skilled workforce since it determines the performance of employees in the organization. Because it is natural that a man works to get rewards which is equal to service delivered. The first one should be the relationship between

payment and work done; this is done within the company. The second one is beyond the company; it involves what the other firms are paying their employees in same cadre and skills. Now, we are going a step ahead of these strategies and where they are# applicable. Basic pay includes wages and salaries provided to the employees as a necessary compensation and it is depend upon the number of hours worked per day by the worker in the organization.

The compensation strategy plays vital role in all the organizations. Now the work of any capable human resource candidate to have detailed understanding of how it works to achieves a tremendous system in the organization.

Motivation: Everybody have different necessities in their lives. Some people majorly focus on money, likewise candidates work for organization, those offering high payment to them. Some achievements has more value than money, a few employees may work for acquiring knowledge by doing work sincerely, for them the company offers promotions to develop them.

Low Absenteeism: When the employees' compensation effectively managed, workers will have passion and keenness to work regularly instead of wasting time at home or any location. Even though some workers tend to stay inactive at work place, but when the workers are treated well they will offer value for it.

Low Turnover: If the employees get greater compensation and good treatment at right time then the staffs is not willing to work for any other organization. So it leads to low employee turnover. The benefits of a compensation system to employees are recognized:

Peace of Mind: The organization offers many types of insurances to employees it reduces certain fears and it results on their performance with relaxed mind.

Increase self-confidence: Every employee wants their efforts to get acceptance. By providing compensation to the employees they acquire more and more confidence. The company includes simple elements to attract employees like salary, bonuses, and incentives and provides additional training to increase morale.

Relationship between compensation and productivity

Many factors influence the productivity of employees. These factors include employee's training, employee's health, motivation which helps to increase the productivity of organization. In some organizations effective compensation packages have improved the performance of organizations and make the employees to work more innovatively. If the organizations provide the sufficient compensation packages it helps to generate fresh ideas and majority of the employees focus on their work in order to attain the compensation. This helps to improve the productivity of attaining standards and simultaneously it helps to improve the performance of employees. It has been found that if the organization doesn't provide enough compensation then the employees look for par time job that decreases the performance of the employee due to the excess stress and in turn lowers the productivity. A valuable employee is one of the major challenges for the majority of entrepreneurs.

In the early stages of start up the company, it is difficult to keep employees motivated and loyal. Some employees made argument that those who have cared by the company are not only have a greater commitment, but they too have more alert about the responsibilities of an organizational, and they also have involvement in the company. So, the organization must reward and give support to the employees to do work effectively, and this support allow them to work with trust and job satisfaction. These observations bring a step ahead for the employee motivation in secure productivity. It is an unquestionable fact that the productivity of an organization depends upon the satisfactory level of workers and more on the compensation system.

The concept of compensation has become fundamental objective over recent years in human resource management and it has attracted the attention. It is observed that worker satisfaction makes productivity; it is ultimately leads to organization's profits. Also observed that organization with higher employee retention rates obviously healthier at retaining knowledge, which leads to better presentation and profit for the production. Therefore, compensation variables pick up the employee satisfaction and reduce the amount of staff turnover and builds brand loyalty.

Employees are always lookup for advertisements on what they illustrate as better jobs. These types of staff definitely leave the organization from existing job to other job and some people use their present job to gain the knowledge and experience, it is a requirement for most jobs. Employers put attractive conditions to create strong working environment to gain the loyalty of staff. To stay in today's competitive market place an organization must to hold their staff in order to enhance productivity. Retaining staff means contributing competitive compensation pay both direct and indirect, it will push the staff to perform accurately and

increase productivity. Different payback demand different people, it is significant that to remember the needs of staff differ.

Sometimes it is believed that there is no optimistic rapport between compensation and employee productivity. But, in organizations the employees are satisfied with their fringe benefits there seem to be elevated performance because the staff know that if their productivity increases the compensation will be most attractive. They are often opinion that, what effort they put in their work contribution is not appropriate with the indirect benefits which they receive and consequently they did not get motivated to work hard. Since most of the employees work up for better fringe benefits even so many troubles have been arising.

METHODOLOGY

This article is conceptual in nature. Data collection was achieved by Online Websites, Magazines, Journals and the data is filtered to improve the quality of article.

REVIEW OF LITERATURE

Christopher Muthusi Nzyoka & Bulah Hannah Orwa (2016), Different organization adapt different theories to provide compensation to their sub-ordinates. Machigan's model says that depending upon their performance the payment has to be provided in the form of compensation. Harward's model says that the best compensation package can be provided in the form of motivation. But managers believe that performance, attitude, motivation serves as the best characteristics to provide compensation package.

Samuel O. Oyedele (2016), In majority of countries employee compensation management is considered to be as a complex issue. In this employee compensation management the role of salary and wage administration plays a very crucial role. So depending upon their performance the compensation has to be provided for the employees.

Howard Adler & Richard Ghiselli (2015), most of the reputed institutions realize the importance of compensation to attain the profitability growth. Every year a magazine called "Fortune" ranks the best 100 companies, the best 100 companies will be evaluated on the basis of Human Resource practices such as health benefits, hike and number of hours engaged in the work, availability of facilities, work life programs.

IBOJO. Bolanle Odunlami & ASABI.Oludele Mathew (2014), Compensation management is considered to be as the dynamic issue in the present era of Human Resource Management. The achievement of organizational goals mainly depends upon compensation packages. This compensational packages act as a weapon for the retention sub-ordinates and employees.

Omotayao Adewale OSIBANJO, ET.al (2014), said that the strength of the employers depends upon the employees. In fact for any organization to their strategic goals the organization has to depend on employees. So for the retention of the employees in organization we need to compensate to the talented employees. Even to achieve the organizational goals it's their responsibility to reward the best employees which help to increase their level of Job satisfaction, and thus pays dedication towards their job.

Mr. Abdul Hameed ET.al (2014), Compensation is mainly used to attract, retain, and motivate man power. Various organizations' provides different benefits and compensation packages to attract their employees as possible. The organization productivity will be generally increased by providing the compensation to the work and the time they spent in organization. Compensation is the segment between employees and the chairperson. Every organization usually spends equals to the half of the cash flows for compensation. This compensation helps to attract and retain the employees in the organization and motivates for the completion of their responsibilities.

Dr.B.C.M.Patnaik & Prabir Chandra Padil (2012), Compensation is nothing but exchanging monetary value with the work and the performance .Compensation helps us to know more about job performance and job satisfaction. The main intention for providing compensation to the employees is to significantly boost the performance of the employees in the form of remuneration, awards, rewards and providing other compensation benefits.

Ramune Ciarniene,Milita Vienazindiene(2010), compensation is a primary reason for most people. In fact, compensation is the heart at any employment exchange. The essentials of a good incentive program include some elements like vision, motivation, potential and communication. The programs that distribute compensation to employees can be considered in an unlimited number of ways and it gives fulfillment of work for both employer and employees.

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RESULTS AND DISCUSSION

The research studies have indicated that compensation is not only basic salary and it is not enough to entice or retain employees, the organization should provide other facilities such as benefits of working conditions, bonus and work life balance also important. Compensation is a line of attack to reach organizational goals and it should be able to certify employee satisfaction, employee retention, employee development and better organizational performance. The study shows that, there is an imperative relationship among basic pay, bonus, incentives, allowances and fringe benefits and there is a link between compensation packages, employee's satisfactory levels and employee turnover.

CONCLUSION

It is concluded from different aspects that compensation has a positive impact on staff performance and organization have a better compensation system cum policies to commit their employees and to reduce labor turnover. The compensation system should be effective to get effective performance from employees. It is vital to say that compensation management is an issue i.e. it is essential for running and managing the organization. More so, the compensation system is heart beat of the organization. The compensation management helps to improve the productivity of a firm and there is a strong relationship between compensation and retention of staff.

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