

A Study of Compensation and Rewards Practices in Small and Medium Sized Enterprises in Mysore and Bangalore Region

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Abstract: *Compensation is one of the most extrinsic practices of human resource function in an organization. The questionnaire was developed and measured by using a five point Likert scales ranging from strongly disagree to strongly agree. ANOVA and Chi-square tests were used to examine relationship and impact of compensation and rewards practices on organizational performance. The results revealed that there is a significant difference in the mean agreeability scores on financial and non-financial performances of small and medium sized enterprises. Also an association exists between those organizations who adopt formal compensation and rewards practices with financial and non-financial performances of small and medium sized enterprises.*

Keywords: Compensation and Rewards practices, organizational performance, Small and Medium sized Enterprises (SMEs)

1. Introduction

Compensation management is one of the important factors in Human resource management (HRM). So an effective compensation system is more significant as several problems relating to personnel centre around compensation. Many employees, absent themselves from work often because they feel they are not paid enough. They look for new and better prospects. Hence an attractive compensation policy has to be followed by the organizations [1].

2. Review of Literature

Ojokuku et al. [2] explored human resource management practices in small scale business and their performance. They revealed that compensation extensively contributes to firm's performance.

According to Kuldeep [3] a significant relationship exists between compensation and organizational performance of the firms'.

Ilias [4] studied human resource practices with firm's growth. His study highlights that better compensation policy is the strongest predictor of sales growth of the firms. He concluded that compensation policy and providing employees an opportunity to express views contributes significantly to firm's growth.

Sathyanarayana and Kishore [5] examined human resource management practices and financial performance of small and medium sized enterprises in India. They concluded that by adopting compensation and benefits practices organizations can reduce employee turnover.

Nazlina et al. [6] studied HRM practices and organizational performance of Malaysian SMEs. They revealed that the survival of small and medium sized enterprises depends on

compensation practices. They concluded that firm's productivity can be increased by adopting compensation practices.

Suraya and Stefan [7] examined the formality of HRM in SMEs of United Kingdom and their impact on organizational performance with firm size as moderator. They explored that formal adoption of compensation practices showed marginally significant relationship with financial performance of the organization.

Asif [8] studied human resource management practices and firm's performance in Pakistan. He argues that product quality can be improved by following good compensation practices in an organization.

Birasnav and Rangnekar [9] studied human resource management practices in India. According to them by incorporating reward system in organizations will enhance productivity, quality and financial performance of the firm's. Kaveri and Prabakaran [10] examined human resource practices and performance of manufacturing industries in India. According to them compensation must be given based on the performance and experience of the employee. This helps in maintaining the harmony among employees' in the organization and in turn increases the firm's performance.

Naveed and Mustafa [11] studied human resource practices in small and medium sized enterprises in Pakistan. They concluded that compensation is one of the important human resource practices and by adopting the compensation practice organizational performance can be increased.

Chandrakantan et al. [12] conducted a study between HRM practices and performance of SMEs in Malaysia. They identified that proper compensation policies increases the employee and organization's performance.

Islam and Siengthai [13] explored human resource management practices and organizational performance in Bangladesh. According to them by adopting compensation practices the firms performance can be enhanced and also by investing more in human resource management the productivity of the organization can be increased.

Rowden [14] explored compensation practices in small manufacturing companies in USA. He identified that best employees' can be retained by providing them with competitive compensation packages. They concluded that by recognizing and honoring the employee's the organization's performance can be enhanced.

3. Methodology

The objective of the research is to find the association of formal adoption of compensation and rewards practices with financial and non-financial performance of SMEs.

Research hypothesis: The following null hypothesis is formulated and tested.

- a) There is no significant association between those organizations who adopt formal compensation and rewards practices and their financial performance.
- b) There is no significant association between those organizations who adopt formal compensation and rewards practices and their non-financial performance.

4. Research instrument

The questionnaire covers questions on compensation and rewards practices and organizational performance in terms of financial and non-financial measures. All the questions framed were closed ended type with a five point Likert scales ranging from strongly disagree to strongly agree.

5. Results and discussions

The analysis of variance has been carried out based on formal or informal adoption of compensation and rewards practices by the enterprises and the mean agreeability scores of the respondents representing various organizations on the financial and non-financial performance of the organization. Table 1 and Table 2 shows overall mean agreeability scores on financial performance and non-financial performance among the respondents representing the enterprises that adopt or do not adopt any formal compensation and rewards practices.

Table 1: Compensation and Rewards Practices and Financial Performance

Compensation and Rewards Practices	Respondents		Non - financial performance			
	N	%	Mean	Range		S.D.
				Min.	Max.	
Formal adoption	72	18.75	4.51	1	5	.839
Informal adoption	312	81.25	2.96	1	5	1.446
Total	384	100	3.26	1	5	1.482
F val.(df:1,382)= 76.548*						

Source: Primary data *Significant at 5 %

With respect to formal adoption of compensation and rewards practices by organization, inference can be made

based on the table 1. As can be seen, 81.25 % of the organizations are not adopting any formal compensation and rewards Practices, whereas only 18.75 % of the organizations adopt formal compensation and rewards practices. The analysis of variance show that there is significant difference in the mean agreeability score on financial performance among the respondents representing the organization that adopt or do not adopt any formal compensation and rewards practices. The mean score ranged from 3.09 to 4.61 and it is higher among the organizations that adopt formal compensation and rewards practices.

Table 2: Compensation and Rewards practices and

Compensation and Rewards practices	Respondents		Financial performance			
	N	%	Mean	Range		S.D.
				Min.	Max.	
Formal adoption	72	18.75	4.61	1	5	.797
Informal adoption	312	81.25	3.09	1	5	1.492
Total	384	100	3.38	1	5	1.509
F val.(df:1,382)= 69.846*						

Non - Financial Performance

Source: Primary data *Significant at 5 %

With respect to formal adoption of compensation and rewards practices by organization and the analysis of variance on non-financial performance, Inference can be made based on the table 2, that there is significant difference in the mean agreeability score on non-financial performance among the respondents representing the organization that adopt or do not adopt any formal compensation and rewards Practices. The mean score ranged from 2.96 to 4.51 and it is higher among the organizations that adopt formal compensation and rewards practices.

Chi-square test was conducted to check the association of compensation and rewards practices with financial and non-financial performance of the manufacturing SMEs in Mysore and Bangalore region. Table 3 and Table 4 shows the results.

Table 3: Association between Compensation and Rewards practices and Financial Performance of SMEs

Compensation and Rewards practices	Financial Performance					Total
	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree	
Formal adoption	1 (7.9)	1 (20.6)	5 (9.0)	11 (5.4)	54 (29.1)	72
Informal adoption	41 (34.1)	109 (89.4)	43 (39.0)	18 (23.6)	101 (125.9)	312
Total	42	110	48	29	155	384

Source: Primary data *Significant at 5 %

The expected frequencies are given in the parenthesis of the above table.

Chi-Square Value: 65.897* D.F:4 p = 0.001

As the χ^2 value is statistically significant, the null hypothesis of no association between the two attributes is rejected and hence there is a significant association between those

organizations who adopt formal compensation and rewards practices and their financial performance.

Table 4: Association between Compensation and Rewards Practices and Non - Financial Performance of SMEs

Compensation and Rewards Practices	Non - Financial Performance					Total
	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree	
Formal adoption	2 (7.1)	0 (25.5)	4 (6.4)	19 (7.9)	47 (25.1)	72
Informal adoption	36 (30.9)	136 (110.5)	30 (27.6)	23 (34.1)	87 (108.9)	312
Total	38	136	34	42	134	384

Source: Primary data *Significant at 5 %

The expected frequencies are given in the parenthesis of the table 4.

Chi-Square Value: 79.794* D.F: 4 p = 0.002

As the χ^2 value is statistically significant, the null hypothesis of no association between the two attributes is rejected and hence there is a significant association between those organizations who adopt formal compensation and rewards practices and their non-financial performance.

6. Conclusions

The analysis of variance shows that there is significant difference in the mean agreeability scores on financial performance and non-financial performance of SMEs and the mean agreeability scores are high among the enterprises that adopt formal compensation and rewards practices. The Chi-square test reveals that there is an association between those organizations who adopt formal compensation and rewards practices and their financial and non-financial performances.

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