Employees' Perception towards Tiered Compensation Management System of a Reputed Dairy Processing Company in Chennai

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Abstract

This research probes the effectiveness of tiered compensation structure followed by a reputed dairy processing company in Chennai. The research was conducted in order to study the employees' perception about the tiered compensation structure and its impact on increasing the productivity of the organisation. Descriptive Research Design was applied and an undisguised structured questionnaire was used to collect primary data from the employees. The outcome of the study would enable the management to revamp the compensation structure to suit the employees' expectation.

KEYWORDS: Tiered Compensation, Employees Perception, Pay Disparity

1. Introduction:

Employee satisfaction is one of the most important aspects in the organization. Employee satisfaction cannot be ensured without proper compensation management system. The tiered compensation structure provides salary to the employees based upon the employee grades. The grades of the employees depend upon the number of years the employee has worked for the firm. The experiences of the employee who may have worked with other firms are not given importance when the compensation is computed. Thus an experienced employee who may be new to the organisation is eventually paid less than the other employees. Therefore a pay disparity may originate in the organisation, posing threat to the culture of equity. This may make the organisation less attractive for prospective candidates who may be willing to join the organisation. The research aims to find the perception of the employees about the tiered compensation and its impact upon the organisation climate.

2. Review of Literature:

George P. Baker, Michael C. Jensen, Kevin J. Murphy (1998) found that a thorough understanding of internal incentive structures is critical to developing a viable theory of the firm, since these incentives determine to a large extent how individuals inside an organization behave. **Barry A. Gerhart, Harvey B. Minkoff, Ray N. Olsen(1995)** found that, as organizations continue to face mounting competitive pressures, they seek to do more with less and do it with better quality . Employee compensation practices differ across employment units (e.g., organizations, business units, and facilities) on several dimensions according to **Gerhart & Milkovich, (1990) Gerhart, Milkovich, & Murray, (1992).**

Bernhard E. Reichert (2013) examines the effect of self-evaluations on employee satisfaction with compensation, employee retaliation behavior against the employer, employer welfare, and employee perception of performance. **Harish Shukla, Shweta**

Tiwari, (2013) found that Employee satisfaction is one of the most important aspects in the organization that cannot be ensured without proper compensation management system. The work is based on the study of Compensation Management System in selected branches of SBI. It was found that most of the employees feel that there is no match between individual objectives and objectives of compensation of the bank. **Julius Demps II, Barry Thornton, Erica Baker (2011)** explored that impact of salary reduction make high salary workers believe that they provide more value to the firm, and therefore this may further induce them to think that they are essential to firm operations. As a result, they may think that they wouldn't have to accept a salary cut to keep their jobs. **Konstantinos Pouliakas, (2010)** found that job utility rises only in response to 'generous' bonus payments, primarily in skilled, non-unionized, private sector jobs.

Yongsun Paik, K. Praveen Parboteeah, Wonshul Shim (2007) based on field surveys and in-depth interviews of Korean expatriates as well as Mexican workers, found that significant perception gaps exist in compensation. The finding that compensation gap was significantly related to affective commitment only is of crucial importance. The study also suggests that only affective commitment is positively related to job satisfaction and performance. **Jahanzeb Shah (2007)** formulated a problem statement to find whether it is only the compensation package which has the worth of retention and employee satisfaction or it is the overall organizational culture which has a pivotal role in retention and making employees satisfy. **Tausif (2012)** found that non financial rewards are the strong determinant of job satisfaction for the employees of public educational sector of Pakistan. The satisfaction increases with the increase in age. The old employees are more satisfied with job rewards than young employees. Results also show that the age differences of the employees affect the association between employee rewards and employee job satisfaction. **James E. Martin (2007)** studied the long-term impact of tiered compensation structures on unions, employers, and employees. A detailed study was conducted at one large company where various forms of tiers had been in existence for many years, making it possible to assess the long-term impact of tiers. **Joanna L.Y. Ho, Anne Wu, Ling-Chu Lee (2005)** found that the changes in compensation from performance-sensitive (commission-based) to less performance-sensitive (base salary plus commission) schemes hurt employee performance.

3. Hypothesis Formulated:

- There is no significant difference between the factors motivating the employees and the aspirations of the employees.
- There is no significance difference between the approaches to pay progression.
- There is no significant difference between the employees perception regarding effectiveness of compensation policy.
- There is significant difference between the influences of skill based pay.

4. Analysis and Interpretation:

MANN WHITNEY U-TEST:

H_o: There is no significant difference between the factors motivating the employees and the aspirations of the employees.

Factors motivating the employees	Rank	Aspiration of the employees	Rank
33	2	31	3
27	5	21	7
23	6	43	1
28	4	16	8
Sum of ranks (R$_1$)	**17**	**Sum of ranks (R$_2$)**	**19**

Table Value = 4 (At 5% Level of Significance)

Calculated Value < Table Value

0.289<1

Accept**H$_0$**: There is no significant difference between the factors motivating the employees and the aspirations of the employees

WEIGHTED AVERAGE METHOD:

Factors	4	3	2	1	TOTAL	AVERAGE	RANK
Automatic step	132	96	54	19	301	30.1	**1**
Skill based pay	96	51	68	36	251	25.1	**4**
Development based pay progression	104	99	44	30	277	27.7	**3**
Performance based pay progression	112	87	56	26	281	28.1	**2**

From the above calculation, it was found that most of the employees prefer Automatic step progression.

ONE WAY ANOVA:

H$_1$: There is a significance difference between the approaches to pay progression.

H$_O$: There is no significance difference between the approaches to pay progression

ogression in				
tomatic step gression	19	54	96	132
ll based gression	36	68	51	96
velopment ed pay gression	30	44	99	104
formance ed pay gression	26	56	87	112
Ci	**111**	**222**	**333**	**444**	**1110**
Ci^2	**12321**	**49284**	**110889**	**197136**	
Ni	**4**	**4**	**4**	**4**	
Ci^2/Ni	**3080.25**	**12321**	**27722.25**	**49284**	**92407.5**

One way ANOVA table

Source of Variation	Sum of Squares	Degrees of Freedom (d.f)	Mean Sum of Square (MSS)	F-ratio
Treatment between Columns	CSS= 15401.25	c-1 = 3	M_1=CSS/c-1 = 5133.75	$F_C = M_1 /M_2$ =5133.75/218.708 =23.473
Residual or Error	ESS=2624.5	N-c = 12	M_3=ESS/N-c = 218.708	

Table value = df($\Upsilon1$, $\Upsilon2$) = (Nr n-1, Dr n-1)
 = (C-1), (N-C)= (3, 12)
Table value = 3.2
Level of significance =5%
Calculated value = 23.473
Calculated Value $>$ Table Value

From the above analysis it was observed that calculated value 23.473 is greater than table value 3.2. Hence the alternate hypothesis is accepted. Hence, there is significance difference between the approaches to pay progression.

KARL PEARSON'S CORRELATION ANALYSIS:

Let x be the factors influencing compensation structure and y be the influence of compensation upon employees.

X	Y	x*x	y*y	xy
26	36	676	1296	936
29	21	841	441	609
32	17	1024	289	544
24	37	576	1369	888
$\sum X$=111	$\sum Y$=111	$\sum X*X$=3117	$\sum Y*Y$=3395	$\sum X*Y$=2977

Correlation coefficient $r = \dfrac{N\sum XY - \sum X\sum Y}{\sqrt{N\sum X^2 - (\sum X)^2}\sqrt{N\sum Y^2 - (\sum Y)^2}}$

$$r = \frac{4(2977) - 111(111)}{\sqrt{4(3117)^2 - (111)^2}\sqrt{4(3395)^2 - (111)^2}}$$

$$r = -0.96$$

It has been found that there is a strong negative correlation exists between factors influencing compensation structure and influence of compensation upon employees

Table showing the awareness of the organization goals:

S.NO	CATEGORY	NO.OF EMPLOYEES	PERCENTAGE
1.	YES	92	82.882
2.	NO	19	17.117
	Total	**111**	**100**

Interval estimation for awareness about the company policies and objectives

$P = \dfrac{no\ of\ yes}{no\ of\ respondents} = 92/111 = 0.82$

$q = 1-p$; $p = 1-0.82 = .18$

Confidence Interval = $\left(p \mp Z_{\alpha/2}\sqrt{\dfrac{pq}{n}} \right)$

$= 0.82 \pm 1.96 * 0.0364$

$= (89.1\%, 74.86\%)$

Thus it is estimated with 95% confidence interval the employees' awareness about organisation's goals is found to be in the range of 0.8914 to 0.7486 and therefore the population proportion can be ascertained between 89.1% and 74.86%.

Table showing the employee perception regarding the organization goals and their link with the reward programs:

S.NO	CATEGORY	NO.OF EMPLOYEES	PERCENTAGE
1.	YES	85	70.450
2.	NO	7	5.801
	Total	**92**	**100**

Interval estimation for employees' perception regarding link between organisation's goals and reward programs

$P = \dfrac{n\ oof\ yes}{no\ of\ respondents} = 85/92 = 0.924$

$q = 1-p$; $p = 1-0.82 = .076$

Confidence Interval = $\left(p \mp Z_{\alpha/2}\sqrt{\dfrac{pq}{n}} \right)$

$= 0.924 \pm 1.96 * 0.0276$

$= (97.8\%, 86.99\%)$

Thus it is estimated with 95% confidence interval the employees' perception regarding link between organisation's goals and reward program is found to be in the range of 0.9781 to 0.8699 and therefore the population proportion can be ascertained between 97.8% and 86.99%

Table showing the encouragement offered by the compensation system to take up additional responsibilities

S.NO	CATEGORY	NO.OF EMPLOYEES	PERCENTAGE
1.	YES	85	76.576
2.	NO	26	23.423
	Total	**111**	**100**

Interval estimation for encouragement offered by the compensation system

Interval estimation = $\pm$ /2$\sqrt{\quad}$ $\div$ = (0.3875 ± 1.96 (0.0401))

$$= (0.844 > \quad > 0.687)$$

At 95% level of confidence, employee opinion about comfort of job role lies between 84.4 % and 68.7 %.

Chi- Square Test:

H_0 **:** There is no significant difference between the employees perception regarding effectiveness of compensation policy.

H_1 : There is a significant difference between the employees perception regarding effectiveness of compensation policy

Oi	Ei	$(Oi – Ei)^2$	$(Oi – Ei)^2/ Ei$
451	452.25	1.5625	0.00345
486	452.25	1139.062	2.51865
454	452.25	3.0625	0.00677
418	452.25	1173.06	2.5938
			$\sum \dfrac{(Oi – Ei)^2}{Ei} = 5.12267$

Calculated Value = 5.12267

Table Value = 7.82 (At 5% Level of Significance)

7.82 > 5.1226 Reject H_1

There is no significant difference between the employees perception regarding effectiveness of compensation policy.

KOLMOGOROV-SMIROV TEST:

H_0 **:** There is significant difference between the influences of skill based pay.

H_1 **:** There is no significant difference between the influences of skill based pay.

Observed Frequency	Observed Cumulative Frequency	Observed Relative Frequency (F0)	Expected Frequency	Expected Cumulative Frequency	Expected Relative Frequency (Fe)	D= $\lvert Fe - Fo \rvert$
23	23	0.207	22.2	22.2	0.2	0.007
21	44	0.396	22.2	44.4	0.4	0.004
19	63	0.567	22.2	66.6	0.6	0.033
26	89	0.801	22.2	88.8	0.8	0.001
22	111	1	22.2	111	1	0

Test statistic= Dn= max $\lvert Fe - Fo \rvert$ = 0.033

Table value of Dn for n=5 and α= 0.05 is 0.563

Table value > calculated value

0.563 > 0.033

From the above calculation, it was observed that the table value 0.563 is greater than calculated value of Dn= 0.033. Hence, there is no significant difference between the influence of skill based pay.

5. Conclusion:

The study on tiered compensation structure followed by the company reveals that the employees are satisfied with the compensation program and are being motivated to increase the productivity of the organisation. The study finds that factors such as base pay, incentives, work apparels motivate employees the most to stay with the organization. The study also finds that the employees aspire for a flexible work arrangement and believe that the productivity can be improved by making the work environment more conducive. The study reveals that the employees are optimistic about the guaranteed movement of scales and feel that it influences their morale directly. The right compensation policy would retain the best talents within the organization. The compensation policy followed by the company is found to attract and retain fresh talent.

Acknowledgements

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