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Pay for Performance Parameters Effectiveness in Banking Sector: As an Emerging Challenge in Business Environment

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ABSTRACT

Pay stands as most significant and controversial constituent in the service association and is of equivalent concern to the company, government and members of staff. It is extremely essential to the employer because it stands for a major element of his costs, is more and more central to his employees' production and to competitiveness and have result on his aptitude to occupy and keep hold of a labour force of excellence. It is considerable to the employees because it is necessary to his typical of livelihood and is an estimate of the value of his services or performance. Finally it is imperative to the government because it affects features of macro-economic steadiness such as service, purchasing influence, price rises and socio-economic development in broad-spectrum. Here in the current study pay for performance has been discussed in context of employees and management. In this study pay for performance parameters effectiveness has been tested out. The analysis of three objectives has been done. For analyzing the objectives ranking method and t-test has been used.

Keywords: Pay for performance, performance related pay, parameters effectiveness, t-test and macro-economics.

1. Introduction

Pay, reward and compensation are terms employed interchangeably right through this study. Some investigators and practitioners distinguish, by means of reward and pay in the similar way, but take care of them in a different way from the concept of rewards. Other's however, create no dissimilarity and describe rewards as pay. There is no dissimilarity made between these terms. These approaches is

supported on the principle that, even if not matching, the phrases are very close in connotation and for the rationales of this study can be thought of as referring to the similar thing. A number of constituents make up the idea of pay even though the amalgamation fluctuates between countries and also positions within groups. Some researchers provided a functional collapse of the dissimilar constituents of pay, noting that it refers to wages including salaries (base pay), stipends and contributions to member of staff provident funds. In other words, pay is the remuneration given to an employee. These remunerations consist of base pay, contingent pay, variable pay, benefits and compensation; although a clear distinction between these terms is sometimes difficult to maintain (Armstrong and Murlis, 2004, pp. 6-8, 11). In general it can be said that:

- **Base pay** is the fixed pay and is usually the largest compensation reward to employees in organizations (Armstrong and Murlis, 2004, pp 6-8).
- **Contingent pay** is “pay for individuals that is related to performance, competence, contribution or service” (Armstrong and Murlis, 2004, p 8).
- **Variable pay** comes in the form of bonuses or cash payments that are contingent on individual, team or organization performance (Armstrong and Murlis, 2004, p 8).
- **Benefits and Compensation** include sick pay, leave pay, allowances and various kinds of bonuses such as company cars, holiday and other leave entitlements, meal and transport costs (Armstrong and Murlis, 2004, p 8).

In adding together to categorize pay according to types, here are a variety of other viewpoints on its determination for individuals and groups. Therefore, from the communal viewpoint, pay is seen as an assess of impartiality. For example, a few observe injustice in unbalanced pay, such as in a pay disparity between women and men who have the identical jobs in the same association Also, stockholders recognize that “administrative pay is of unique concern”. Connecting executive pay to organization performance is made-up to enlarge stockholder’s wealth.

2. Literature Review

Bretz and Thomas (1992) explained that this study will attempt to do by focusing more precisely on the relationship between a pay satisfaction dimension and performance. Despite the lack of consistency in results relating job satisfaction to performance, it is intuitively appealing to expect that, with a more precise measurement of the attitude, a pay satisfaction dimension, a positive relationship will be found with job performance and this expectation has been found in recent empirical support.

Cannell and Wood's (1992) survey involved a joint research venture, including IPM and NEDO, to examine the extent and nature of individual and group incentive pay systems at all levels of employees. Following an examination of current trends, a questionnaire survey was conducted among a cross-section of 1,000 public and private companies (with an overall response rate of 40 per cent). This was followed by face to-face interviews with personnel managers from 44 organizations. Their findings shows that pay for performance is reasonably widespread in Great Britain, with a total of 76 per cent of employers using it in some form. In Great Britain, individualized pay systems are largely determined unilaterally by company management. The spread of such schemes to unionized occupational groups is conceived as signalling a crisis in traditional bargaining.

Martin (1994) noted widespread evidence pointing to dissatisfaction with the negative aspects of experienced by private sector organizations. However, he also indicated that the strongest reservations concerning pay for performance are expressed in the public sector. This may be a factor of the highly evaluative and arbitrary nature of the jobs of public sector professionals, which do not necessarily lend itself to measurement in any meaningful way.

Cheng (1995) expressed his views and stated that the biggest challenge for the banks management today is to motivate employees for sack of proficient offer and better services according to customers' expectations. One of the major functions of human resource manager is to enhance and maintain employees' work motivation. Human resource management's function is to assist the general manager or line management

in keeping the employees satisfied with their jobs by providing motivation of different kinds. The dissatisfaction is conditioned with performance.

Kerr (1996) explained that the two factors that usually carry the most weight in determining pay by employers are the employee's title and length of service. When they are rewarded according to seniority or when everyone receives the same annual increase, compensation is then turned into an entitlement rather than an incentive. This is contradictory to managing scientifically and was exactly what Frederick Taylor tried to eliminate.

Kellough and Selden (1997) explained that to better understand their attitudes toward pay for performance, performed a multiple regression analysis and discovered several linkages. The amount of experience a personnel manager has is negatively correlated with their attitudes toward the pay plan, this is probably a result of experienced managers being more attuned to the many problems associated with administering merit pay systems. Another interesting discovery was that respondents who have worked exclusively in the public sector were significantly more positive in their attitudes than were those with private sector experience.

Cardona (2007) reviewed incentive programs in the US, particularly the performance management and recognition system, the UK's Inland Revenue Service performance scheme and similar attempts in Australia. The study documents several common issues in the implementation of pay for performance that employee's are hardly ever scored less than satisfactory in their evaluations. Bonus systems were designed so that very few employees actually received any payments and the majority of staff found the system de-motivating and inciting jealousies.

Perry and Hondeghem (2008) explained that a different strand of criticism focused on other motivations underlying public servants' effort. Apart from pure monetary rewards as expressed in salary. Civil servants argued, are motivated by notions of altruism, pro social behaviour and commitment to institutional goals, which are seen to compete with or even stand in conflict with explicit monetary incentives.

Basinga, P. et al. (2010) world bank study evaluated the implementation of the pay for performance initiative in the Rwandan health sector. Pay for performance is designed to improve worker productivity through the provision of bonuses to providers for improvements in utilization and quality of care indicators. The authors found that pay for performance can affect health care firstly by incentivizing providers to put more effort into specific activities and secondly by increasing the amount of resources available to finance the delivery of services. The authors concluded that pay for performance can improve both the use of and the quality of health services.

Neal (2011) viewed that picking the correct size of bonus brings its own challenges. Small bonuses will have little incentive effects and fall short of expectations, while large bonuses can lead to employees to treat incentive schemes as pure lotteries, especially if outcomes are strongly stochastic (e.g. student test scores) and to encourage cheating. To counteract excessive gaming of incentive schemes, it has been suggested, in the context of student test scores and teacher merit pay, to use evaluation systems independently from output measurements, i.e. in the case of teacher evaluations, to measure teacher contributions in tests different in form and content from instruments designed to track overall student and school progress or national exams.

3. Research Methodology

3.1 Research Objectives

The primary objective of the present study is to study the pay for performance parameters effectiveness in banking sector. To be more specific, the present study focused on achieving the following secondary objectives. These were as follows:

1. To study the aspirations of employees for the framework of pay for performance in the private banks.
2. To study the attitude of management towards the framework of pay for performance in the private banks.
3. To analyze the impact of the factors affecting the decision of pay for performance in the private banks.

3.2 Hypotheses of the Study

Based on the above mentioned research objectives following hypotheses has been formulated:

H₀₁: There is no significant difference in the aspirations of employees for the framework of pay for performance in the private banks.

H₀₂: There is no significant difference in the attitude of management towards the framework of pay for performance in the private banks.

H₀₃: There is no significant difference in the impact of factors affecting the decision for pay for performance between management and employee view point in the private banks.

3.3 Sample Distribution:

The sample included in the study was drawn from different places of Haryana. The sample size of the research consisted of 500 respondents out of which 25 respondents are taken from the top management personnel's that includes chief executive officer, chief financial officer, chief operational officer, chief information officer, chairperson's of the board, president, vice president and corporate heads. Further 475 respondents are middle and operating employees that includes general managers, branch managers, regional managers, divisional managers and other operating personnel's from different private sector banks like ICICI, HDFC, AXIS and Kotak Mahindra bank.

4.1 Employees Aspirations for the Framework of Pay for Performance

For the objective to study the aspirations of employees for the framework of pay for performance in the private banks, total sample of 475 employees has been taken. To analyze this as shown below in table 4.1.a six parameters like employee motivation, accountability reinforcement, fairness and effectiveness of pay for performance, designing of pay for performance, performance review and evaluation mechanism, employee-employee relationship has been taken in current study. The mean and standard deviation has been shown in the given below table no. 4.1.a. From the descriptive statistics, shown in the table, it has been observed that the most

important factor from employee point of view is ‘employee-employee relationship’ as corresponding mean and standard deviation value for this factor is 20.20 and 2.45 respectively. The reason employees supported in this regard is that pay for performance should maintain good employee-employee relationship. Because at working place employee-employee relationship is considered as most important factor. In organization if sound employee-employee relationship will not be there, then employees will remain in stress and productivity will not be increased. ‘Performance review and evaluation mechanism’ has been ranked as second most important factor by employees as mean and standard deviation value is 27.99 and 2.93 respectively. They said that if there will be biasness in the performance evaluation and mechanism system, then pay for performance will also not proved to be effective. The least ranking has been given to the factor ‘designing of pay for performance’ by the employees as mean and standard deviation value for it is 43.81 and 4.28 respectively. It has been ranked lowest by employees because they said that in their organization appropriate designing is there, but proper implementation and execution is not done. So in that scenario designing becomes worthless.

Table 4.1.a Descriptive Statistics of Parameters for Employees Aspiration Regarding Pay for Performance Framework

| | N | Mean | Standard Deviation | Ranking |
|--------------------|-----|-------|--------------------|---------|
| BTEM | 475 | 36.12 | 3.51 | 4 |
| BTAR | 475 | 24.01 | 2.94 | 3 |
| BTFEPP | 475 | 36.18 | 3.91 | 5 |
| BTDPP | 475 | 43.81 | 4.28 | 6 |
| BTPREM | 475 | 27.99 | 2.93 | 2 |
| BTEER | 475 | 20.20 | 2.45 | 1 |
| Valid N (listwise) | 475 | | | |

Source: Field Survey ('B' symbolizes part-B of questionnaire, 'T' symbolizes total score of statements for that respective variable, 'EM'=Employee Motivation, 'AR'=Accountability Reinforcement, 'FEPP'=Fairness and Effectiveness of Pay for Performance, 'DPP'= Designing of Pay for Performance, 'PREM'=Performance Review and Evaluation Mechanism, 'EER'=Employee-Employee Relation)

Table 4.1.b T-Test for Employee Aspiration Regarding Pay for Performance Framework

| | Banks | | | |
|--------|--------------|--------------|--------------|----------------|
| | HDFC | ICICI | AXIS | Kotak Mahindra |
| | t (Sig.) | t (Sig.) | t (Sig.) | t (Sig.) |
| BTEM | 103.01 (.00) | 100.39 (.00) | 134.88 (.00) | 160.13 (.00) |
| BTAR | 67.44 (.00) | 90.34 (.00) | 117.09 (.00) | 137.46 (.00) |
| BTFEPP | 76.63 (.00) | 98.08 (.00) | 125.98 (.00) | 155.46 (.00) |
| BTDPP | 85.22 (.00) | 117.31 (.00) | 121.42 (.00) | 149.46 (.00) |
| BTPREM | 89.22 (.00) | 110.20 (.00) | 105.24 (.00) | 121.09 (.00) |
| BTEER | 69.55 (.00) | 90.36 (.00) | 105.86 (.00) | 113.13 (.00) |

Source: Field Survey, *Significant at 5% level (Tabulated value .05)

Further to study the aspiration of employees regarding pay for performance in different selected private sector banks T-test has been conducted on the different parameters of pay for performance. The above table no. 4.1.b shows that at 5 percent significance level all the parameters like employee motivation, accountability reinforcement, fairness and effectiveness of pay for performance, designing of pay for

performance, performance review and evaluation mechanism, employee-employee relationship has come to be significant. This significance value for all these parameters in selected private sector banks like HDFC, ICICI, AXIS and Kotak Mahindra is .00, which is less than .05. Hence it can be accomplished that null hypotheses H_{01} 'there is no significant difference in the aspirations of employees for the framework of pay for performance in the private banks' is rejected. Hence, it is concluded that there is significant difference in the aspirations of employees for the framework of pay for performance in selected private sector banks.

4.2 Management Attitude Regarding Pay for Performance Framework

For analyzing the second objective to study the attitude of management for the framework of pay for performance in the private banks, four parameters have been used for 25 management personnel's. The mean and standard deviation has been shown in the given below table no. 4.2.a. From the descriptive statistics, shown in the given below table, it has been observed that the mean and standard deviation value for 'employees recruitment and retention' is 8.48 and 1.55 respectively. The reason for declaring 'employees recruitment and retention' as main factor by management is that, because they think that strong and well defined recruitment and retention policy motivate them. More over if pay for performance practices are communicated at the time of recruitment it will help in retention of top management personnel's also. 'Employee motivation' has been ranked at second position as mean and standard deviation value for it is 35.16 and 6.50 respectively. For employee motivation it has already been discussed that more monetary benefits leads to more motivation for employees. Same views have also been given by management. The 'effect on employment relationship' has been ranked as least important factor by management as mean and standard deviation value for it is 35.48 and 6.86 respectively. The 'employment relationship' has been viewed as least important factor by management because they think that in current turbulent scenarios no organization tried to build good employment relation which insist them to offer competitive salaries.

Table 4.2.a Descriptive Statistics of Parameters for Management Attitude Regarding Pay for Performance Framework

| | N | Mean | Standard Deviation | Ranking |
|--------------------|----|-------|--------------------|---------|
| CTEM | 25 | 35.16 | 6.50 | 2 |
| CTOC | 25 | 40.88 | 6.81 | 3 |
| CTERR | 25 | 8.48 | 1.55 | 1 |
| CTEER | 25 | 35.48 | 6.86 | 4 |
| Valid N (listwise) | 25 | | | |

Source: Field Survey ('C' symbolizes part-C of questionnaire, 'T' symbolizes-Total score of statements for that respective variable, 'EM'=Employee Motivation, 'OC'= Organization Culture, 'ERR'=Employees Recruitment and Retention, 'EER'=Effect on Employment Relationship)

The given below table no. 4.2.b shows that at 5 percent significance level all the parameters like employee's motivation, organization culture, employee's recruitment and retention and effect on employment relationship has come to be significant. This significance value for all these parameters in selected private sector banks like HDFC, ICICI, AXIS and Kotak Mahindra is .00, which is less than .05. Hence it can be accomplished that null hypotheses H_{02} 'there is no significant difference in the attitude of management towards the framework of pay for performance in the private banks' is rejected. Therefore there is significance difference in the attitude of management for the framework of pay for performance in selected private sector banks.

Table 4.2.b T- Test for Management Attitude Regarding Pay for Performance Framework

| | Banks | | | |
|-------|-------------|-------------|-------------|----------------|
| | HDFC | ICICI | AXIS | Kotak Mahindra |
| | t (Sig.) | t (Sig.) | t (Sig.) | t (Sig.) |
| CTEM | 22.00 (.00) | 42.38 (.00) | 8.79 (.00) | 10.95 (.00) |
| CTOC | 12.98 (.00) | 17.27 (.00) | 13.63 (.00) | 14.18 (.00) |
| CTERR | 24.88 (.00) | 10.58 (.00) | 17.52 (.00) | 10.27 (.00) |
| CTEER | 15.29 (.00) | 28.08 (.00) | 8.18 (.00) | 12.66 (.00) |

Source: Field Survey, *Significant at 5% level (Tabulated value .05)

4.3 Impact of Factors Affecting the Decision for Pay for Performance between Management and Employee View Point

The fourth objective of the study is “to analyze the impact of the factors affecting the decision of performance based pay in the private banks”. To fulfill the requirement of this objective seven different factor’s impact on pay for performance decision making has been checked. The method used here to analyze the data is weighted average mean score. Further decision making from point of view of both management (25 sample) and employees (475 sample) has been taken for the study. It has been analyzed from the given below table no. 4.3.a that employees with a sample of 475 has ranked ‘performance evaluation’ as most important factor that pay for performance decision making average value for it is 6.16. The performance evaluation factor is given high ranking by employees because they think that properly followed performance evaluation process bring effectiveness in pay for performance process. Second most important factor is ‘fairness’ which put a great impact on pay for performance decision making. The factor ‘supervisors’ is given low ranking

because in current scenario's only supervisor can-not made a decision regarding the performance of employees. The method of 360 degree is used to get the overall feedback of employees. The ranking for other factors can also be checked from the given below table.

Table 4.3.a Employee View Point for Performance Related Factors

| Sr. No. | Factors | Ranking | | | | | | | Total | Average | Rank |
|---------|------------------------|---------|------|-------|------|-----|------|-------|-------|---------|------|
| | | Ist | IInd | IIIrd | IVth | Vth | VIth | VIIth | | | |
| 1 | Organization Culture | 560 | 588 | 505 | 444 | 252 | 2 | - | 2351 | 4.94 | 3 |
| 2 | Supervisors | - | - | 20 | 4 | 300 | 438 | 151 | 913 | 1.92 | 7 |
| 3 | Performance Evaluation | 2275 | 324 | 120 | 132 | 33 | 36 | 10 | 2930 | 6.16 | 1 |
| 4 | Funding | - | - | 20 | 352 | 555 | 260 | 68 | 1255 | 2.64 | 5 |
| 5 | Fairness | 336 | 810 | 750 | 460 | 45 | 4 | 10 | 2415 | 5.08 | 2 |
| 6 | Training | 70 | 744 | 870 | 400 | 138 | 40 | 1 | 2263 | 4.76 | 4 |
| 7 | System Evaluation | 84 | 384 | 90 | 112 | 102 | 168 | 235 | 1175 | 2.47 | 6 |

Source: Field Survey

In continuation with fourth objective of the study “to analyze the impact of the factors affecting the decision of performance based pay in the private banks” same factors which are mentioned in table no. 4.3.a for employee view has been taken into consideration for management view (25 sample). The method used here to analyze the factors is weighted average mean score. It has been analyzed from the given below table no. 4.3.b that ‘organization culture’ has been marked as most important factor as average value for it is 6.44. The reason behind it is that management persons responded that vigorous organization culture helps them to put into operation the things without difficulty. So, they even attempt to uphold good organization culture in the organization themselves also. Second most significant aspect is ‘funding’ which position a great impact on pay for performance decision making according to

management view. The average value for it is 5.32. They have given the reason to support this factor that appropriate funding will help them to run the policies in the organization more smoothly. The least ranking is given to the factor ‘supervisors’ by the management and average value for it is 1.88. The management personnel have given their views in this regard that being the policy makers they rarely have to work under the supervision of any body and also being at the top position their feedback does not depend on anybody. The ranking for other factors can also be checked from the given below table.

Table 4.3.b Management View Point for Performance Related Factors

| Sr. No. | Factors | Ranking | | | | | | | Total | Average | Rank |
|---------|------------------------|---------|------|-------|------|-----|------|-------|-------|---------|------|
| | | Ist | IInd | IIIrd | IVth | Vth | VIth | VIIth | | | |
| 1 | Organization Culture | 140 | 12 | - | 8 | - | - | 1 | 161 | 6.44 | 1 |
| 2 | Supervisors | - | - | - | - | 12 | 28 | 7 | 47 | 1.88 | 7 |
| 3 | Performance Evaluation | - | 18 | 10 | - | 9 | 4 | 15 | 56 | 2.24 | 6 |
| 4 | Funding | 7 | 60 | 50 | 16 | 0 | 0 | 0 | 133 | 5.32 | 2 |
| 5 | Fairness | 28 | 42 | 20 | 20 | 15 | - | - | 125 | 5 | 3 |
| 6 | Training | - | 18 | 45 | 48 | 3 | 0 | 0 | 114 | 4.6 | 4 |
| 7 | System Evaluation | - | - | - | 8 | 36 | 18 | 2 | 64 | 2.56 | 5 |

Source: Field Survey

So, based on this analysis of table no. 4.3.a and 4.3.b it has been analyzed that null hypothesis H03 ‘there is no significant difference in the impact of factors affecting the decision for pay for performance between management and employee view point in the private banks’ has been rejected. Thus, there is found to be

significant difference in views of management and employees for factors affecting pay for performance decision making.

Managerial Implications

The study will help the manager to know the pay for performance parameters effectiveness in the private sector banks. This study will help the managers in designing of an effective PRP system. As the study summarized that which factor they should consider more while designing the pay for performance. This will help the managers to design a sound policy regarding performance related pay for future. Thus managers should give importance to this study of performance related pay in context that factors are more important from employees and managers point of view. Because this is the major factor for any organization in current scenarios. This factor is important to such an extent that if these factors are taken into consideration for designing of performance related pay it will lead to retention of employees in the organizations also.

Limitations and Future Research

The major weakness in this study is that it was limited in scope. This means that the findings cannot be overtaken to a broad view. Also the study is limited to four private sector banks of Haryana only and not covered the other parts of India and sectors. Future research should focus on other parts of India as well as sectors and organisations. A comparative study among organisations in the same sectors should be conducted in order to determine whether the use of PRP enhances employee motivation and organisational performance. The dimensions found in this study should be regarded as preliminary. Although they appear to be stable and measurable, they are not necessarily exhaustive and should be viewed as a starting point for additional research.

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