

PERFORMANCE MANAGEMENT: NEXUS OF COMPENSATION AND BENEFITS

Khizra Sultan (*Corresponding author*)

Teaching Assistant, Institute of Business Management and Admin Sciences, The Islamia University of Bahawalpur

Shakeel Sarwar

Assistant Professor, Department of Leadership Management, Institute of Business Management & Administrative Sciences, The Islamia University of Bahawalpur, Pakistan

Muhammad Rizwan

Lecturer, Department of Marketing and International Business, Institute of Business Management & Administrative Sciences, The Islamia University of Bahawalpur, Pakistan

Waseem Ahmad Khan

Lecturer, Department of Business Finance, Institute of Business Management & Administrative Sciences, The Islamia University of Bahawalpur, Pakistan

ARTICLE INFO	ABSTRACT
<p><i>Article History:</i> Received: 15 May 2021 Revised: 10 Jul 2021 Accepted: 05 Sep 2021 Available Online: 08 Oct 2021</p> <hr/> <p><i>Keywords:</i> Performance Management, Nexus, Companies, HRM, Pakistan.</p> <hr/> <p><i>JEL Classification:</i> O15, M11</p>	<p>This research paper finds out the relationship between the process of performance management and the factors that influence it either in positive manner or negative. Performance management is, to a big extent, responsible for the overall productivity of the firm by assessing and controlling the performance of employees on a micro level. Many factors like training, support of authorities, behaviour, organizational culture and reward systems influence the process of performance management. Top management carry out performance management by setting individual organizational goals of employees so that they align with the collective organizational goals, to ensure compliance within the organization. Then by reviewing employees' performance against the goals, they grant the rewards. Performance management also establishes its relation with the top level employees of the firm. As the workers perform well, the job satisfaction of the employer increases.</p>

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1. INTRODUCTION

Performance Management system is one of the most powerful tools in firms to evaluate and manage the performance of the employees of organizations. It is a process by which the performance of the employees is measured and then crucial decisions are made according to this assessment, to align the employee's personal goals with the collective goals of organization. By this we can understand the type of importance which performance management has acquired in the growth of an organization. Many studies have been conducted to study this topic and its relevant areas. The researches show similar types of results, when focused on the outcomes of the performance management which emphasizes on the importance of this topic. It consists of different bonuses, compensations and benefits in reward of good performance of the employees, in addition to the actual salaries. So this field is critically important to understand the trends of employee's behaviours, so that benefits can be chosen in accordance to the best response. This management also uses different trainings and coaching to polish the skills of their workers for a better performance by removing the barriers that come in way of good performance, in result of which a good communication channel is also established between the worker and the employer.

So this paper tells us about what relationship compensation and benefits bear with the performance management system and how this process facilitates the growth of the organization. Compensation and benefits have a positive relation with the performance of the employees. Employees work for the uplift of the organization and in return when organization gives them the reward in form of bonuses, commissions and other benefits, their motivation increases in result of which their performance gets even better to earn more rewards. Human resource stands amongst the most powerful assets of a business. They are the real strength that work tirelessly to take an organization towards success. For their part of hard work, loyalty and determination they deserve to be treated well in every aspect within the organization. Additional benefits and compensation are the source by which a firm can please their hardworking employees. The HR department decides that which employee is to get the compensation and how much compensation. Managers provide them the named of their best working employees. Then the compensation is given to those

employees in terms of bonuses and commissions. Different allowances can also serve as an attraction to the new employees as study suggested that employees that are joining their first job are more attracted towards additional allowances and rewards in comparison to the salary of exactly the same amount. Many studies explore different aspects of performance management through these benefits. And almost all the studies proves these benefits one of the most powerful driving force for employees. Practically it was observed in a study by Heathfield that when an average performing employee was promised good compensation in exchange of good performance, his work progressed very effectively.

All this makes this topic much interesting yet fruitful for the researchers as it still has so much to explore in support of the earlier studies. This paper also deals with the objectives of this performance management system, the factors influencing it and its impact on employee's productivity as well as the job satisfaction of employer. This topic holds pivotal significance in growth of a firm or even whole industries as this field studies growth from as micro level as employees. This topic addressed the importance of additional benefits for the employees which is a good step towards the welfare of the employees but in a broader perspective it is eventually good for the organization as well, as the enhanced performance will meet the collective organizational goals. As in 21st century the dynamics of business are changing, corporate world is switching towards being employee oriented rather than employer oriented as earlier. In today's world of diverse talents and additional effects of post downsizing effect of pandemic, organizations are struggling to hire and sustain good and suitable talented employees. So in this regards this topic bears immense importance as it deals with the use of bonuses, compensations and benefits. This paper will tell us about the dynamics of performance management system, its driving factors and its effects on different factors of the firm including employees and employers. This paper gathers all the relevant data from different significant studies and research to conclude their essence in one paragraph.

The objectives of this study, also mentioned above, are mainly comprised of the performance management and the factors that have influence on it. The main aim of this study is to study the compensations and benefits and the ways these compensations and benefits are granted to the employees. Generally, HR department of most organizations are mainly concerned with only basic salaries and remunerations, but this paper will elaborate the importance of these benefits. This paper will also explain the relationship between performance management and these benefits, that whether it is a positive relation or a negative one. Moreover, this research also explores the effect of performance management on the job satisfaction of the employer too. Performance management enhance the performance of employees. So we shall also study the relationship of this management on employers' behaviour and job satisfaction. Precisely the objectives if this study are as follows

- Performance Management and factors that impact this process and employees. (Stiffer, 2006).
- The relationship between performance management and benefits and compensation. (Kempton, 1995).
- Role of the manager in manipulating the employee's performance in terms of compensation and benefits. (Salisbury, 1997).
- Comparison between salary and compensation. (Brunker 1982).
- Impact of performance management on top employees. (Salisbury, 1997).

2. LITERATURE REVIEW

Performance management can be considered as a tool for the businesses that is used for the purpose of overseeing the employees and to evaluate their work performance. Main goal of the performance management is to create such environment where the people can perform at fullest of their abilities and make the most out of it in effectively and efficiently. Performance management is basically the process of ensuring that the activities happening and the result of all the happenings at the organization aligns with the goals of organization in the most effective and efficient way. Performance management is aimed at developing the employees so they can give their best at job. It's training of employees and the polishing of skills. This means that organization aligns the organizational goals with the workers in terms of their work. In other words, it is the process of aligning the individual goals with the goals of the organization. It is a strategic process and things like bonus and promotions etcetera are connected with this whole process. In a study, (Salem, 2003) it is said that the process of performance management is about evaluating the work of people working in the organization and are given rewards after an assessment. Lockett, as a result of his studies, identified objectives of performance management. Main objective of this process is to help the workforce to achieve high levels of excellence as result of performing their work duties. It allows the worker improve their level of performance by reward method. One of the objectives of this process is to facilitate the communication amongst employees and management this how every information gets simplified, a nice environment is established and everyone performs their job responsibility at their best. Performance management ensures the constant coaching,

training and learning for employees. The main motive of this process is to identify the things that are acting as a barrier in the way of effective performance that can be eliminated or avoided by implementing things like, succession planning, rewards linked with performance etc. This helps employees use and polish their own skill and help them in their personal growth (Lockett, 1992).

Some of the factors should exist before the implementation of the process because without them performance management cannot be done. That includes mainly the abilities of managers to keep the organization mobilized. The facilitation of communication is necessary in order to communicate the responsibilities, duties and roles with the people who are the main asset of the organization and keep the organization in working. Also, transparency in the process, simplicity, participation of the workers equality and mainly the objectivity should exist if we want to implement the process of performance management (Amatayakul, 2005).

2.1 Factors Influencing Effectiveness of PM System

There are certain factors that influence the effectiveness of performance management system in the organization that are as follows:

2.1.1 Training

Training that is related to performance is also a kind of training that gained importance in 90s (Armstrong, 1994). The basis of this type of training is the improvement of abilities and skills of the employees that will have direct relationship with the performance of the single person and the whole team. According to (Dermol, 2013) many of the renowned researchers has focused their studies of the result of training at the organizational and individual level, that researcher includes names like (Salk and Lyles, 2001), (Conner, 2002), (Minbaeva, 2005) etc. According to their studies, training of the employees can improve their work performance and their flexibility. It is sad that not much of the empirical evidence is there to supplement this finding but there is so much work and study present in the academics that says that there is relationship between training and Performance management system and that relationship is direct. Training related to PMS allows the employees and managers to understand about performance management, its objectives and importance (Baird, 2012).

2.1.2 Top Management Support

According to (Cheng, 2007), for the successful implementation of the PMS the executives of the organization should play an active role in terms of support, leadership and also the participation. Normally this is observed that top management is not involved in the process and they don't care much about PMS thus this attitude of the top management makes their employee to give less to the organization even after having the tendency to do it better. The support of top management is very necessary for the performance management and it have the direct relation with the whole process. Implementation and changing of the PMS brings major changes to the working pattern, duties organizational planning structures etc. None of it can be achieved if top management withdraws its support and in result the employees will also not take the PMS seriously (Goosen, 2012).

2.1.3 Culture

Literature suggests that culture plays important role in the performance of the organization. The more flexible and employee-oriented culture is the more effective outcomes have been observed in the organization. Concept of focusing on the culture is getting more importance since the last two decades because this is the environment, way of doing work in the organization that how the organization plays its part. Culture is the main thing that makes the employee stay. If the employee is happy, culture aligns with the employees then it becomes the win win situation for both the organization and the employee and thus it implies the direct relation with the performance management (Hofstede, 1998).

2.1.4 Employee Engagement

Employee engagement is a very broad concept that covers almost all the aspects of human resource management (Markos & Sridevi, 2010). According to (Prasanna, 2014), employee engagement is comparatively a new concept for literature and academics. The word employee engagement is still debated and being researched by the academicians and in the word of corporate. According to Gruman and Saks (2011) employee engagement received much attention in the past five years being a new concept and this term is considered a something important for the success of the organizations. According to the theoretical view point, the term employee engagement is related to job performance that is why it is gaining so much attention and derived the focus of every person towards it. Employee engagement itself is a complicated term, it is not only the person doing his work according to (Kahn, 1990), employee will only be considered engaged in his work when he is physically and psychologically paying attention and doing his work. But according to (Robinson, Perryman and Hayday, 2004), employee engagement us the positive attitude of the employee towards his work also (Robinson, 2004) stated that the employee who is engaged and considers the goals

of organization, he puts his efforts to improve himself and job performance for the betterment of organization. According to literature, low engagement and low job satisfaction leads to low productivity and more turnover thus employee engagement plays an important role in performance management process. Employee engagement plays an important role in performance management, it influences directly the performance management process. Employee engagement is increased when employee is given the flexible and interesting environment to work in, when the culture aligns with the individuals working there. All of it leads to better employee performance when the employee is satisfied and engaged with the work.

2.1.5 Behaviour

Elzinga, Albronda and Kluijtmans, (2009) Highlighted that in recent years, focusing on behavioural factors have played the positive part in the performance management system in organizations. The relation between behaviour and the implementation of the PMS has not given that much of importance in the past and many of the organizations discarded this fact that behaviour have any relation with it. Not very much amount of empirical data is present in the support of this topic. But later on, with time, many research and studies showed the direct relation between human behaviour and performance management (Lewis and Mallory, 1995). Human behaviour should be considered more because organization's main asset is their human capital that is their employees and if the organizations pay more attention to the human behaviour than basic technicalities, it will prove better. Still, many of the research is centered upon technicalities rather than considering the human behaviour (Martins, 2000).

2.1.6 Reward System

Reward system are playing an important role in the organizations now. If the employee performs well, he is expected to receive some kind of reward in return. Thus, reward system is playing a major part in performance management and has direct relation with it. Better the reward system, better the performance is observed (Thomas G. Cummings C. G., 2005). When the employees know that they will be rewarded for their exceptional performance or on achieving their goals on time, they pay more attention to the work thus it results in better performance of the employees. Reward systems are Job based (salary package according to the job position based upon responsibility of the position), performance based (bonus or salary increase is given on good performance), skill and knowledge based (more the skill and knowledge is observed more the reward is attached), gain sharing system (negotiation deal among employee and employer) and promotion system (growth within the organization).

2.2 Relationship between PM, Benefits and Compensation

Human resource is a very valuable asset of any organization and thus needed to be treated well in order to get better result. The best way to do so is by aligning the organizational goal with the individual goals. A study in Filipina was conducted to get to know about the relation between performance management and compensation benefits. For this purpose, several SMEs were taken under study and the results showed that there is positive relationship between compensation benefits and the performance management. (Heathfield, 2009) This system act as a driving and motivational force for the employees to perform better and after attaining certain goal or performing more than expected, people are compensated in terms of anything according to the company policy. CEO of an organization in the US gave her each employee 2 tickets to anywhere in the world with the bonus of \$10,000 to spend on that trip on achieving their business goal way before the deadline. Literature suggests that these type of compensation or benefits like insurance health etc. If given to the employees, less turnover is observed and employees tends to perform better.

2.3 Types of Compensation

Compensation can be of different type depending upon the type of business or organization's own policy (Lyles and Salk, 2007):

- **Hourly wage / pay:** This is basically for the unskilled, semi-skilled or part time workers where more of physical work is involved and is measured in time. Workers don't have to work daily to get income. This is the simplest way to pay for work as no monthly data gathering and accounting is required. Many people in past used to get paid in this way.
- **Salary:** Salary is the most common type of compensation given to the workers. The income is measured in years and is called as annual income. That annual income is divided in equal parts to be given after specific time period like 12 months in a year and employees get pay checks every month that at the end of the year became the sum of their annual income.
- **Commission:** Commission is given at the areas where work load is not consistent. It is different from monthly salary. Commission is paid on specific orders. In the field of sales and marketing, commission is common. Business like real estate runs on commission, when a property gets sold the real estate agent gets paid in the form of commission.

- **Bonuses:** Bonuses are the reward for extra and exceptional work. Yearly bonus is provided to the employees in some organizations for their exceptional performance throughout the year or in case of achieving goals before the specified time.

Normally compensation is seen as the fixed amount given to the employees but in 2018 a survey was conducted and according to the data, trends are changing. Many companies are changing their compensation plan by adding pay for performance compensation. It means that employee will get paid more for their good performance. This motivates the employees to perform better and organizational goals gets aligned with individual goals with more benefits (Vyas, 2010). Role of the manager in manipulating the employee's performance in terms of compensation and benefits:

When employee is not performing well, manager can use benefits and compensation method as tool of performance management. A study suggested that if employees are given compensation and benefits in reward of completing a goal their performance level observed to get better in a very effective way. Compensation and benefits act as the driving force for the employees if the managers use it properly. Compensation and benefit are something that lies along with the basic human needs and act as a source of motivation to work better. (Heathfield, 2009) HR department is responsible for making compensation and benefit system for the employees. But the question arises, how do they do it? How would they know which employee deserves the bonus? Here comes the duty of manager. The HR department seeks the help of managers to devise the whole compensation package. Manager is the one who is overseeing and managing the workers. The performance management systems in an organization have its own ways to evaluate the employee and reward it accordingly and managers are the ones who can evaluate the performance of the workers. (Lyles and Salk, 2007) According to several research, manager who is trained about performance management system knowledge and working, have their employees satisfied the most because their employees are being evaluated on merit by proper means by their managers and are rewarded for their work. This process requires transparency and simplicity in the organizations working framework and the facilitation of proper communication of duties and roles among the organization. This state can only be achieved by the involvement of managers and mainly by the involvement of top management (Salk, 2003).

2.4 Comparison Between Salary and Compensation

Payroll is the basic function of human resource of management and distribution of salary, wages, compensation and bonuses etc. The view of compensation is wider than the view of salary because compensation includes all of the benefits that is given to the employees besides fixed salary. (Vyas, 2010)

2.4.1 Payroll basic

Basically, payroll has two prominent meanings in the business. One of it is primary function that describes the function of Human Resource is distribution of salary checks to the employees of the organization. It includes formation or worksheets and after the formation, the total salary of employee is checked and then other deductions like income tax is done from it. (Campbell, 2006) Other function or payroll is the accounting process of all the salaries, income and wages from the whole budgeting and financing of the business. The cost of payroll lies in under the head of company expenditure.

2.4.2 Payroll structure

Payroll concept seems closely identical to that of common payment method. Giving straight the salary to the employees is one common method or payment it includes the periodic pay checks that is the equally distributed part of yearly salary. Similarly, straight commission is the type of income of a sales person that he gets as his share percentage of selling something. The combination of the two mentioned salaries is called compensation while bonuses are something that is the amount added up in the pay check based on the employee's exceptional performance or at the achievement of predefined goals. (Heathfield, 2009)

2.4.3 Compensation basics

Compensation basics refers to all the type of payments and benefits that is given to the employees from the organization. The compensation includes income along with benefits like medical insurance, residence, life insurance and discounts etcetera. (Campbell, 2006) Some employees need to give a portion of their income to avail all these benefits while others are provided with all these benefits along with their income. Salary is a way of motivation; in the start it is one the main attractive factor that the individual considers while joining the job and it keeps him going but the compensation is like cherry on the top. Psychologically, human is attracted more toward compensation and the employees who are given compensation observed to be more productive than those with the same amount of salary. Compensation and benefits act as the driving force for the employees that doesn't only drive the employee to work for himself but eventually this is beneficial for the organization. Companies are now considering compensation and benefits as the part of business expenditure. (Minbaeva, 2005) Companies puts all that money under the head of

expenditure that is required to run the business. The individual working in the organization are its main assets, they should be satisfied with their job in order to run the business. Thus, offering them compensation and benefits along with their fixed salary can act as a factor to make them stay loyal and productive to the organization. According to research, the compensation and benefits should be added as the expenditure. Compensation proves to be an effective factor of performance management.

2.5 Impact of performance management on top employees

Performance management consists of three elements; that are Goal Setting, Performance Review and The use of performance improvement plan (PIP):

2.5.1 Goal Setting

It is the process of making and setting objectives of the organization and these objectives then act as the benchmark of evaluation of employee upon their performance. The employees are assigned their jobs to in order to achieve the organizational goals. Performance goals of the individual should always align with the organizational goals. Goals are set by the top executives of the company. There are different types of goals to be achieve in the organization and all of them should be SMART (specific, measurable, attainable, realistic and timely). (Heathfield, 2009)

2.5.2 Performance Review

It is the process of assessing the employee performance towards the goals. Employee's strengths and weaknesses are recorded and observed and then appropriate steps are taken accordingly by the management regarding performance and career of the employees. (Salk, 2001) Management then offers training and development programs to their workers to make things better and to enhance their abilities and also to motivate those employees who are doing better, to give more out of themselves. There are many ways of performance review that includes ranking scale, BARS, 360-degree feedback, forced distribution and graphic rating scales etc.

2.5.3 The use of Performance Improvement Plan (PIP)

It is not confined to one type of employees, it ranges. PIP is for the employee who is new to the job and is unsure about the roles and duties or is unclear about the expectations of the management, PIP is for already existing employees to make them learn about new things and duties to the organization. PIP is basically for those employees who are falling short of the good performance. It depends upon management that what way of improvement they use. (Minbaeva, 2005) All of the three elements can only be done and achieved only if the top management is paying attention to performance management process. This process has the impact on the top management in a way that if the PMS of the organization is effectively implemented that staff or the employees will perform better with more productivity effectively. (Conner, 2002) This will help business to perform better and more profits will flow in the organization that will benefit the top management the most. Also, top management involvement in the organizational process with the employees, makes the employees feel more valuable and worthy to the organization and motivates them to work and when the top management see their employees performing better, this increase the job satisfaction of the top management as well which is also one of the important factor of consideration because a business can only be successful if the managers and employees are satisfied with their job and their goals are aligned with the goals of organization (Salk and Lyles, 2001).

3. RESEARCH FINDINGS

The research on the relationship of performance management with compensation and benefits is the correlation investigation. The research design is descriptive in nature. The type of data used is qualitative in nature that includes journals and research articles on the related topic. Data is collected from the wide range of journals and articles regarding performance management and compensation and benefits. This study has found out that performance management is relevant to all the major components of the organization. It determines the overall productivity by channelizing the individual performance of the employees. The factors that influence the performance management include training of the staff which is directly related to the performance of the employees. Top management support in this process of performance management is very crucial. If top management participates in this process, the quality and transparency of this process can be enhanced largely. Culture plays a very important role in defining the direction of performance of the employees. If the culture is flexible and comfortable enough to keep the employee motivated, performance quality can be sustained and improved.

The behaviour of the management is also an important aspect of performance management. If administration keeps its behaviour encouraging, a positive trend in the performance of the workers would be seen. Employee engagement is also necessary in this regard. Management should get the employees engaged by making the

environment more interesting and desirable so that the employees are always eager to work, which will definitely have a positive effect on the performance. Reward system is like the base of this performance management system. Good number of bonuses, allowances, compensations and benefits, to praise the good performance of hardworking employee can add catalysts to the growth of the firm by enhancing individual compliance of the employees.

4. CONCLUSION & RECOMMENDATIONS

From this study we can conclude that performance management is a defining component of overall organizational growth. Factors like training of employees, support of management, good organizational culture, employee engagement and reward system all have a positive relation with the performance of the employees. The process of performance management has a positive effect on the job satisfaction of the employers and top-level employees as this process increases the productivity of the employees.

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