A comparative study of Compensation & Benefits packages satisfaction of Indian public versus private banks employees

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Abstract
Every job has an employment contract between employer and employee. The employment contract acts as the basis of the relationship of employer and employee. The various entitlements of the employee are clearly defined in the contract. As per the employment contracts, the employer pays its employees in the form of monetary and non-monetary benefits in return to the services rendered by the employee. Compensation may be said as a vital reason to work, people work to earn and have better living standards. Hiring the right talent requires an understanding of the labour market and providing competitive packages to attract the right talent. The current study targets the public and private banks employees. An attempt has been made to compare the compensation and benefits packages of public and private bank employees and understand the relative importance of the various factors of compensation and benefits package. The Indian banking sector is the preferred choice as, on one end has public sector banks which have bipartite settlements for salary negotiations and on the other hand are the new generation private banks and foreign banks which independently offer lucrative packages to hire the talent. The study is based on primary data collected from selected Indian Public and Private Banks. This study reveals that both public and private sector bank employees have different offerings for their employees and employees working for different ownership have relatively different reasons to be in their current jobs.

Keywords: Human Resource, compensation, perquisites, salary and retirement

Introduction
The employees of any organization are most important, especially in a financial institution. The whole edifice is based on the confidence of the public and its unending patronage and support in the form of deposits. The management recognizes that the employees constitute an important section of the concern and it ensures positive relationship between the employer and the employees in the interest of more productivity and efficient functioning. The patronage and support of public transactions with a bank are to be channelized through peaceful and cordial relations between the bank management and its employees. The harmonious relations can be achieved by resolving the disputes or grievances through negotiations and bipartite settlements which are to be held in congenial atmosphere. These recent means of easing the tension between the employees and the management are the result of planned efforts pursued with long endurance and adjustability. In the absence of set of guidelines to hold deliberations and to arrive at a settlement, the employees had to wait for the right time to express their problems and to resort to informal meetings with the management at latter’s will. But now, the employees could achieve a major breakthrough by establishing institutional and formal means to get their grievances redressed.

Human resources are increasingly being recognized as a potential area of core competence by the Indian financial sector. Skill development is being visualized as the pivot around which the twin objectives, of staff retention and manpower quality, revolve. This is being achieved through in-house training agencies as well as hiring expert agencies and individuals, external to the organization. Regarding employment, public sector has shown a greater rise as compared to the private sector.
in the past few years. However, there is a difference in the composition of recruitments in the public and the private sector. While private sector is increasingly moving towards an officer-oriented system, public sector banks’ workforce is still constituted substantially by the clerical staff. The massive technological investment by the private sector vindicates its choice of high-skilled human capital in the form of officers. The former anyway, replaces the crowding of labor at clerical level. Adopting the officer-oriented system has facilitated multi-tasking, promotion of flexibility and provision of long-term profitability. This distinction in composition has major repercussions on the performance and practices in the organization. These practices subsume all the practices regarding compensation including rules governing pay and pay raises, practices that revolve around performance of employees, training, hiring, staffing and selection, job designs and benefit structures.

**Literature Review**

**Compensation**

Compensation is a term used since long time in any organizational setup and is used worldwide. According to Milkovich, Newman & Gerhart, 2010) [154], ‘Compensation refers to the monetary and non-monetary benefits that an employee derives from his organization in return of the services that he offers.’ As per studies compensation includes many monetary aspects for the employees which serve as important criteria for the employees to prepare benchmarks for themselves. Researchers have used four determinants of compensation: Fixed Pay, Growth and Rewards, Variable Pay and Benefits, and each of these components reveals homogeneity in relation to feelings of pay and job satisfaction, as well as in relation to attitudes concerning expectations, valence and effort in the motivational process. The concept of total compensation attempts to propose a compensation design in order to determine the various human resource management (HRM) strategic variables of the pay system (Beard, Donnadieu and Priouret, 1986) [156].

According to Gomez-Mejia (1992) [55], designing a compensation structure is not a rational, deliberate or conscious process, rather the patterns of compensation choices emerge over time, they are not random and some are more suitable than others depending on firm’s diversification strategies. Strategic compensation choices can be divided into two major patterns, ‘algorithmic’ and experiential. The main emphasis of algorithmic pay pattern is on the use of mechanistic, predetermined, standardized, repetitive procedures, with minimal attention to changing circumstances, exceptions to the rule, and external contingency factors. Its main distinguishing features include heavy reliance on traditional job evaluation procedures, seniority as an important criterion in pay allocations, little risk sharing between employees and the firm, emphasis on internal equity and hierarchical position as basis for reward distribution, monitoring behaviors rather than outcomes, above market pay with high job security, and more bureaucratic, formalized pay policies. Opportunities for upward mobility are provided to employees to induce them to spend much of their career in the firm through a narrowly defined grade structure. The administrative framework tends to be highly centralized, pay secrecy is the norm, there is little employee participation, and compensation policies and procedures are carefully spelled out (Gomez-Mejia, 1992) [56]. These compensation strategies are most appropriate for conglomerates, large diversified firms, vertically integrated firms or firms consisting primarily of related and dominant products (Lorsch and Allen, 1973) [129].

In the experiential pay pattern, the firm's compensation strategies are flexible and adaptive so that these can be molded to respond to changing circumstances, factors mediating their effectiveness, sudden environmental shifts, and fluid organizational structures. Key features of the experiential pattern include use of personal skills and attributes as a basis for pay determination, performance as a criterion for pay allocation, extensive risk sharing between employees and firm, sensitivity to market in setting pay level, less emphasis on hierarchical position, less dependence on superiors, multiple rewards at individual and aggregate level given at frequent intervals, a decentralized administrative framework, greater employee input and flexible pay policies that allow for substantial latitude in dealing with unique cases and situations (Gomez-Mejia, 1992) [55].

Different types of pay systems that exist in the industry. The first type of pay system seeks payment based on the relative worth of a position in terms of occupational hierarchy in the organization (Belcher & Atchison, 1987) [17]. The second suggests payment according to the skill level an employee brings to the enterprise, focusing on the person and not position (Milkovich & Newman, 2002) [155]. The third proposes payment based on individual or group performance since financial inducements motivate employee performance (Belcher & Atchison, 1987; Milkovich & Newman, 2002) [17, 155]. The fourth one proposes linking the financial incentive to an employee's base pay. Pay systems invariably address three principal objectives: to attract, motivate, and retain valuable employees (Belcher & Atchison, 1987; Milkovich & Newman, 2002) [17, 155]. While each pay system may accomplish these goals reasonably well, evidence shows performance-based pay (PBP) systems or reward systems improve performance motivation better than job-based and skill-based pay systems alone (e.g., Belcher & Atchison, 1987; Heneman, 1992; Lawler, 1971; Locke et al., 1980; Milkovich & Newman, 2002; Milkovich et al., 1991; Roethlisberger & Dickson, 1941; Wyatt et al, 1934) [17, 155].

On the other hand, Deming (1986) and Lawler (1990) argue that individual performance-based pay systems discourage teamwork and cooperation, and instead, incite discord, competition, and confrontation. Other opponents point to inconsistent results in linking individual rewards to employee performance despite a solid theoretical foundation (Belcher & Atchison, 1987; Heneman, 1992; Lawler, 1971, 1981, 1990; Milkovich et al., 1991; Milkovich & Newman, 2002) [17, 155].

**Compensation Satisfaction**

Compensation satisfaction is usually used as pay satisfaction in most of the studies. Studies on compensation in Indian context are relatively less and are not very conclusive. Studies have been conducted on the managerial reward system and the attitude of officers and managers of public sector undertakings towards their job outcomes (Kumar, Singh and Verma 1981; Singhal and Upadhyay 1980) [102, 210]. However, there exists a few studies which
were conducted in India focusing the employees of banking sector using a broader construct i.e. Job Satisfaction. Since Job Satisfaction is a multidimensional concept, these studies have used pay satisfaction as one of the dimensions for it. Such tangential studies may also prove to be useful for the current study as pay satisfaction is one of the variables under present study. For instance, a comparative study was done by Sowmya and Panchanatham (2011) [205] on the Indian banks and it highlighted, that in case of Job Satisfaction aspects, the commercial banks’ employees perceived that pay and promotion is an indispensable factor in deciding the satisfaction level. In their study, they emphasized that Banks are the backbone of our country and therefore their contribution to the nation should be to the fullest; which is possible only when an employee is satisfied from his/her pay, as that would lead to a greater contribution in terms of job performance leading to more individual and organizational goal achievement.

A descriptive study conducted by Abbas. S (2011) [2] in India to examine the dimensions of job satisfaction concluded that banking professionals were most content with the working conditions whereas they felt least satisfied with the compensation and the benefits being provided. He further concluded that employees were dissatisfied with their pay and other financial benefits across all levels. The impact of compensation of various classes of employees in the banks vis-à-vis job satisfaction was also examined.

A similar study, conducted in the neighboring nation, Pakistan, to investigate employee satisfaction levels of bank employees in the province of Punjab based on factors like work, pay, promotion, salary and recognition. The study established that employees of private banks were more satisfied with pay, recognition, and working hours as compared to public sector bank employees. Additionally, it was observed that the employees of public sector banks were more satisfied with job security as compared to private sector bank employees (Khalid & Irshad, 2010) [88].

**Research Methodology**

Data was collected using stratified sampling, as the study was focused on the officers and bank managers only.

The study is designed in a sequential form, herein; the qualitative data was collected using an open ended questionnaire designed for collecting valuable insights of 10 HR Experts of banking industry. Only offline mode was used for collecting this data.

In the present study 254 completely filled questionnaires by banks employees’ as respondents to understand their Compensation and satisfaction from Compensation were analyzed. The respondents were identified through the stratified sampling method and a structured questionnaire was used to record the responses. This questionnaire was used to understand the employee perception and fulfill the requirement of availability of data for testing hypotheses mentioned above. While carrying out the survey, it was ensured that all sections of the industry were covered in order to fulfill the objectives of the study.

The questionnaires were distributed in the vicinity of the chosen banks to gather data from the respondents. The questionnaires were distributed amongst the Bank Employees with due permission from the management authorities. The collected data was properly coded and entered into the spreadsheet for further analysis.

**Pre-processing of the Data**

**Missing Value Analysis (MVA)**

The missing value analysis for any data is important as there could be different reasons for those missing values. The prominent ones are data entry errors and the responses intentionally left by the respondents. Before starting the hypothesis testing, we have applied Little’s Missing Completely at Random (MCAR) test. This test was applied to check any sort of pattern in the data sheet which might affect the statistical processing.

So our Null Hypothesis for this test states “The data is missing completely at Radom”.

**Expectation-Maximization (EM) Method**

The treatment of missing values from the data sheet is important as this will help in understanding the data in a better way. EM method was used to fill up the missing values in the data sheet which considers the maximum likelihood of the data. Generally EM method has been found to be better than other existing methods (Dong & Peng, 2013) [42].

**Two Group Comparisons – Mann-Whitney Test**

To compare the difference between two groups: public and private sector banks employees’, standard statistical measures can be used like Mean, Median, Mode, Rank, Mean Rank, etc. For comparing the mean difference between two groups, t-test/z-test is commonly used but with a prior assumption of normally distributed data. Since the data was not normally distributed, so mean was not used for comparison. Non-parametric test for comparing two groups – Mann Whitney U test was used in the study, which compares the mean ranks of the two groups.

The Mann Whitney test uses the following equation to compare the test statistic.

\[ T_u = n_1 (n_1 + n_2 + 1) - T_1 \]  
\[ \text{Mean: } \mu_T = \frac{1}{2} n_1 (n_2 + n_2 + 1) \]  
\[ \text{Standard Deviation: } \sigma_T = \sqrt{\frac{1}{12} n_1 n_2 (n_1 + n_2 + 1)} \]

**Distribution form**:

- approximately normal provided \( n_1 \geq \ 10 \) and \( n_2 \geq \ 10 \)

\[ U = (N_1 N_2 + (N_1 - 1)/2) - R_1 \]

The current study uses the Mann-Whitney Test to compare variables (Compensation Satisfaction, Job Performance and Work Motivation levels of the banks’ employees) amongst the Public Banks and Private Banks. It is an important technique while comparing two groups when data is not normally distributed. The results will be sufficient enough to draw conclusions and prepare inferences.

**Research Questions**

In this section we shall report, evaluate and discuss the findings. The findings are reported on the basis of the research questions.

In the present study 254 completely filled questionnaires by banks employees’ as respondents to understand their
Responses on their Compensation, satisfaction from Compensation.

Whether Public Banks’ and Private Banks’ employees differ on the basis of Compensation Satisfaction (Pay Level, Pay Raise, Reward & Growth, and Benefits).

Results of Mann Whitney Test: Comparison of mean ranks of the defined variables for Public Bank and Private Banks’ Employees

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mann-Whitney U</th>
<th>Wilcoxon W</th>
<th>z-test value</th>
<th>Sig. (.05)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensation Satisfaction</td>
<td>68.50</td>
<td>9659.50</td>
<td>-13.667</td>
<td>.000</td>
</tr>
<tr>
<td>Pay Level</td>
<td>2.00</td>
<td>9593.00</td>
<td>-13.833</td>
<td>.000</td>
</tr>
<tr>
<td>Pay Raise</td>
<td>5571.00</td>
<td>15162.00</td>
<td>-4.189</td>
<td>.000</td>
</tr>
<tr>
<td>Rewards &amp; Growth</td>
<td>.000</td>
<td>9591.00</td>
<td>-13.804</td>
<td>.000</td>
</tr>
<tr>
<td>Benefits</td>
<td>155.00</td>
<td>6.941E3</td>
<td>-13.531</td>
<td>.000</td>
</tr>
</tbody>
</table>

H2.1a: There is a significant difference between Public Banks’ and Private Banks’ Employees on the basis of Compensation Satisfaction.

For the Banks’ Type of Employees, the Mann-Whitney test ($U = 68.50, p = .000$) was found to be statistically significant at 0.01 level. This signifies that Compensation satisfaction varies amongst the employees of Private Bank and Public Bank. With a higher Mean Rank, Private Banks’ Employees (195.91) were found to be overall more satisfied with their compensation as compared to Public Banks’ Employees (70.00). Thus, the data does not support the Null Hypothesis for Compensation Satisfaction amongst different Banks’ Employees.

H2.2a: There is a significant difference between Public Banks’ and Private Banks’ Employees on the basis of Pay Level.

For the Banks’ Type of Employees, Mann-Whitney test ($U = 2.00, p = .000$) was found to be significant at 0.01 level. This signifies that Pay Level satisfaction varies amongst the employees of Public Banks and Private Banks. Public Banks’ Employee’s mean rank (69.51) was found to be lower than those of Private Banks’ Employees (196.48) suggesting a lower Pay Level satisfaction amongst them. Thus, the data does not support the Null Hypothesis for Pay Level Satisfaction amongst different Banks’ Employees.

H2.3a: There is a significant difference between Public Banks’ and Private Banks’ Employees on the basis of Pay Raise.

For the Banks’ Type of Employees, the Mann-Whitney test ($U = 5571.00, p = .000$) was found to be significant at 0.01 level. This signifies that Pay Raise satisfaction varies amongst the employees of Private Bank and Public Bank. Higher mean rank for Private Banks’ Employees (148.47) suggests that they are more satisfied with their Pay Raise compared to Public Banks’ Employees (109.87). Thus, the data does not support the Null Hypothesis for Pay Raise Satisfaction amongst different Banks’ Employees.

H2.4a: There is a significant difference between Public Banks’ and Private Banks’ Employees on the basis of Rewards & Growth.

For the Banks’ Type of Employees, the Mann-Whitney test ($U = 155.00, p = .000$) was found to be significant at 0.01 level. This signifies that Rewards & Growth satisfaction varies amongst the employees of Private Bank and Public Bank. Better mean rank of Private Banks’ Employees (196.50), suggests better Rewards & Growth satisfaction as compared to Public Banks’ Employees (69.50). Thus, the data does not support the Null Hypothesis for Rewards & Growth Satisfaction amongst different Banks’ Employees.

H2.5a: There is a significant difference between Public Banks’ and Private Banks’ Employees on the basis of Benefits.

For the Banks’ Type of Employees, the Mann-Whitney test ($U = 184.38, p = .000$) was found to be significant at 0.01 level. This signifies that Benefit satisfaction varies amongst the employees of Private Bank and Public Bank. Better means rank of Private Banks’ Employees (59.84) were found to be more satisfied with the Benefits as compared to Private Banks’ Employees (95.93) on the basis of higher mean rank. Thus, the data does not support the Null Hypothesis for Benefits Satisfaction amongst different Banks’ Employees.

It was found that all the variables that were defined during the study were found to be significantly different in Public and Private sector banks. This implies that statistically the categories of the banks are quite different in terms of their compensation practices related to the Compensation and level of satisfaction from it. Private Bank Employees were found to have overall statistically higher mean ranks as compared to the Public Bank Employees on the basis of Compensation Satisfaction which implies that the private bank employees had more compensation satisfaction level compared to the public sector bank employees.

The first implication states that overall Employees are more attracted towards the compensation practices offered by Private Banks rather Public Banks. It was evident through the various compensation packages offered to the employees that were surveyed. There was a significant difference found in the salary packages of Public Bank Employees which was lower than Private Bank Employees. Although, as per the industry standards, the Private Banks offered lesser compensation packages at lower level and better compensation packages at higher level as compared...
to Public Banks, yet the satisfaction level was all the way better for them.

It may be concluded that although single rate is used to decide the compensation package of the employees in both the categories of Banks, yet for Public Bank Employees an automatic approach is used to decide Individual Compensation whereas for the Private Bank Employees merit based approach is preferred for deciding the same. The factors defining the compensation structure are different. There are different sets of factors that affect the compensation in two categories of banks. For Public Banks, the bargains by trade unions, cost of living for a particular geographical region, and a fixed compensation structure going on since past few years, decide the compensation packages. For Private Banks, Compensation packages are affected by External Labor Market, Economic Conditions of the Market, Technological Changes and skill set required as per the technology, Business strategy and Business expansion, are some of the prominent features that decides the compensation structure. Since the strategies of the two banks are different, compensation satisfaction is bound to vary. And thus a common structure needs to be introduced to bring the equality in the satisfaction levels of the Employees with regard to Compensation Structure. The overall compensation structure was defined on the basis of the four variables – Pay Level, Pay Raise, Rewards & Growth, and Benefits. It was found in the study that there was a significant level of difference found in the Public Bank and Private Bank Employees for all the variables. For Pay level, Pay Raise and Rewards & Growth, it was found that Employees of Private Banks were found to be more satisfied than those of Public Banks. For Benefits, the Public Bank Employees were found to be more satisfied than the Private Bank Employees.

Similar results were reported from the literature for Public Banks, where a study was conducted by Mellacheruvu and Krishnamaharyulu (2008) [141], which showed the potential issues occurring within this category of Banks. The study was conducted based on the secondary data and it was found that major issues with compensation practices within the Public Banks is that there is no distinction between the performers and non-performers with respect to pay and hence the motivation levels are down for the employees. Compensation is provided to the employees not on the individual’s performance as the basis, which creates lower levels of satisfaction for the performers. Also for public banks, promotion system is rigid and does not consider performance as an indicator of promotion of an employee. Same thing could be interpreted for the current study where Public Banks were found to be on the lower on satisfaction level and better policies were expected by the employees to change the compensation structure.

Scope for future research and limitations of the study
The research was only a cross sectional study however a longitudinal study may be done. The study was limited to public and private banks of India, in future studies foreign banks may be included. The study was limited to Delhi & NCR only.

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