

Impact of Compensation System of LIC India on the Employee Performance

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Abstract

Today's business world, human resources are the biggest of the organization. In order to take benefit of the competitive advantage of their human resource, it is important that their employees are happy and motivated in the organization. Salary and incentives are the biggest motivator for the employee to perform better. In this regard, present study focuses on insurance sector specially LIC India to examine the impact of compensation system of LIC India on the employee performance. It is found that there is association between level of employment and compensation practices. Further, regression analysis showed that there is a strong relationship between employee performance and compensation practices with respect to level of employment.

Keyword: [Compensation, Incentives Performance, Insurance, LIC, India]

Introduction

Compensation is the reward given to an employee by the organization in return of the work performed by him at a position given to him by the organization. A pay package is defined for the employee at a given position including monetary and non-monetary benefits. The pay package is defined as per the position, qualification, skills, aptitude, knowledge and talents delivered to an organization. It gives an employee a sense of motivation, pride, and satisfaction and they try to perform better for future benefits and incentives. Every government organization pre-decides the compensation system. Likewise, LIC India also has its own compensation system that is pre-decided by the higher authorities. The compensation varies on the basis of position of the employee and level of employment in the organization. In LIC, the position of employees is divided into different level of employment namely, Class I, Class II, Class III and Class IV. In each class, different positions or cadres have different pay scales defined as minimum salary paid in the beginning-increment made on equal intervals-the maximum value of salary after increments. Compensation comprises of basic salary, dearness allowances, house rent allowances and other allowances along with incentives and non-monetary benefits.

The pay scale defined for different classes or level of employment is explained below:

| Class | Position | Pay scale Range |
|-----------|---|--|
| Class I | ZM/DM/BM/ AAO/AO/ADM and others | Rs. 30000 to Rs.100000 per month |
| Class II | Development officers | Rs. 20000 to Rs. 55000 per month |
| Class III | Stenographer/Typists/ Record Clerks | Rs. 13000 to Rs. 50000 per month |
| Class IV | Drivers/Securityperson/ Peons/Lift man/Sweeper | Rs. 11000 to Rs. 18000 per month |

Source: A Quick Reference to Employee Benefits in LIC, 2018

Review of Literature

Tikare (2009) examined the satisfaction level of employees on the human resource practices in Hospitals and poor response was received for HR practices such as promotion, healthcare facilities and salary in most of the hospitals from the responses collected from 180 employees of 12 different hospitals. Kazan (2013) examined the State bank to measure employee performance and found that Salary along with promotion, performance, and employee relation could not influence the performance of employee significantly. **Ahsan et al (2014)** analysed responses

from 224 public sector university teachers of a Malakand district in Pakistan and found that HRM practices such as compensation system, promotion and performance appraisal system brought satisfaction among teachers. The study showed that the compensation mechanism of university and promotion system strongly predicted university citizenship behavior and also turnover intention was found to be strongly related to compensation practice. **Sinha and Sorum (2018)** also revealed that compensation along with other HR practices of LIC of India were effective in the influencing employee performance.

Gap of the Study

The extant literature has given much evidence that compensation is required for improving employee performance. However, it would be crucial to see if this relationship remains the same for employees in different classes. The study is thereby expected not only to fill the gap in existing literature but will also try to contribute valuable insights into the compensation system of LIC India.

Objectives of the study

- To study compensation system of LIC India
- To examine association of compensation of employees with level of employment.
- To examine impact of compensation system on employee performance.

Research Methodology

The present study aims to identify the interrelationship between compensation as HR practices of LIC India on performance of employees from Chandigarh Division of LIC of India i.e. the Northern Zone with its 20 branches. Stratified random sampling technique was used for sample selection. In the study, employees of different class were circulated questionnaires in the proportion of 25% of employees in each category of Class. A total responses collected were 266 responses were collected duly filled. Primary data is collected covered the responses collected using questionnaire technique. Further, secondary data included annual report as well as other LIC handbooks, besides, books and journals available offline or online.

Variable Definition

Compensation system

Compensation system includes the policies related to payment of salary, allowances, and perquisites to the

employees for the service to the organization. The compensation practices of LIC are measured using 4 statements stated below on a five point scale. Statements

HR Practices

1. The salary, perks and benefits you receive in your organization are similar to what most of the other organizations in the industry provide to their employees Similar to other organization
2. The pay increments offered by your organization are satisfactory Satisfactory Increments
3. Rewards in your organization are strictly linked to employee performance Linked with Performance
4. The existing reward and incentive plans motivate employees for better performance Motivate for better performance

Employee Performance

Employee Performance is measured using 6 statements stated below on a five point scale from '1' for strongly disagree to '5' for strongly agree. Each statement expresses some performance criteria. Statements

Performance Scale

1. Employees feel happy to work in the organization. Happy at work
2. Employees' in the organization are able to take decisions effectively Decision making
3. Overall target achievements of the employees have increased over the past years. Target achievement
4. Employees are more committed towards organizational goals. Commitment
5. Employees are able to find better growth opportunities in the organization and take initiative to grow. Initiative to Grow
6. Overall performance of the employees has improved over the years.

Improvement Results and Discussions

The study examines the compensation system of employees and its association with level of employment. The responses are taken in the form of five point scale measures in term of strongly agree, agree, neutral, disagree and strongly disagree.

Hypothesis

H_{01} : There is no significant association between the compensation system and level of employment.

H_{11} : There is a significant association between the compensation system and level of employment.

The results are discussed below:

As per the cross-tabulation between level of employment and

Table1: Association between level of employment and HR practices 'Similar to other organizations'.

| ECadre * Similar to other organization Crosstabulation | | | | | | | | |
|--|--|--|-------------------------------|--------|--------|--------|--------|--------|
| | | | Similar to other organization | Total | | | | |
| | | | 1 | 2 | 3 | 4 | 5 | |
| ECadre | Class I | Count | 0 | 9 | 12 | 29 | 27 | 77 |
| | | % within ECadre | .0% | 11.7% | 15.6% | 37.7% | 35.1% | 100.0% |
| | | % within Similar to other organization | .0% | 47.4% | 23.5% | 20.6% | 50.9% | 28.9% |
| | Class II | Count | 2 | 2 | 14 | 30 | 5 | 53 |
| | | % within ECadre | 3.8% | 3.8% | 26.4% | 56.6% | 9.4% | 100.0% |
| | | % within Similar to other organization | 100.0% | 10.5% | 27.5% | 21.3% | 9.4% | 19.9% |
| | Class III | Count | 0 | 7 | 24 | 74 | 18 | 123 |
| | | % within ECadre | .0% | 5.7% | 19.5% | 60.2% | 14.6% | 100.0% |
| | | % within Similar to other organization | .0% | 36.8% | 47.1% | 52.5% | 34.0% | 46.2% |
| | Class IV | Count | 0 | 1 | 1 | 8 | 3 | 13 |
| | | % within ECadre | .0% | 7.7% | 7.7% | 61.5% | 23.1% | 100.0% |
| | | % within Similar to other organization | .0% | 5.3% | 2.0% | 5.7% | 5.7% | 4.9% |
| Total | Count | 2 | 19 | 51 | 141 | 53 | 266 | |
| | % within ECadre | .8% | 7.1% | 19.2% | 53.0% | 19.9% | 100.0% | |
| | % within Similar to other organization | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | |

Source: Primary Survey

Table 1 a: Chi-Square Tests

| | Value | Df | Asymp. Sig. (2-sided) |
|--------------------|---------|----|-----------------------|
| Pearson Chi-Square | 32.839a | 12 | .001 |
| Likelihood Ratio | 30.807 | 12 | .002 |
| N of Valid Cases | 266 | | |

a. 8 cells (40.0%) have expected count less than 5. The minimum expected count is .10.

HR practice, it is revealed that in each class, a majority of employees agreed that LIC has compensation system quite similar to that of other organizations. Some disparity is also found in responses as some employees disagree to this

and some also have neutral response. A strong disagreement is only received from Class II where 3.8 percent employees disagreed. It is also found that there is strong association between level of employment and studied HR practice.

Table 2: Association between level of employment and HR practices of 'Satisfactory Increments'.

| ECadre * Satisfactory Increments Crosstabulation | | | | | | | | |
|--|-----------|----------------------------------|-------------------------|--------|--------|--------|--------|--------|
| | | | Satisfactory Increments | | | | | |
| | | | 1 | 2 | 3 | 4 | 5 | Total |
| ECadre | Class I | Count | 1 | 7 | 13 | 30 | 26 | 77 |
| | | % within ECadre | 1.3% | 9.1% | 16.9% | 39.0% | 33.8% | 100.0% |
| | | % within Satisfactory Increments | 100.0% | 63.6% | 39.4% | 18.9% | 41.9% | 28.9% |
| | Class II | Count | 0 | 4 | 8 | 33 | 8 | 53 |
| | | % within ECadre | .0% | 7.5% | 15.1% | 62.3% | 15.1% | 100.0% |
| | | % within Satisfactory Increments | .0% | 36.4% | 24.2% | 20.8% | 12.9% | 19.9% |
| | Class III | Count | 0 | 0 | 9 | 90 | 24 | 123 |
| | | % within ECadre | .0% | .0% | 7.3% | 73.2% | 19.5% | 100.0% |
| | | % within Satisfactory Increments | .0% | .0% | 27.3% | 56.6% | 38.7% | 46.2% |
| | | % of Total | .0% | .0% | 3.4% | 33.8% | 9.0% | 46.2% |
| | Class IV | Count | 0 | 0 | 3 | 6 | 4 | 13 |
| | | % within ECadre | .0% | .0% | 23.1% | 46.2% | 30.8% | 100.0% |
| | | % within Satisfactory Increments | .0% | .0% | 9.1% | 3.8% | 6.5% | 4.9% |
| Total | | Count | 1 | 11 | 33 | 159 | 62 | 266 |
| | | % within ECadre | .4% | 4.1% | 12.4% | 59.8% | 23.3% | 100.0% |
| | | % within Satisfactory Increments | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

Source: Primary Survey

Table 2a: Chi-Square Tests

| | Value | df | Asymp. Sig. (2-sided) |
|--------------------|---------|----|-----------------------|
| Pearson Chi-Square | 35.407a | 12 | .000 |
| Likelihood Ratio | 40.009 | 12 | .000 |
| N of Valid Cases | 266 | | |

a. 9 cells (45.0%) have expected count less than 5. The minimum expected count is .05.

Employees gave favourable response when asked that LIC IndiaOnly 7 employees from Class I and 4 employees if they were getting satisfactory pay increment from Class II showed resentment on this while strong

disagreement is also received from one employee in Class I. Further, there are employees who also gave neutral response. It is found that level of employment is associated with studied HR practice.

Table 3: Association between level of employment and HR practices of 'Linked with Performance'.

| E Cadre * Linked with Performance Crosstabulation | | | | | | | | |
|---|----------------------------------|----------------------------------|-------------------------|--------|--------|--------|--------|--------|
| | | | Linked with Performance | Total | | | | |
| | | | 1 | 2 | 3 | 4 | 5 | |
| ECadre | Class I | Count | 1 | 18 | 11 | 34 | 13 | 77 |
| | | % within ECadre | 1.3% | 23.4% | 14.3% | 44.2% | 16.9% | 100.0% |
| | | % within Linked with performance | 9.1% | 60.0% | 39.3% | 20.5% | 41.9% | 28.9% |
| | Class II | Count | 4 | 2 | 9 | 31 | 7 | 53 |
| | | % within ECadre | 7.5% | 3.8% | 17.0% | 58.5% | 13.2% | 100.0% |
| | | % within Linked with Performance | 36.4% | 6.7% | 32.1% | 18.7% | 22.6% | 19.9% |
| | Class III | Count | 5 | 10 | 7 | 92 | 9 | 123 |
| | | % within ECadre | 4.1% | 8.1% | 5.7% | 74.8% | 7.3% | 100.0% |
| | | % within Linked with Performance | 45.5% | 33.3% | 25.0% | 55.4% | 29.0% | 46.2% |
| | Class IV | Count | 1 | 0 | 1 | 9 | 2 | 13 |
| | | % within ECadre | 7.7% | .0% | 7.7% | 69.2% | 15.4% | 100.0% |
| | | % within Linked with Performance | 9.1% | .0% | 3.6% | 5.4% | 6.5% | 4.9% |
| Total | Count | 11 | 30 | 28 | 166 | 31 | 266 | |
| | % within ECadre | 4.1% | 11.3% | 10.5% | 62.4% | 11.7% | 100.0% | |
| | % within Linked with Performance | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | |

Source: Primary Survey

Table 3a: Chi-Square Tests

| | Value | Df | Asymp. Sig. (2-sided) |
|--------------------|---------|----|-----------------------|
| Pearson Chi-Square | 35.959a | 12 | .000 |
| Likelihood Ratio | 36.743 | 12 | .000 |
| N of Valid Cases | 266 | | |

a. 6 cells (30.0%) have expected count less than 5. The minimum expected count is .54.

From the statement that examines the responses of employees on linking compensation to performance as HR practice, it is found that employees showed mix response on t Satisfactory Increments his. A favourable response is received from employees on this but some employees in each

cadre who disagree with the statement. Further, a few employees even showed strong resentment. Further, more than 5 percent employee in each cadre is found to be neutral. The chi-square test shows that linking salary with performance is closely associated with level of employment.

Table 4: Association between level of employment and HR practices of 'Motivate for better performance

| ECadre * Motivate for better performance Cross tabulation | | | | | | | | |
|---|-----------|--|---------------------------------|--------|--------|--------|--------|--------|
| | | | Motivate for better performance | | | | | Total |
| | | | 1 | 2 | 3 | 4 | 5 | |
| ECadre | Class I | Count | 2 | 16 | 7 | 28 | 24 | 77 |
| | | % within ECadre | 2.6% | 20.8% | 9.1% | 36.4% | 31.2% | 100.0% |
| | | % within Motivate for better performance | 50.0% | 51.6% | 21.2% | 19.0% | 47.1% | 28.9% |
| | Class II | Count | 2 | 12 | 14 | 19 | 6 | 53 |
| | | % within ECadre | 3.8% | 22.6% | 26.4% | 35.8% | 11.3% | 100.0% |
| | | % within Motivate for better performance | 50.0% | 38.7% | 42.4% | 12.9% | 11.8% | 19.9% |
| | Class III | Count | 0 | 3 | 9 | 94 | 17 | 123 |
| | | % within ECadre | .0% | 2.4% | 7.3% | 76.4% | 13.8% | 100.0% |
| | | % within Motivate for better performance | .0% | 9.7% | 27.3% | 63.9% | 33.3% | 46.2% |
| | Class IV | Count | 0 | 0 | 3 | 6 | 4 | 13 |
| | | % within ECadre | .0% | .0% | 23.1% | 46.2% | 30.8% | 100.0% |
| | | % within Motivate for better performance | .0% | .0% | 9.1% | 4.1% | 7.8% | 4.9% |
| Total | | Count | 4 | 31 | 33 | 147 | 51 | 266 |
| | | % within ECadre | 1.5% | 11.7% | 12.4% | 55.3% | 19.2% | 100.0% |
| | | % within Motivate for better performance | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

Table 4a: Chi-Square Tests

| | Value | Df | Asymp. Sig. (2-sided) |
|--------------------|---------|----|-----------------------|
| Pearson Chi-Square | 67.754a | 12 | .000 |
| Likelihood Ratio | 70.512 | 12 | .000 |
| N of Valid Cases | 266 | | |

a. 7 cells (35.0%) have expected count less than 5. The minimum expected count is .20.

Testing the association of level of employment with HR practices, 'motivation for better performance' by

giving good salary and incentive plans, it is found that a majority of employees have agreement on this. They either agree or strongly agree that the current salary and incentive plans in LIC India motivate them to perform better. Some

disagreement is also found on this among employees in Class I, Class II and Class III. Study even received neutral responses from employees of each class. Finally, it was found that there is a strong association between the studied HR practice and level of employment.

The Impact of Compensation system of LIC India on Employee's Performance

The next section of the study evaluates the impact of compensation system of LIC India on Employee performance. Employees' viewpoint is collected through questionnaire on each criteria of employee performance on five-point scale and scores received are then summed up and a mean is calculated. This provides a mean score of employee performance i.e. Perfscore. The employee performance's mean score is the dependent variable in the regression model.

In this regard, the new variable created by multiplying mean score of compensation practices with level of employment is 'Interaction'. The variable is used to examine the relationship between compensation and employee performance with respect to level of employment.

Hypothesis:

H₀: There is no significant relationship between the compensation system and employee performance.

H₁: There is a significant relationship between the compensation system and employee performance.

Regression equation: $\text{Perfscore}_i = \alpha_i + \beta_1i(\text{Similar to other organization}) + \beta_2i(\text{Satisfactory Increments}) + \beta_3i(\text{Linked with Performance}) + \beta_4i(\text{Motivate for better performance}) + \beta_5i(\text{Interaction}) + \epsilon$

(2) Where, β = solve coefficient for dependent variables, i = individual and ϵ = error.

The results include model summary that represents the explained value of the model with R and R-square values.

Table 5a: Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------|----------|-------------------|----------------------------|
| 1 | .965a | .931 | .929 | .1827 |

a. Predictors: (Constant), Interaction, S3, S1, S4, S2

From the above Table5a, it is found that R=0.965 and Rsquare=0.931. This indicates that the compensation practices and its interaction with level of employment explain 97 percent of changes in employee

performance.

Table 5b: ANOVA

| Model | Sum of Squares | df | Mean Square | F | Sig. |
|------------|----------------|-----|-------------|---------|-------|
| Regression | 116.200 | 5 | 23.240 | 696.611 | .000a |
| Residual | 8.674 | 260 | .033 | | |
| Total | 124.874 | 265 | | | |

a. Predictors: (Constant), Interaction, Linked with Performance, Similar to other organization, Motivate for better performance, Satisfactory Increments

b. Dependent Variable: Perfscore

As per Table5b, $F(5,260) = 696.611$ which is significant at 5 percent. The model fittest is proved for regression analysis. In Table5c, the impact of independent variables, compensation practices and its interaction with level of employment (Interaction) is measured on the employee performance.

Table 5c: Coefficients^a

| Model | Unstandardized Coefficients | Standardized Coefficients | t | Sig. | |
|----------------------------------|-----------------------------|---------------------------|-------|--------|------|
| | B | Std. Error | | Beta | |
| (Constant) | 1.526 | .071 | | 21.470 | .000 |
| Similar to other organization | .024 | .018 | .030 | 1.319 | .188 |
| Satisfactory Increments | -.054 | .022 | -.059 | -2.497 | .013 |
| Linked with Performance | -.003 | .013 | -.004 | -.246 | .806 |
| Motivate for better performance | .054 | .017 | .074 | 3.235 | .001 |
| Interaction | .137 | .003 | .930 | 41.780 | .000 |
| a. Dependent Variable: Perfscore | | | | | |

As per Table 5c, the employee performance is found to be influenced by satisfactory increments and motivation to employees. There is a significant and negative relationship between employee performance and HR practice of satisfactory increments with beta value -0.054. There is a significant and positive relationship between employee performance and HR practice of motivation for better performance with beta value 0.054. The study also found that there is a strong relationship between employee performance and compensation practices with respect to level of employment.

Conclusion

Study has examined compensation practices of LIC India and its impact on employee performance. The results show

that compensation system plays a significant role in improving employee performance. Compensation system of LIC is highly appreciated by the employees. However, a difference is also noticed in responses of employees. This disparity suggests that organization need to work on improving compensation system and make it more focused on individual performance. The employee performance is found to be influenced by satisfactory increments and motivation to employees.

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