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### RESEARCH ARTICLE

## DISTINGUISH BETWEEN THE IMPACTS OF COMPENSATION PRACTICES ON MANAGERIAL AND NON MANAGERIAL EMPLOYEES' PRODUCTIVITY IN APPAREL INDUSTRY OF SRI LANKA.

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#### Abstract

Compensation is defined as money or remuneration received by an employee for the performance of work and various benefits provided by the organization. Compensation practices and its impact on managerial and non-managerial employee productivity in Apparel Industry of Sri Lanka, as the research topic indicated the dependent variable of this study was employee productivity while the independent variable was compensation practices consist of salary, annual increment, bonus and incentives. The problem of Apparel Industry as the Management has addressed as that there was a high rejection rate of product pieces than the expected level and lack of proper supervision on the production process. The general objective of this research was to suggest the management the ways and means to enhance employee productivity both managerial and non-managerial through addressing the significance of compensation practices. This research has followed the mixed methodology as questionnaires and the interviews were the main methods that have used to gather data. The target population was the employees of Apparel Industry and the sample has selected by the stratified sampling method while identifying each department of the company as a strata. Focus group discussions, Questionnaires, Internet & websites, organizational annual reports and journal articles were used to collect data and percentages, frequencies, tables and charts were used to present data while using statistical package as SPSS and Microsoft Excel were used to analyze data. The research has identified a moderately strong positive relationship between non-managerial employee productivity and compensation practices practice while managerial employees are having weak positive relationship between compensation practices and employee productivity. Therefore the research has found the compensation practices as salary, annual increments, bonus and incentives are lead to motivation, retention, performance, goodwill, employee effort and desired results of an employee which gain non-managerial employee productivity. However the managerial employees are less influenced by the compensation practices and influenced by the intangible motivators like recognition, gratitude, respect, and appreciation.

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**Introduction:-**

“Compensation Practices” refers to the remuneration received by an employee in return for his/ her contribution to the company.

Effect of compensation on employee’s productivity could be very strong in some organizations. Good compensation for employees will be able to stimulate the emergence of fresh ideas and employee’s innovation.

Any successful business knows much of its success is due to diligent workers with excellent productivity. Employees who put extra effort often make a big difference in company profits. The employees who do only what the job duties require, and no more, can deny the progress of a company. It is important to motivate all employees to reach their full potential and maximum level of productivity. Effective employee productivity of a company will remain through effective practices in Human Resources. Among all the Human resources practices, compensation practices are more sensitive to the both employer and employee as both cannot survive, fulfill their own needs and achieve their aspirations without compensation.

In one hand these compensation practices will affect employee productivity and on the other hand employee productivity affects total organization productivity as whole. So this research topic was involved in identifying whether compensation practices affect employee productivity in highly employee oriented work places.

**Background of the research problem:-**

The research study on the topic “Distinguish between the Impacts of Compensation Practices on Managerial and Non Managerial Employees’ Productivity in Apparel Industry of Sri Lanka” was conducted at a company which includes to the Apparel Industry. As for the general idea of the industry it is one a major industry in Sri Lanka which has lot of employment opportunities and export earnings to the country. The wearing apparel sub-sector, which is the second largest sub-sector in the FIPI index (Factory Industry Production Index), played a major role in enhancing factory industry output during the year. Accordingly, the output of the wearing apparel sub-sector recorded a significant growth of 6.7 per cent in 2013 compared to 4.2 per cent in 2012. (Central Bank of Sri Lanka, 2013)

The company which was focused on this study is a well reputed company in the local market for quality Shirts. This company is surviving for over 25 years in the industry while keeping their name on top list of local shirts. The shirts are produced according to the export quality. The workers in the company are well knowledgeable regarding the apparel sector. This company connects with many countries by being a buyer of Fabrics to the countries such as Canada, Japan and China etc. The company specialized in producing quality shirts with a variety of Party, Casual and Executive shirts. They use machinery and equipment relevant only for its field and shirts are produced according to the requirements of the buyer’s company also quality of the shirts are regularly measured by a specific sector in the company and quality controllers.

According to the preliminary discussion had with the management of the Apparel Industry they address the problem that there is a high rejection rate of product pieces than the expected level. As according to the discussion they suggest that the unexpected level of rejections may be due to the lack of satisfaction towards the compensation practices. But also they emphasize the company is highly consider about the employee compensation practices including salary payments on time, paying annual increments, giving bonuses, incentives for their performances, benefits such as medical, foods and accommodation facilities (Hostel). So they wanted to identify whether their employees are not satisfied through the package of compensation received and whether compensation is the issue for the unexpected high rejected pieces.

**Problem Statement:-**

There is a significant growth in apparel sector in Sri Lanka and there is huge opportunity in the world for Sri Lankan apparels to import. In the Apparel Industry there can be a barrier for this opportunity by high rate of rejected pieces. Therefore these contradictions on compensation practices and its impact on employee productivity lead to the identification of the research problem that is worth to study. So the problem statement as follows “Do compensation practices contribute to employee productivity in Apparel Industry”.

**Literature Review:-**

Productivity is a term that almost used in management. The term production and Productivity are often used interchangeably.

The total quantity of goods and services produced by utilizing different resources is called production. The amount of output that is produced per unit of input; usually expressed in terms of output per unit of time.

Employee productivity (sometimes referred to as workforce productivity or labour productivity) is an assessment of the efficiency of a worker or group of workers. Productivity may be evaluated in terms of the output of an employee in a specific period of time.

Productivity is commonly defined as a ratio between the output volume and the volume of inputs. In other words, it measures how efficiently production inputs, such as labour and capital, are being used in an economy to produce a given level of output. (Krugman, 1994).

The productivity is affected by multiple factors. Sometime one or more factors play there role to increase or decrease the employee productivity. The factors those affect the performance or productivity are the same. Because when the productivity of individual is increased then his performance is also increased automatically.

The management experts have classified these factors under following headings:

1. Physical, organizational, location, and technological.
2. Cultural and behavioural.
3. Global influences, innovativeness, strategic alliances, liberalized policies etc.
4. Managerial and organizational business environment.
5. Levels of flexibility in internal labour markets and the organization of work activities.
6. Individual rewards and payment systems, and the effectiveness of personnel managers and others in recruiting, training, communicating with, and performance-motivating employees on the basis of pay and other incentives.

Productivity is the outcome of several interrelated factors. According to the past researches and literature, the main factors that affect employee productivity are time, schedule compression, type of project, safety, quality, managerial factors, manpower group, motivation, supervision, material/ tools, project management factors, natural factors, external factors, political factors, salary packages (Gundecha, 2012)

HRM function is directly related to the labour productivity. Labour productivity depends on several factors such as HRM functions, industry types, unionization, technology, firm size. (Koch & McGrath, 1996)

Employee Compensation refers to all forms of pay or rewards going to employees and arising from their employment. (Dessler, 2006) The term compensation refers to all forms of financial returns and tangible benefits that employees receive as part of an employment relationship. (Bernadin, 2007) Compensation may be defined as money or remuneration received by the employee for the performance of work in addition to the various benefits provided to him by the organization. (Mankidy, 2006)

Compensation is an important factor affecting how and why people choose to work at one organization over others, such an effective compensation programme in an organization addresses four objectives.

1. Legal compliance with all appropriate laws and regulations.
2. Cost effectiveness for the organization.
3. Internal, external and individual equity for employees.
4. Performance enhancement for the organization. (Mathis and Jackson, 2007)

The overall purposes of providing compensation are to attract, retain and motivate employees. (Mondy and Noe, 2006) There are many scholars have developed different structures for compensation practices where each include Base Pay (Wages and Salaries), Variable pay, Benefits, Allowances, Bonuses, Commission and Perquisites.

When considering the relationship between employee productivity and compensation practices according to the views of different scholars as Stajkovic & Luthans, (2006) and Mohrman, & Odden, (1996) stated that good compensation for employees will be able to stimulate the emergence of fresh ideas and employees' innovation. In a similar study, Mohrman, & Odden, (1996) found that the existence of a good compensation of employees will make the health of employees also good. With the maintenance of health, the employee will get maximum performance opportunities. The number of working hours or employee present hours is able to obtain a maximum work

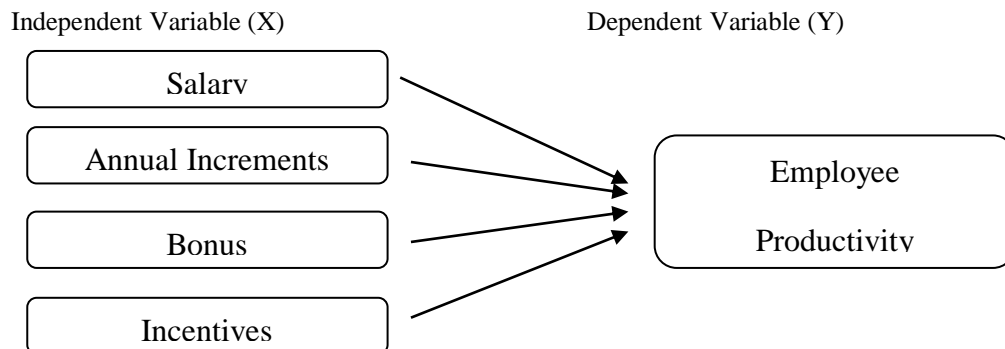
performance. As a result, the planning process can be obtained with good production. The use of formal performance appraisal and incentive compensation systems has been widely found to enhance productivity. (Huselid, 1995) Ichniowski, Shaw and Prensushi (1995) stated that Productivity effects of work practices often focus on ways in which compensation policies, such as profit sharing, efficiency wage payments or other forms of incentive pay can affect employee productivity.

### Methodology:-

The research “Distinguish between the Impacts of Compensation Practices on Managerial and Non Managerial Employees’ Productivity in Apparel Industry of Sri Lanka” has identified five main variables where four variables have identified as independent variables and another variable has identified as the dependent variable. The dependent variable is Employee Productivity and independent variables are Salary, annual increments, bonus and incentives scheme.

Each independent variable was tested separately to explore its impact to the dependent variable. To gather data regarding the dependent variable of the study, employee productivity was used secondary data. Employee productivity of each employee directly measured and recorded by the company. Employee Productivity, the dependent variable would be operationalized by labeling collected data using a likert-type scale ranging from very high, high, moderate, low and very low. The study was a correlation field study where compensation practices were identified as independent variable while the employee productivity was identified as dependent variable. In the study, stratified random sampling technique has used to select the population elements from the population up to the sample size.

**Figure No 1:-** Conceptual Framework:-



Source: Author Developed

The population of the study consisted of all the factory employees both managerial and non-managerial of the Apparel Industry who were relevant to eight different sections such as Sample room, Cutting section, Collar section, Fusing section, Conference section, packing section, Quality section and Production section. These sections of the company which have fulfilled the requirements of strata that being similar within the strata and being indifferent inter strata or in other entire population has grouped into relatively homogeneous subgroups (sections) and sample will be selected by representing each section with respect to their ratio.

The standard proportion of the sample should be 30% from the entire population. Therefore this research has conducted with the participation of 65 sample members out of 216 population elements.

Primary data was gathered using standard questionnaire, focus group discussions and observations with randomly selected employees. The main data collection method was questionnaire which contains measures of compensation practices to employee productivity. At the first part of the questionnaire was consists of questions regarding compensation practices in Apparel Industry about the level of satisfaction towards compensation practices which include salary, annual increments, bonus and incentives. The next part of the questionnaire was included additional information relating to demographic characteristics of the respondent employees.

The secondary data was collected through employee productivity charts of the Apparel Industry in order to understand and evaluate the productivity level of the employees and other published data such as research articles, journal articles, books, newspapers and magazines were used throughout this study.

In this research quantitative methods were used to analyze the data. All the relevant data has collected numerically and with the means to convert into numeric data by using five likert-type scale techniques. The research data was analyzed with reference to the descriptive statistics such as mean, mode, median, variance, skewness and kurtosis etc. The demographic characteristics details were summarized by using descriptive statistics also it presented in a tabular format. Descriptive statistics measures used to analyze the rates of respondents according to the gender composition, marital status, level of education etc. The data regarding these variables plotted as a scattered diagram by using two dimensions at a time and identified the level of correlation between these dimensions. Also regression, correlation coefficient and coefficient of determinant could be calculated to these variables by getting two variables at once.

The findings collected by the questionnaires and the personal interviews relating to compensation practices and employee productivity have involved in the research study. The collected data was analyzed and summarized in various forms by using data analyzing techniques as percentages, tables, bar charts, pie charts & line charts and graphs. Further frequency distributions and scatter plot diagrams were used to present data in a clear, accurate and understandable manner. For each of these related variables tested by constructing hypotheses using standard error tests,  $X^2$  test (chi-square), ANOVA etc. These analyses also presented with tabular format, histograms and scatter plot diagrams with the relevance to the study inferential statistics also used in data analysis. Tools that used to analyze data were Microsoft Office Excel and IBM SPSS Statistics.

### **Results and Analysis:-**

When considering the relationship between independent variable (Salary) and dependent variable (employee productivity) correlation coefficient value in the correlations gives a positive value (0.558) which indicates a moderately strong positive relationship for non-managerial employees and on the other hand for managerial employees, the relationship between salary and employee productivity shows a weak positive relationship as numerically as 0.125. When the employee salary increases, the labour productivity of the organization also increases. The significance value is less than the chosen significance level of 5% (0.05) for both managerial and non-managerial employees. That means increases or decreases in Compensation - Salary do significantly relate to increases or decreases in labour productivity. However the impact of managerial employees is lesser than non-managerial employees in terms of salary. Because of that the null hypothesis is rejected which states there is no significant relationship between employee productivity and Salary (compensation practices) in Apparel Industry and the alternative hypothesis is accepted which states there is a significant relationship between employee productivity and Salary (compensation practices) in Apparel Industry. But on the other hand.

When considering the relationship between independent variable (Annual Increment) and dependent variable (employee productivity) correlation coefficient value in the correlations table gives a positive value (0.650) which indicates a moderately strong positive relationship between two variables and on the other hand for managerial employees, the relationship between annual increment and employee productivity shows a weak positive relationship as numerically as 0.110. When the employee annual increments increases, the labour productivity of the organization also increases. The significance value is less than the chosen significance level of 5% (0.05) for both managerial and non-managerial employees. That means increases or decreases in Compensation – Annual increment do significantly relate to increases or decreases in labour productivity. Because of that the null hypothesis is rejected which states there is no significant relationship between employee productivity and Annual Increment (compensation practices) in Apparel Industry and the alternative hypothesis is accepted which states there is a significant relationship between employee productivity and Annual Increment (compensation practices) in Apparel Industry.

When considering the relationship between independent variable (Bonus) and dependent variable (employee productivity) correlation coefficient value in the correlations gives a positive value (0.629) that indicates a moderately strong positive relationship between two variables and on the other hand for managerial employees, the relationship between annual increment and employee productivity shows a weak positive relationship as numerically as 0.215. When the bonuses increases, the employee productivity of the organization also increases. The significance value is less than the chosen significance level of 5% (0.05). That means increases or decreases in Compensation –

Bonus do significantly relate to increases or decreases in employee productivity. Because of that the null hypothesis is rejected which states there is no significant relationship between employee productivity and Bonus (compensation practices) in Apparel Industry and the alternative hypothesis is accepted which states there is a significant relationship between employee productivity and Bonus (compensation practices) in Apparel Industry.

When considering the relationship between independent variable (Incentives) and dependent variable (employee productivity) correlation coefficient value in the correlations gives a positive value (0.558) which indicates a moderately strong positive relationship between two variables on the other hand for managerial employees, the relationship between annual increment and employee productivity shows a weak positive relationship as numerically as 0.229. When the incentives (independent variable) increases, the labour productivity of the organization (dependent variable) also increases. The significance value is less than the chosen significance level of 5% (0.05). That means increases or decreases in Compensation – Incentives do significantly relate to increases or decreases in labour productivity. Because of that the null hypothesis is rejected which states there is no significant relationship between employee productivity and Incentives (compensation practices) in Apparel Industry and the alternative hypothesis is accepted which states there is a significant relationship between employee productivity and Incentives (compensation practices) in Apparel Industry.

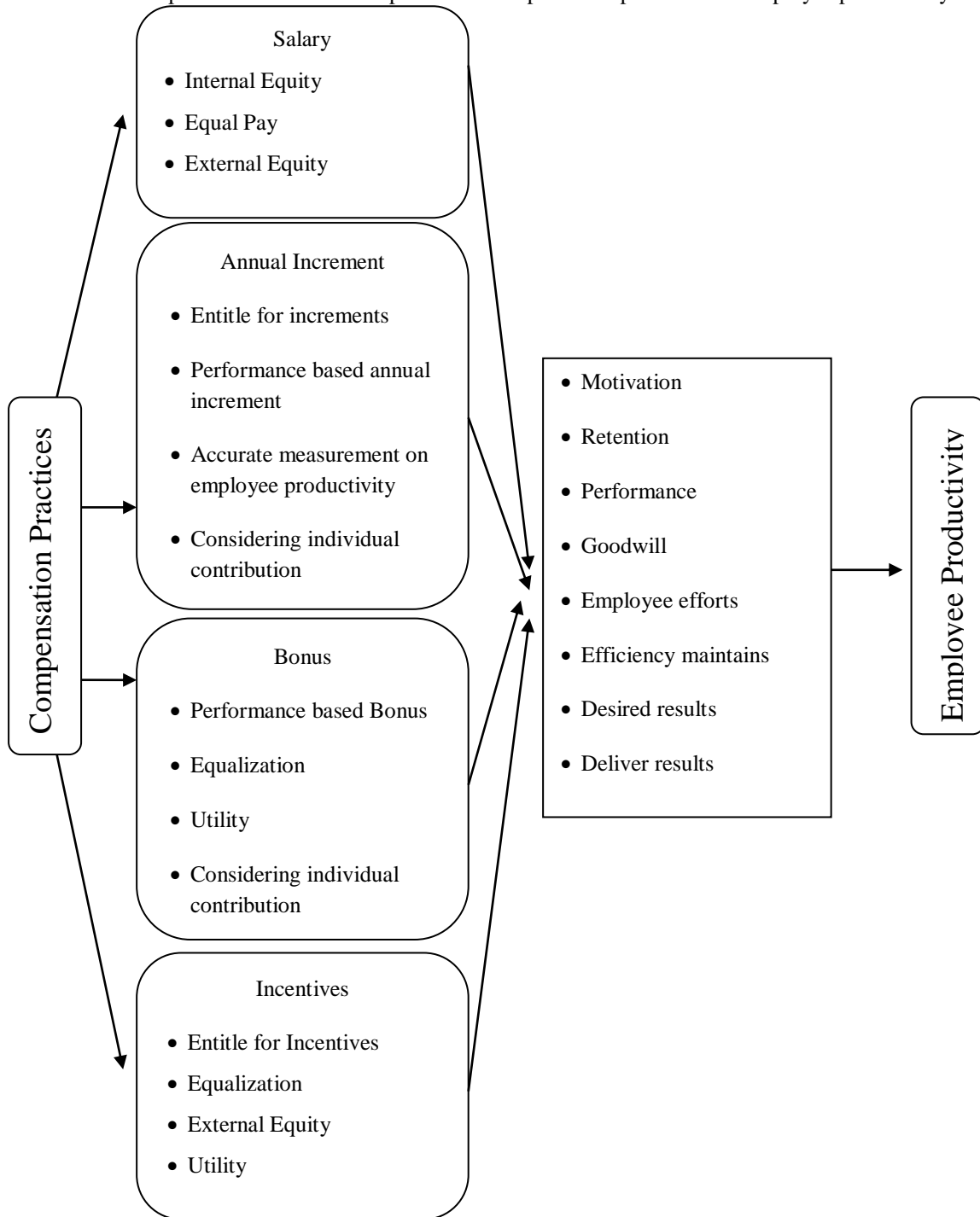
### **Discussion, Conclusion and Recommendation:-**

According to analyzed data of compensation practices for salary it increases the employee productivity of the organization. Furthermore, results showed that organization incentive schemes increases the employee productivity of the organization. Also it shows organization annual increments increase the employee productivity of the organization as well as bonus also having a positive relationship with employee productivity. According to the findings the organization maintaining the satisfactorily compensation package which could maintain higher employee productivity level. Without meet the organizational needs the compensation module not be effective, because of that optimum use & meet the organizational needs of the compensation modules are more important.

Providing the compensation package in effectively, organizations can achieve higher employee productivity level. Any organization maintain a good compensation practices it help to enhance the Motivation, Retention, Performance, Goodwill, Employee efforts, Efficiency maintains, Desired results and Deliver results. That means effective compensation package which can meet employee needs and wants help to enhance the employee productivity of the organization.

Based on the findings the research suggests the following model on figure 2 for improving the contribution of the salary, annual increments, bonus and incentives in compensation modules for employee productivity. In addition to build this model uses the literate review, observations and personnel interviews.

Figure No 2:- Developed model of relationship between compensation practices and employee productivity



Source: Author Developed

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