

DOES COMPENSATION AFFECT TASK PERFORMANCE? A CASE FROM PUBLIC SECTOR HOSPITALS OF KARACHI – PAKISTAN

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Abstract. *The performance of human resources is regarded as a contributory factor to the performance of an organization. Nowadays compensation is considered the most influential factor to motivate human resources to accomplish the designated tasks. This study examines the effect of salary and bonus as a form of direct compensation while employee recognition and flexible working hours as a form of indirect compensation on the task performance. A deductive approach was employed to determine the causal link with a sample of 370 employees working in public sector hospitals while the developed hypotheses have been examined by structural equation modeling. The results of the study revealed that salary, bonus, employee recognition, and flexible working hours have a positive effect on task performance. So, managers of public sector hospitals need to seriously deliberate when formulating the compensation strategy as it directly links with the performance of employees which will finally be deciphered into better delivery of services.*

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1. Introduction

The performance of human resources is regarded as a contributory factor to the growth and profitability of an organization. Human resources are the most important resource an organization has that enable the operational activities to attain the set goals of the organization (Antwi, Opoku, Seth, & Margaret, 2016; Muda, Rafiki, & Harahap, 2014). Correspondingly, the effectual performance of the job is a pointer which showing that human resources put efforts to meet the expectations of an organization in terms of the accomplishment of assigned tasks (Akteer & Husain, 2016; Idrees, Xinping, Shafi, Hua, & Nazeer, 2015). In addition to this by implementing effective management practices perhaps help motivate human resources to demonstrate a higher level of performance (Wu & Lee, 2011), hence, it has now become a key objective of every organization. Consequently, Rashid, Rashid, Othman, Othman, and Fatini (2016) emphasized

that effective HR practices play a pivotal role to accomplish the objective in terms of improving employee performance.

Dayanandan (2017) highlighted that the fundamental element of human resource management is compensation because it includes financial (direct) rewards in the form of wages and salaries along with other benefits in the form of non-financial (indirect) rewards. Therefore, among all the practices of HR; compensation is one of the essential practices an organization can execute to motivate human resources. Therefore, compensation is viewed as the fundamental element of human resource management practices in which fringe benefits are received by the workers from the organization in the form of money or other benefits in exchange for their contribution. Consistent with this argument, Hettiararchchi and Jayarathna (2014) makes clear that the performance of employees can be enhanced by executing a bundle of HR practices including compensation. Also, compensation might help an organization in achieving numerous objectives like Patnaik and Padhi (2012) demonstrated that having a systematic approach in the form of monetary and non-monetary compensation results in boosting human resources performance, satisfaction level, and engagement.

As per Social Exchange Theory by Blau (1964), when an individual performs as well as supports another person or organization might entail some return for that favor. By keeping in view this quarrel when employees perform for an organization; then an organization must fulfill the needs of another party (employee) in an equitable manner (Conway & Monks, 2008), by providing compensation. Additionally, the compensation systems are viewed as an effective HR strategy to upsurge the performance of human resources (Kameli, Darabi, Jafari, & Namjo, 2011), especially those who are working in a service organization. Moreover, Yan and Kung (2017) have also asserted in their study that compensation is one of the essential practices in hospitals because it results in the improvement of medical services, performance as well as the competitiveness of hospitals. Therefore, provision of proper conditions to work, compensations, training as well as positive association among superior & subordinate serve as a diverse set of practices employed by the organization (Shmailan, 2016), which in turn lead to affect the performance of employees.

Still, hospital employees working in the developing countries are facing issues related to the execution of compensation as indicated by numerous researchers like Hafeez, Khan, Bile, Jooma, and Sheikh (2010) and Suhail & Azhar (2016), which in turn results in affecting the employee performance and increase the turnover rate. So, the effectual performance of human resources is a crucial aspect to serve the patients in the hospital. Yet, studies regarding how salary, bonus, employee recognition, and flexible working hours affect task

performance have received comparatively limited attention in the extant literature related to public sector hospitals. Henceforth, this study investigates the influence of direct compensation in the form of salary and bonus along with employee recognition and flexible working hours as a form of indirect compensation on the task performance of employees working in public sector hospitals in Karachi, Pakistan.

2. Review of Literature

Employee performance is regarded as a vital building block for any organization to succeed (Abbas & Yaqoob, 2009). Ahmad and Shahzad (2011) also disclosed that the performance of employees signifies the general belief about behavior and contributions a human resource made to fulfill the demands to make an organization strategically competitive enough among other competitors. As per Carpini, Parker, and Griffin (2017), the way worker meets the designated roles or task effectually towards the identified expectations can fallout in the enhancement of the organizational performance. Besides, Idrees et al. (2015) define the performance of employees as the degree to carry out the assigned tasks and duties. Consistent with the aforementioned argument performance of a task is considered a vital factor for organizations (Inuwa, Mashi, & Salisu, 2017). Similarly, Rashid, Tasmin, Qureshi, and Shafiq (2017) also described the task performance or in role performance as a formal behavior about fulfilling the specified role by employees. Thus, task performance in the current study is delineated as the degree to which an employee fulfills the designated responsibilities or formally assigned tasks efficiently and effectively.

Human resource plays a fundamental role in accomplishing organizational goals. To motivate employee's organizations can use practices to persuade them to perform at the highest level. Therefore, compensation is emerging as one of the most important HR practices to motivate employees to demonstrate the highest level of performance. As Rajendran, Mosisa, and Nedelea (2017) shared the parallel view that organizations employ numerous practices to manage human resource, in which compensation or rewards are the most important one, which makes a worker do better and invest more energy to accomplish their task and responsibility along with contributing positively towards the organization. Therefore, compensation is viewed as the fringe benefits received by the workers from the organization in the form of money or other benefits in exchange for their contribution to the organization (Dayanandan, 2017).

According to Fogleman and McCorkle (2013), compensation can be viewed as a total system of rewards that encompass the direct (monetary), as

well as indirect (non-monetary) compensations. Therefore, compensation is related closely to the strategic policies of the organization towards attaining the organizational objectives by showing value and respect for their employees. Accordingly, compensation can be demarcated as the give and take association that exists between employee and employer which human resources receive from their employer for their efforts (Duvie & Nwokediuko, 2017). Consistent with the social exchange theory, Tepper and Taylor (2003) regarded that supervisors must reciprocate correspondingly by employing management practices to support the efforts of human resources. Similarly, Wayne, Shore, and Liden (1997) also argue that HR practices serve as a reciprocating factor by employers for their employees to motivate as well as support them to perform well the assigned tasks. On the adjacent side, Erkal, Gangadharan, and Koh (2018) also observed that both forms of compensation can perhaps shape the outcome level of employees in terms of performance. Therefore, it can be seen as a potential reciprocating as well as a motivational factor to stimulate the performance of human resources. Taras (2012) discussed that compensation perhaps a daunting task for an organization to create a balance between direct (monetary), as well as indirect (non-monetary) benefits projected to motivate the human resource resulting in substantial improvement in performance.

Manurung (2017) affirmed that compensation is divided into two: firstly, the direct compensation which is considered as a direct reward provided to workers in the form of salaries, bonuses, and incentives; secondly the indirect compensation which is viewed as an indirect reward offered by the company to workers in the form of health insurance, allowances, and other related facilities. Correspondingly, Gupta (2014) demonstrated that monetary compensation is considered as an award an employee receives for their performance in the form of salary, rent, allowances, and bonuses. Consistent with the above-mentioned arguments, direct compensation in the current study is defined as a reward an employee receives in terms of salary and bonuses for an effort an individual laid to accomplish the goals. According to Delic, Kozarevic, Perić, and Civic (2014), both forms of compensation can act as a motivating factor to improve the task performance of employees. So, both the form of compensation can result in improving the performance of an employee (Nadarajah, Kadiresan, Kumar, Kamil, & Yusoff, 2012), along with improving the task-related decisions as well (Khalid & Nawab, 2018). As per the author's direct and indirect compensation can have a dissimilar effect on the performance level of employees (Khan, 2019; Rajapaksa et al., 2019). Duvie and Nwokediuko (2017) found a negative association between direct compensation and task performance. Furthermore, a positive relationship exists between compensation practices with employee performance (Ahmad & Shahzad, 2011; Uwizeye & Muryungi, 2017). Consistently, Tabiu, Pangil, and Othman (2016) also

unveiled a positive effect of compensation packages on the task performance of employees.

Considering the first component of direct compensation in this study is salary. Salary is defined by Idrees et al. (2015) as a fixed component of compensation paid to employees on an annual or monthly basis for the work they have performed whereas a strong relationship exists between salary and job performance. Chamorro-Premuzic (2013) elucidated that when employees focus on their salaries, they are less likely to focus on cultivating their intellectual capabilities; whereas compensation can act as potential extrinsic as well as intrinsic motivators that can eventually result in improving the task performance. Lee and Sabharwal (2016) also imply that salary (direct compensation) is one of the most important motivators' results in improving the performance of workers.

The second component of monetary compensation consider in this study is a bonus. According to Molnar, Torbiörn, and Hellgren (2013), bonuses are a form of compensation an employee receives on his or her performance in addition to the salary. In a similar vein, Nzyoka and Orwa (2016) argued that bonuses are the form of compensation an employee is awarded for the fulfillment of designated targets or tasks to motivate them to perform effectually in an anticipated project. Consistently, Van der Stede, Wu, and Wu (2020) also specified that bonuses act as a tool to encourage employees to exert a high level of effort that fallouts in improving the workers' performance. Accordingly, Ponta, Delfino, and Cainarca (2020) explicated that bonus as a monetary component has a substantial effect on employee performance.

Indirect compensation is defined as a reward that is based on the non-monetary form including recognition and career advancement (Khan, 2019; Rajapaksa et al., 2019). In the same way, Fogleman and McCorkle (2013) specified that indirect (non-monetary) compensation is delineated as any benefit a worker receives from the employer in the form of job security, flexible working hours, an opportunity for growth, recognition, task enjoyment, and friendships. On the other side, Naveen and Yenugula (2017) explained in their study that non-monetary compensations include recognition, encouraging as well as appreciating the efforts an individual put through their performance. Similarly, a non-monetary compensation human resource receives in the form of recognition for their efforts and flexible working hours to attain the work-related task, role in decision making, and promotion (Rajendran et al., 2017). In the current study, two aspects of indirect compensation are taken such as employee recognition and flexible working hours.

Employee recognition is defined as a process of recognizing employees for their contributions by providing informal feedback (Ndungu, 2017). Luthans and Stajkovic (2001) confirmed that giving acknowledgment, praise, and approval for an employee's contribution results in positive behavior. In a similar way, when employee receive recognition for their work result in improving their performance (Tessema, Ready, & Embaye, 2013). Besides, the non-monetary aspect of compensation in the form of recognition also plays a crucial role (Okwudili, 2015), in improving employee performance.

Organizations are now offering flexible working hours to maintain a balance between work and personal life which eventually results in enhancing the link between employee and employer (Galea, Houkes, & De Rijk, 2014). Flexible working hours are demarcated by Coenen and Kok (2014) an autonomy given to an individual to choose when to work or when not to work. Therefore, the availability of flexible hours brings convenience in employee life which tends to reduce stress and fallouts in effective and efficient performance. So, flexible working hours become a source of motivation for employees to contribute positively towards the organization through their performance (Abid & Barech, 2017). In the corresponding vein, De Menezes and Kelliher (2017) also demonstrated that flexible workings hours are a greater source for improvement of individual performance. Accordingly, Obisi (2017) unveiled that flexible working hours have a significant relationship with individual performance. Moreover, Jean, Ngui, and Robert (2017) showed that compensation strategies such as salary, bonuses, allowances, and recognition positively affect employee performance. Thus, for the current study the following hypotheses were formulated based on the arguments:

- H1:** *Salary affects the task performance of employees.*
- H2:** *Bonus affects the task performance of employees.*
- H3:** *Employee recognition affects the task performance of employees.*
- H4:** *Flexible working hours affect the task performance of employees.*

3. Research Framework

In this study direct compensation is viewed in terms of salary and bonus while indirect compensation is viewed in terms of employee recognition and flexible working hours both of them are specified as an independent variable whereas task performance is a dependent variable as illustrated in figure 1.

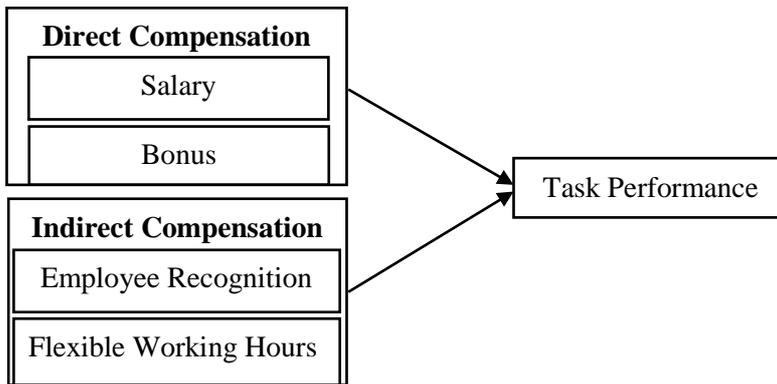


Figure 1: Research Framework

4. Research Methodology

The current study was based on quantitative data by employing the deductive method. Besides, data was collected from employees working in public sector hospitals of Karachi, Pakistan with a sample of 370 based on a purposive sampling technique. Besides, the doctors, nurses, and paramedical staff were requested to fill the research questionnaire. An adapted questionnaire was used for the collection of data from the authors like Jean et al. (2017) to measure salary and recognition whereas to measure salary items were taken from Raghil, Naveed, Alamdar, and Mehtab (2015). Flexible working hours were measured through the items taken from Ridic, Avdibegovic, and Bušatlić (2016) whereas to measure task performance the items were taken from Johari and Yahya (2012). To assess the reliability and validity a pilot testing was done with a sample of 100 respondents. Moreover, respondents were asked to respond on a five-point (Likert-type) scale ranging from strongly disagree towards strongly agree. However, the gathered data was analyzed using SPSS version 25 and AMOS to examine the descriptive statistics, validity as well as reliability of the questionnaire, and structural equation modeling to determine the relationship.

5. Results

5.1 Respondents details

Frequency distribution of respondent's profile displays in Table 1 including the illustration of male and female, age, and the designation of respondents. In this study, 57.8% (n=214) are representing as males in our sample whereas 42.2%

(n=156) are representing females in our sample. Besides, 20.8 % of respondents were under 30 years of age whereas 47.8 % were representing respondents with 31-40 years of age. Additionally, 21.1 % were representing 41-50 years of age and 10.3 % of respondents were representing the 50 above years of age. Likewise, in this study, 52.4 % were doctors representing as a respondent while 47.6 % were paramedical staff in the study.

Table 1 *Respondents Details*

Respondents Details		Frequency	Percentage
Gender	Male	214	57.8
	Female	156	42.2
Age	Under 30	77	20.8
	31-40	177	47.8
	41-50	78	21.1
	Above 50	38	10.3
Designation	Doctors	194	52.4
	Paramedical Staff	176	47.6

5.2 Descriptive statistics

Table 2 exemplifies the mean and standard deviation of the variables. Based on the outcomes of the analysis, a bonus has a high mean value of 4.38 with a standard deviation of 0.636 whereas task performance has a mean value of 4.35 with a standard deviation value of 0.589. While recognition has a mean value of 4.33 with a standard deviation of 0.629. Besides, flexible working hours have a mean value of 4.30 with a standard deviation value of 0.700 whereas salary has a mean value of 4.30 with a standard deviation of 0.651. To assess the normality of data, firstly the data were transformed into a z-score then the pattern of normality was checked. As Kim (2013) specified the cutoff value for skewness is ± 1.5 while the value for kurtosis is ± 3 . In this study, the skewness and kurtosis values fall within the range as indicated in table 2.

Table 2 *Descriptive Statistics*

Variables	Mean	Std. Dev	Skewness	Kurtosis
Salary	4.30	0.651	-0.640	0.460
Bonus	4.38	0.636	-0.531	-0.642
Employee Recognition	4.33	0.629	-0.528	0.029
Flexible working hours	4.30	0.700	-0.746	0.248
Task Performance	4.35	0.589	-.363	-0.207

5.3 Measurement model

Schumacker *and* Lomax (2010) explicated that it is important to evaluate the validity of constructs before testing hypotheses. As the structural equation

modeling is comprised of the measurement model by performing the confirmatory factor analysis and the structural model.

Table 3 *Measurement Model*

Fitness Measure	χ^2/df	IFI	TLI	CFI	RMSEA
Cut off Values	< 5.0	>0.95	>0.95	>0.95	<0.05
The Goodness of Fitness Measures	χ^2/df	IFI	TLI	CFI	RMSEA
Obtained Values	1.112	0.989	0.986	0.988	0.034

Note: RMSEA= Root Mean Square Error of Approximation, IFI =Incremental fit Index, CFI = Comparative Fit Index, TLI = Tucker-Lewis Coefficient.

Based on the analysis, it has established that the model has good fitness because the value of Chi-square/df is < 5.0 designates the goodness of fit in the model along with that RMSEA value is < 0.05 which shows a good fit whereas the value of IFI is > 0.95 that shows a good fit while the TLI value is > 0.95 which displays an excellent fit. A confirmatory fit index is also > 0.95 which stipulates that the data is fit for further assessment (Karadal & Arasli, 2009).

5.4 Convergent and discriminant validity

Table 4 demonstrates the convergent and discriminant validity. Based on the results, the value of Average Variance Extracted (AVE) is greater than the Maximum Shared Squared Variance (MSV) which indicates the discriminant validity (Hair, Black, & Babin, 2010), whereas the value of composite reliability is greater than the Average Variance Extracted which is redolent of convergent validity (Hair, Black, Babin, & Anderson, 2014). Furthermore, the factor loading of items was >0.50 (Dagnall, Denovan, Parker, Drinkwater, & Walsh, 2018).

Table 4 *Convergent Validity and Discriminant Validity*

Variables	FL	CR	AVE	MSV
Salary	0.938	0.964	0.900	0.024
	0.976			
	0.948			
	0.921			
Bonus	0.884	0.875	0.701	0.001
	0.891			
	0.727			
Employee Recognition	0.842	0.879	0.649	0.013
	0.934			
	0.801			

	0.611			
Flexible Working Hours	0.661	0.818	0.610	0.024
	0.997			
	0.632			
Task Performance	0.679	0.854	0.600	0.013
	0.690			
	0.962			
	0.732			

Note: *FL*= factor loadings, *CR*= composite reliability, *AVE*= average variance extracted, *Maximum Shared Squared Variance (MSV)*.

5.5 Structural model

In this study, structural equation modeling was used to evaluate the direct relationship of salary, bonus, employee recognition, and flexible working hours with task performance.

Table 5 Hypothesized Direct Relationship

Hypotheses	Relationship	β	B	S. E	P-value
H1	Salary → TP	.548	.366	.024	***
H2	Bonus → TP	.162	.111	.024	***
H3	ER → TP	.431	.298	.025	***
H4	FWH → TP	.126	.078	.022	***

Note: *ER* = Employee Recognition, *TP* = Task Performance, *FWH* = Flexible Working Hours, *** = $P < 0.001$, β = Standardized Regression Coefficients, *B* = Un-Standardized Regression Coefficients, *S.E* = Standard Error.

Table 5 specifies that salary, bonus, employee recognition, and flexible working hours have a positive as well as a considerable impact on task performance as the p-value is < 0.005 .

6. Discussion

Nowadays compensation is considered the most influential factor for any organization to motivate human resources to accomplish the designated tasks. Consequently, the compensation can act as a motivating factor among employees that differ from person to person whereas to accomplish these goal organizations employ the HR practices (Rajendran et al., 2017) in which compensation or rewards are the most imperative one, which makes a worker to do better and invest more energy to accomplish the task. Besides, Nadarajah et al. (2012) also designated that both employees and employers viewed direct and indirect compensation as a potential motivator. This study attempts to inspect the impact of direct compensation in the form of salary and bonus and indirect compensation in the form of employee recognition and flexible working hours on task performance of employees working in public sector

hospitals of Karachi. Based on the outcomes of the study, it has become evident that salary has a considerable impact on the task performance of employees. The results are per the studies of Chamorro-Premuzic (2013) and Idrees et al. (2015). Furthermore, a bonus has a significant influence on the task performance of employees. As per the current literature, bonuses motivate human resources to perform effectually in an anticipated project (Nzyoka & Orwa, 2016; Ponta et al., 2020; Van der Stede et al., 2020).

Besides, employee recognition has a meaningful effect on task performance whereas the results are consistent with current literature (Okwudili, 2015; Tessema et al., 2013). Also, flexible working hours have a considerable effect on task performance while the results are consistent with the extant literature (Abid & Barech, 2017; De Menezes & Kelliher, 2017; Obisi, 2017) that flexible working hours play a crucial role in improving the performance of human resources. The fallouts of this study have revealed that direct and indirect compensation affect the task performance of employees that are consensus with the findings of prior studies performed by numerous authors like (Ahmad & Shahzad, 2011; Jean et al., 2017; Rajendran et al., 2017; Uwizeye & Muryungi, 2017). Moreover, the outcomes of our study are not in accord with the result of (Duvie & Nwokediuko, 2017). Therefore, the outcome of this study acclaims that HR managers of public sector hospitals need to seriously deliberate the most important aspect of human resource management (HRM) in the form of compensation to improve the task performance of employees which will finally be deciphered into better delivery of services.

7. Conclusion

Based on the outcomes of the current study, it is concluded that direct and indirect compensation positively affects the task performance of hospital employees. Moreover, the current paper empirically supports that compensation is a useful estimator for improvement in the task performance of employees (Tabiu et al., 2016). Hence, compensation is a useful strategy to motivate workers to perform the assigned task at the highest level in hospitals. This argument is consistent with Kameli et al. (2011) that compensation is an effective HR strategy to upsurge the performance of human resources working in hospitals. As per social exchange theory Blau (1964) that when an individual performs well receive compensation from the organization as an exchange for their efforts (Conway & Monks, 2008).

8. Directions for Future Researchers

This study has few limitations such as for the current study data was collected from employees working in the public-sector hospitals, while future researchers may adapt this model to test the impact of compensation on task performance of employees in private sector hospitals as well to supplement the outcomes of the study. Consequently, the impact of compensation may be dissimilar in different countries and sectors. Consequently, future researchers should examine the effect of direct and indirect compensation in other sectors to further validate the results.

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