IMPACT OF TRAINING AND COMPENSATION PRACTICES ON PERFORMANCE OF SMALL AND MEDIUM SIZED MANUFACTURING ENTERPRISES

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ABSTRACT

Organizations cannot get candidates who exactly match with the job and the organizational requirements. Hence training is important to develop the skills of employees and make him suitable for the job. Every organization small or large, old or newly started should provide training to all employees irrespective of their qualification, skill, appropriateness for the job etc. Compensation is one of the extrinsic practices of human resource function in an organization. Basic salary is included under direct compensation, while benefits are included under indirect compensation and may consist of health insurance, the employers' contribution to retirement, pay for illness. The questionnaire was developed and measured by using a five point Likert scales ranging from strongly disagree to strongly agree. ANOVA and Chi-square test was used to examine the impact of formal and informal adoption of training and compensation practices on organizational performance. The results revealed that there is an association between those organizations who adopt formal or informal training and compensation practices with financial performance of small and medium sized enterprises. Also the results shows that there is a significant difference in the mean agreeability scores on financial performance of SMEs and the mean agreeability scores are high among the enterprises that adopt formal training and compensation practices.

KEYWORDS: Training, Compensation, Financial Performance, Small and Medium Sized Enterprises

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INTRODUCTION

Every organization requires trained and experienced personnel to perform the activities in the industry. Training shapes the employees' knowledge, skills, behaviour, aptitude and attitude towards the requirement of the job and the organization. Employee training is a specialized function and is one of the primary operative functions for human resource management. After an employee is selected, placed and introduced, he or she must be provided with training facilities. Training helps to enhance the knowledge and ability of an employee for accomplishment of a particular work. Training is the most important technique of human resource development. Organizations cannot get candidates who exactly match with the job and the organizational requirements. Hence training is important to develop the employee and make him suitable to the job.

Training is a short-term educational process and employs a methodical and structured procedure by which employees' gain technical knowledge and skill for a specific purpose. Thus, training bridges the gap between job requirement and employees current knowledge.

Compensation management is one of the important factors in human resource management. So an effective compensation system is more significant as several problems relating to personnel centre around compensation. Many employees, absent themselves from work often because they feel they are not paid enough. They look for new and better prospects. Hence an attractive compensation policy has to be followed by the organizations [1].

Compensation may be defined as money received for the performance of work and many kinds of benefits and services that organizations provide to their employees. Basic salary is included under direct compensation, while benefits are included under indirect compensation and may consist of health insurance, the employers' contribution to retirement, pay for illness etc.

The soundness of compensation depends upon the extent of wage or salary paid to an employee for a fair days work. It is significant to most of the employees as it constitutes a major share of their income. Salary is one of the important motivational factors in our society. Salary provides a means of satisfying the physical needs and determines the social status. Hence formulation of sound compensation policy to attract and retain right personnel in right position is the main responsibility of any organization. Compensation influences the survival and growth of an organization to the greatest extent [2].

LITERATURE REVIEW

John [3] carried-out a study on training and compensation and manufacturing performance, and flexible production systems of auto industry in United States. He highlights that extensive training and good compensation will enhance the performance of the production plants.

A study conducted at large and small Canadian manufacturing firms by Damodhar and Satish [4] found that, in order to retain their employees, small firms have to develop suitable compensation policies. They found that Small firms have to train the employees who lack required skills.

Malcolm et al. [5] studied the impact of training and reward practices on business performance in United Kingdom manufacturing firms. Performance measures considered are worker productivity and profits. Their study revealed that training practices and reward systems influence organization's performance. According to them more satisfied workers contribute significantly towards productivity and profitability.

A study conducted by Vijaya [6] on small and medium sized enterprises (SMEs) in Atlanta, reveals that training practices can vary with the size of the company and can be quite different between large and small businesses and the success of small businesses can depend heavily upon its training practices. Further, on-the-job or off-the-job training is prevalent as expected by employees. Also it was highlighted that fringe benefits are considered as an important element in attracting prospective employees. Incentives such as bonuses, profit sharing or stock options are provided in most small and medium size companies.

Chandler et al. [7] found that providing group based incentive system helps in lower employee turnover and enhanced performance of organization. And also they are of the opinion that, by investing in employee training helps in lower employee turnover and enhanced performance of organization.

Renee and John [8] carried out a study at Northern Ireland. They explored that performance related pay packages are common in non-family firms. Also they found that family businesses use reward systems for manual workers than non-family businesses. They highlighted that family businesses have less percentage of HRM department than non-family businesses. Training is a challenging task for family and non-family businesses. Family businesses spend less on training of employees.

Robert [9] examined training, compensation and benefit packages in small manufacturing companies of South-eastern USA. In order to retain best employees competitive compensation packages are important for companies. They identified that organizations success also depends on sharing profits with them. According to him recognizing and honouring the employees leads to organization success. He found that training helps to increase the company profits. He also found that by adopting training practices small businesses can witness low employee turn-over

Catherine et al. [10] carried-out a study at European SMEs. According to them training activities are common in all firms; however the quantum of training provided is not adequate. Their findings suggest that some firms use incentive schemes but have faced some problems in the use of such schemes

Jan et al. [11] explored training and compensation practices in Dutch SMEs. They highlighted that firm size has influence on formalization of training practices. The formal training practices improve employee competence and commitment. Further, firm size is positively related with the probability that human resource department is present and in turn encourages the formality of training policies and practices. The formal compensation practices improve employee competence and commitment.

A study carried-out by Claire [12] at New Zealand SMEs reveals that the performance and economic growth can be expected by employing pay for performance scheme. Also his research explores that in small firms training is informal and performance of small firms is less compared to large firms. Further the study highlights that the performance and economic growth can be expected by employing good training practices.

Jyothi [13], in her article found that most of the small firm's do not spend on training and development in India. Further research reveals that performance of employees is not linked with rewards.

A study conducted by Kuldeep [14] at Indian SMEs. Eighty two industries were considered in his study. He found that there is a significant relationship between the training and organizational and market performance of the firms. Also he found that there is a significant relationship between compensation and perceived organizational and market performance of the firms

METHODOLOGY

The objective of the research was to find the significance and association of formal or informal adoption of training and compensation practices with financial performance of selected SMEs using One-Way ANOVA and Chi-Square test.

The study is confined to mechanical manufacturing sectors in Mysore and Bangalore regions of Karnataka, India. Karnataka is recognized as one of the major industrial hub with more number of diversified industries. Study draws its finding based on responses of owners/managers of SMEs which will give the insight into training and compensation practices and SMEs performance

As per many researchers and academicians, human resource management (HRM) is related to large organizations and recognize the management of human resources as a critical factor in their success or failure[15] [16]. Does this equally apply to small and medium enterprises? [17] [18].

Descriptions of formal and informal adoption of training and compensation practices in SMEs are shown below:

- Formal adoption of training practices: SMEs have a program and budget for employee training [19].

- Formal adoption of compensation practices: SMEs have a proper procedure for compensation and rewards. All the formal procedures in terms of qualification, grade, experience of the candidates and other such criteria are considered.
- Informal adoption of training practices: Training is mostly individual's responsibility. Budget for training is very small or non-existent in SMEs [19].
- Informal adoption of Compensation practices: No written criteria or rule. Based on the demand and supply depending upon the requirement and the market trend and each individual is either compensated or rewarded on a case-by-case basis.

Research Hypothesis

The following null hypothesis and alternate hypothesis are formulated and tested.

1) Null Hypothesis

- There is no significant association between those organizations who adopt formal training practices and those organizations who do not adopt formal training practices and their financial performance.
- There is no significant association between those organizations who adopt formal compensation practices and those organizations who do not adopt formal compensation practices and their financial performance.

2) Alternate Hypothesis

- There is a significant association between training practices and financial performance of SMEs.
- There is a significant association between compensation practices and financial performance of SMEs.

Research Instrument

The questionnaire covers questions on training practices, compensation practices and organizational performance in terms of financial measures. All the questions framed were closed ended type with a five point Likert scales ranging from strongly disagree to strongly agree.

Results and Discussions

- a) The analysis of variance has been carried out based on formal or informal adoption of training and compensation practices by the SMEs and the mean agreeability scores of the respondents representing various SMEs on the financial of the organization. Table 1 and Table 2 shows overall mean agreeability scores on financial performance among the respondents representing the enterprises that adopt or do not adopt any formal training and compensation practices.

Table 1: ANOVA - Training Practices and Financial Performance of SMEs

Training Practices	Respondents		Financial Performance of SMEs			
	N	%	Mean	Range		S.D.
				Min.	Max.	
Formal Adoption	76	19.8	4.68	3	5	0.594
Informal Adoption	308	80.2	3.06	1	5	1.493
Total	384	100	3.38	1	5	1.509
F val.(df:1,382)= 86.975*						

Source: Primary Data

*Significant at 5 %

Table 1 shows the results of ANOVA for the dimension training practices with respect to financial performance of SMEs. It is seen that 80.20% of the SMEs are not adopting formal training practices, whereas only 19.80% of the SMEs adopt formal training practices. The analysis of variance shows that there is a significant difference in the mean scores among the respondents on financial performance of SMEs. The mean score is 4.68 for formal adoption of training practices and is higher than the mean score of 3.06 for informal adoption of training practices.

A mean value of 4.68 reveals that, the respondents are highly satisfied with the financial performance of SMEs when formal training practices are adopted. Also a mean value of 3.06 indicates that the respondents are not satisfied with the financial performance when informal training practices are adopted by SMEs.

Table 2: ANOVA - Compensation Practices and Financial Performance of SMEs

Compensation Practices	Respondents		Financial Performance of SMEs			
	N	%	Mean	Range		S.D.
				Min.	Max.	
Formal Adoption	72	18.75	4.61	1	5	0.797
Informal Adoption	312	81.25	3.09	1	5	1.492
Total	384	100	3.38	1	5	1.509
F val.(df:1,382)= 69.846*						

Source: Primary Data

*Significant at 5 %

Table 2 reveals that 81.25% of the SMEs are not adopting formal compensation practices, whereas only 18.75% of the SMEs adopt formal compensation practices. The analysis of variance shows that there is a significant difference in the mean scores among the respondents on financial performance of SMEs. The mean score is 4.61 for formal adoption of compensation practices and is higher than the mean score of 3.09 for informal adoption of compensation practices.

A Mean value of 4.61 indicates that the respondents are highly satisfied with the financial performance when formal compensation practices are adopted by SMEs. Also a mean value of 3.09 indicates that the respondents are not satisfied with the financial performance when informal compensation practices are adopted by SMEs.

- b) Chi-square test was conducted to check the association of training and compensation practices with financial performance of the manufacturing SMEs in Mysore and Bangalore region of Karnataka, India. Table 3 and Table 4 shows the results.

Table 3: Association between Training Practices and Financial Performance of SMEs

Training Practices	Financial Performance of SMEs					Total
	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree	
Formal Adoption	0 (8.3)	0 (21.8)	5 (9.5)	14 (5.7)	57 (30.7)	76
Informal Adoption	42 (33.7)	110 (88.2)	43 (38.5)	15 (23.3)	98 (124.3)	308
Total	42	110	48	29	155	384

Source: Primary Data

*Significant at 5 %

With respect to table 3 the results are presented as follows:

The expected frequencies are given in the parenthesis the table 3.

Chi-Square Value: 83.146*

D.F: 4

p = 0.002

As the χ^2 value is statistically significant, the null hypothesis which states that “there is no significant association between training practices and financial performance of SMEs is **rejected**”. Alternate hypothesis is accepted. This reveals there is a significant association between training practices and their financial performance.

Also as the observed frequencies (i.e. agree and strongly agree frequencies) are higher than the expected frequencies among SMEs that have adopted formal training practices, it is inferred that formal adoption of training practices have significant impact on the financial performance of SMEs than the other group.

Table 4: Association between Compensation practices and Financial Performance of SMEs

Compensation Practices	Financial Performance of SMEs					Total
	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree	
Formal Adoption	1 (7.9)	1 (20.6)	5 (9.0)	11 (5.4)	54 (29.1)	72
Informal Adoption	41 (34.1)	109 (89.4)	43 (39.0)	18 (23.6)	101 (125.9)	312
Total	42	110	48	29	155	384

Source: Primary Data

*Significant at 5 %

With respect to table 4 the results are interpreted as follows:

The expected frequencies are given in the parenthesis of the table 4.

Chi-Square Value: 65.897*

D.F: 4

p = 0.001

As the χ^2 value is statistically significant, the null hypothesis which states that “there is no significant association between compensation practices and financial performance of SMEs is **rejected**”. Alternate hypothesis is accepted. Hence it reveals that there is a significant association between compensation practices and their financial performance.

Also as the observed frequencies (i.e. agree and strongly agree frequencies) are higher than the expected frequencies among SMEs that have adopted formal compensation practices, it is inferred that formal adoption of compensation practices significantly influence the financial performance of SMEs than the other group.

CONCLUSIONS

The analysis of variance shows that there is significant difference in the mean agreeability scores on financial performance of SMEs and the mean agreeability scores are high among the enterprises that adopt formal training and compensation practices. Also it is concluded that training and compensation practices are significant with respect to financial performance of SMEs. However formal adoption of training and compensation practices increases the financial performance of SMEs. The Chi-square test reveals that there is an association between those organizations who adopt formal training and compensation practices and their financial performances. Nevertheless the SMEs which have adopted formal training and compensation practices have exhibited better financial performance than those SMEs which have adopted informal training and compensation practices.

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