

**IMPACT OF THE PAY SYSTEM ON THE
PERFORMANCE OF PUBLIC SECTOR
ORGANIZATIONS IN SRI LANKA**

By

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Declaration

The work described in this thesis was carried out by me under the supervision of Dr. (Mrs.) R.Lalitha S Fernando and a report on this has not been submitted in whole or in part to any university or any other institution for another degree/Diploma.

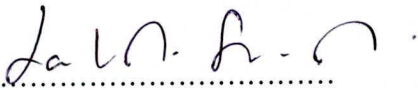
A handwritten signature in blue ink, appearing to be 'H.G.G.J', is written over a horizontal dotted line. A solid blue line extends from the left end of the dotted line, passing under the signature.

H.G.G.J Dharmasena

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Certification

I certify that the above statement made by the candidate is true and that this thesis is suitable for submission to the university for the purpose of evaluation.

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Dr. (Mrs) R. Lalitha S Fernando

Thesis adviser

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Abstract

There are number of factors that contribute toward the success of an organization. These factors include capital requirement, technology, human resources, management and etc. While all these factors are important, the human resource factor is the most significant one since it is the people who have to use all other resources. Without the productive efforts of its workers the material and other resources cannot be used.

Employees of an organization receive pay from the firm for their contribution to the organization. Organizations make pay systems in various ways in order to recruit and retain its employees. Pay system are formulated considering several factors. These systems are varied from organization to organization. Many fringe benefits are also given to the employees other than the pay. Pay packages include basic salary, allowances, incentives, bonuses etc. Management make pay systems in order to achieve its strategic goal in future. Pay systems are also varied from employees to employees. Blue collar workers find pay as first motivator while executives seek self actualization.

Individual and organizational performance is the wholemark of success in any organization. Poor performing organization will fail reach strategic goals in competitive market while best performing firms reach the highest. Pay is a key factor to get the best performance from the employees while they are motivated to work. Employees are satisfied if they receive favorable pay packages.

This research is tried to identify the reward systems and their objectives being applied by the public sector organization of Sri Lanka. It also measures the satisfaction level of employees with regard to the pay management system. The research tries to find the

relationship of three variables using statistical graphical methods. To get the information many primary and secondary were used. Primary data were collected through a questionnaire and secondary data were collected through text books, magazines, articles and web sites. Interviews and observations were also made.

Apart from some isolated instances, findings of the study did not suggest significant and consistent relationship between pay systems and performance measures. These idiosyncratic findings could have been explained by the methodological issues and contextual variables.

It was revealed that there is a positive relationship between pay systems and performance. But it is not significant. The relationship between pay system and job satisfaction highly recognized. The improved pay system will enhance the job satisfaction of the employees. There is a negative relationship between the job satisfaction and performance

Many other factors have been resulted on the performance and these factors are well identified by open ended questionnaire.

Pay systems should be well formulated. It should be depended on the employee performances. Performance based pay system is invited. The deference between the salary scales should be minimized. Other facilities provided by government should be enhanced.

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Chapter 1

Introduction

1.1 Background of the study

Pay is a key factor affecting relationship at work. The level and distribution of pay and benefits can have a considerable effect on the efficiency of any organization, and on the morale and the productivity of the workforce. It is therefore vital that organizations develop pay systems that are appropriate for them, that provide value for money, and that reward workers fairly for the work they perform.

Pay systems are methods of rewarding people for their contribution to the organization. Ideal systems should be clear and simple to follow so that workers can easily know how they are affected.

When considering rewards it should be born in mind that pay and financial benefits are not the only motivating factor for worker performance. Other important Motivating factors for individuals may include job security, intrinsic satisfaction in the job itself, recognition that they are doing their job well, and suitable training to enable them to develop potential pay systems provide the foundation for financial systems. There are basic rate systems where the worker receives a fixed rate per hour/week/month with no additional payment. There are systems rated in whole or part to individual or group

performance or profit. There are systems based in part on the workers gaining and using additional skills or competencies.

Pay management systems provide the bases on which an organization rewards workers for their individual contribution, skill and performance.

Pay structures are different. They are used to determine specific pay rates for particular jobs, usually based on the nature of the job, its contents and requirements.

A pay structure provides the framework within which the organization places the pay rates for its various jobs or groups of jobs. Pay systems fall into two main categories.

Those where pay does not vary in relation to achievements or performance (basic rate systems) and those where pay or part of pay does vary in relation to results / profits / performance

(Including the acquisition of skills)

There are also systems where pay and any enhancement is related to the gaining of extra skills or competencies that can allow a worker to carry out a wider range of work or work at a higher level, and provide opportunities for greater job satisfaction.

Pay is an exchange between the individual or group and the employer. In the decade of the Total Quality Management and competitive advantage imperative, discussions about reward systems continue to link actual rewards directly to employee performance, output and productivity. The proposition is that if employees have a performance related incentives then they will perform better. (Chris Jarvis, 2005). In the 1950's and 60's management learned that for blue collar employees, payment systems based on piece rates, incentive bonuses and other systems of payment by results carried overheads of employee resentment, separation, haggling, manipulation and conflict.

Reward management extends to fringe benefits and indirect compensation. A package may include basic pay, insurances, health care, company discounts, performance or merit elements, car leasing and usage, share options, training grants paid holidays and pension arrangements. The wages and salaries are differed from each other. Wages are traditionally the pay of manual blue collar workers differentiated from salaries flat rate payments to non manual white collar employees. Distinction blur in the mid 90's but access to fringe benefits and other differences in income continue to differentiate managers and professionals from manual and routine non manual staff.

Wages and salaries are a cost inclusive to the cost of sale. An investment – money spent on a factor of production in the hope of return. A crucial environmental variable – offering incentive, stimulates motivation, promoting job satisfaction, status or conflicts. Remuneration policy must embrace factors such as the firm's objectives, its finances, cash flow, and profitability, state of the labor market, supply and demand for labor, government regulation on pay and personal aspiration of the work force.

All governmental agencies exist not for profit but to fulfill their charter or mission which is an inherently governmental function Government agencies have authority to conduct their mission that is delegated either by parliament statute or by executive order. Public sector does not compete directly with private sector. On the other hand private corporations are prohibited from engaging in some activities that are authorized for the government only.