

Employee Benefits and its Impacts on Business Performance-A Systematic Review

Xinyi Li

The University of Hong Kong, Hong Kong, 999077, China

Abstract. Despite increasing awareness of employee benefits, there are still relatively few studies that provide a thorough examination of how employee benefits affect various performance measures organizations. This paper provides an overview of the definition and categories of employee benefits, important employee benefits from the employee's perspective, and the influencing factors, then analyze reasons contributing to the mismatch of employees' expectations and actual benefits offered and the impacts of benefits on four aspects of business performance, namely retention, engagement, commitment, motivation, and productivity. This systemic and comprehensive understanding of employee benefits and their impacts on business performance contribute to the managerial implication of human resource management to redesign the compensation package to meet the expectations of the workforce and, in return, achieve desired performance.

1. Introduction

Human resources are a company's most significant asset [1]. According to Vroom's expectation theory [2], everyone works with the hope of receiving some rewards (both material and spiritual), and employee benefit is one of the rewards given by organizations in addition to salaries. Since younger generations possess different expectations from previous generations, talent retention in firms is not solely dependent on salary, especially in recent decades [3]. In a survey conducted by the Society for Human Resource Management in 2018, there were significant links between pay and benefits and job satisfaction, with 92% of respondents indicating that these factors were essential to their job satisfaction. Growing numbers of studies have demonstrated the importance of employee benefits on job satisfaction and, subsequently, workforce performance from different perspectives, including Organizational commitment [4], job engagement [5], talent retention [6], etc. However, the compensation and benefits offered in addition to salaries and wages remain an under researched area. In spite of the increasing prominence of the benefits provided to employees, a relatively limited number of research offers a comprehensive analysis of the effects of employee benefits on business performance, covering multiple performance metrics. Thus, the purpose of this review is to investigate the various impacts employee benefits have on business performance from both the employee's and the company's perspective. This article will begin by defining employee benefits and the types of benefits, then discuss the benefits that are regarded as important based on employees' perceptions. Due to the mismatch between employees' expectations and the company's benefits packages, the result of dissat-

isfaction of workers will be examined. The findings from previous studies of the effects of employee benefits on staff retention, engagement, organizational commitment and motivation, and productivity will be analyzed, and finally, the future research proposition will be raised based on the gaps among existing studies.

2. Definition & Types of Employees Benefits

Employee benefits are generally defined as part of aggregate compensation set to employees in addition to their salaries, either all at once or in installments over time. These are rewards and compensations that employees receive as a supplement to their salary. They could be in the form of insurance, education funds, retirement benefits, vacation, and sick leaves. [7]

A broad definition of employee benefits encompasses a variety of regulations, procedures, and programs concerning the following five types of company payments [8]:

1. Social insurance payments that are legally required to be made, such as the social security payments made by employers, government-provided medical coverage, insurance for unemployment benefits, insurance for workers' compensation, and programs for temporary disability.
2. Payments for private insurance and retirement plans: Benefits are offered for individual loss exposures such as old age, dental costs, death, legal fees, income for disability, property damage, and liability judgments.
3. Payment for time not worked, such as paid holidays, maternity leave, and jury duty.
4. Additional cash payments made to employees: This type of benefit includes educational expense reimbursements, savings plans, relocation reimbursements, holiday

m15264257168@163.com

bonuses, and current profit-sharing payments and suggestion awards.

5. The cost of providing services to employees, such as subsidizing cafeterias, adoption aid, recreation and wellness programs, clothing allowances, daycare services, financial counseling, transportation benefits, and retirement planning advice.

Employee benefits have been described as an essential and sufficient working condition, according to Herzberg's two-factor theory [9]. Though many components of employee benefits could be traditionally categorized under the hygiene factor, a group of recent studies found that extrinsic factors (hygiene factor) can also affect job satisfaction [10]. Therefore, employee benefits are not only essential to remove job dissatisfaction but, more im-

portant, to have an impact on productivity and work motivation.

3. Understanding of Important Employee Benefits from Employee's Perspective and the Influencing Factors

Based on the Importance-satisfaction Model (I-S Model) (Fig.1.), it is crucial to understand the relationship between the degree of importance and the satisfaction level. [11] Though this model was originally used to study the perception of customers on the quality of company performance in relation to the quality attributes they believe are essential. The model can also be applied to discovering the perception of the importance of different employee benefits from the employee's point of view.

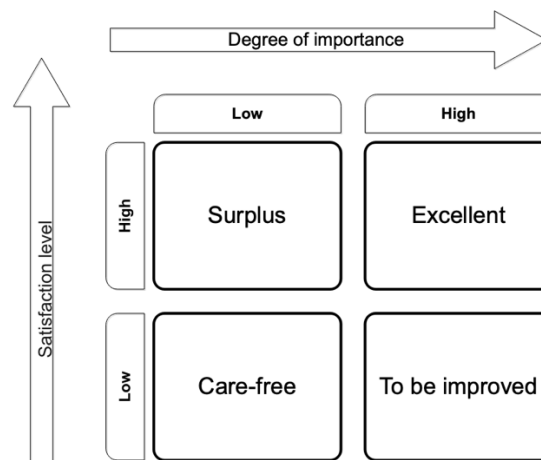


Fig. 1. The Importance-satisfaction Model [11]

In order to determine respondents' impressions of employee perks in general, a study draws on a case study approach to examine the employee benefits provided by one hotel in Kuala Lumpur. [12] According to the research, employees believe that the most significant perks they look for when selecting a new position, as well as the incentives that motivate staff the most in their everyday tasks, are: "medical limit," "insurance coverage," "festival cash advance," "yearly pay increases," and "annual leave." The concept of "training and development" is also mentioned as a key motivator. The perceived importance of training and development can be explained using Maslow's Hierarchy of Needs. Employees are not only motivated by the physiological needs at the lower of the hierarchy but seek self-actualization through improvement in knowledge and skills.

The most important employee benefits identified in the Richardson and Koay's study cannot always be generalized to another context due to the differences in industries and countries, which face divergent legislative constraints and unions. The industries with the most to offer include banking and insurance, manufacturing, and public administration and governance. In contrast, retail, food, and accommodation sector workers generally receive significantly lower benefits. [13] Moreover, other external factors, like the changes in the general social environment, also affect the perceived importance of

perks. The study conducted by Shtembari and Haxhinasto [14] shows that flexible working time gained the highest favorability in the post-pandemic period. In addition to the external or macro-level differences that result in different benefits packages offered by employers, human resource management strategy and policy of the individual firm and the general characteristics and profile of the workforce like age [15], life stage [16] gender [17], also contribute to the variety of benefits offering. Fringe benefit coverage is predicted by institutional variables more so than by worker characteristics or the nature of the job. The supply of fringe benefits is generally strongly and consistently influenced by firm size, sectoral location, and unionization. [18]

4. Reasons Contributing to Mismatch of Employees' Expectation and Actual Benefit Offered

The differences in what employees expect and what they actually receive are the result of the mismatch of employers' and employees' perceived importance of benefit packages. Unlike regular wages or salaries, employee benefits are generally less likely to be negotiated, and employees sometimes lack information about the benefits offered. A study on employee benefits communication

based on media richness theory shows that staff are confused regarding benefit option features and face difficulty searching for expected information through communication channels provided by companies and barriers to compensability when dealing with complex information. [19] Given that employee benefits are intended to be employed over an extended period of time, it is feasible that views of procedural justice concerning employee benefits may have a particularly significant impact on long-term expectations of fair treatment by the business. [20] Thus, to become more effective in delivering the benefit and enhancing employees' perception of the system's fairness [21], organizations should make the information more transparent and easily accessible.

Since the expectations of benefits to be received by employees are dynamic, if companies fail to identify the evolutions and adjust the packages to fit the changes, dissatisfaction in the workforce could result. One example of a growing significant benefit is child-care support [22], partially explained by the greater awareness of early childhood development and the rising trend of working females in today's societies. Work-family benefits have a favorable impact on employee attitudes like job satisfaction. [23] This finding can be explained by the social exchange theory that companies and employees reciprocate dedication and commitment and that family-friendly benefits are traded for cooperative attitudes and behaviors. [24] Another example demonstrating the evolution of workforce preference and expectation beyond the traditional perks is employer-supported volunteering (ESV) benefits. This practice includes offering benefits related to flextime and paid time off when workers are engaged in volunteer services, which has been provided by American Express, and Home Depot. [25]

Thus, taking into account the dynamic social, economic, legislative, and other macro-level situations, it is important for companies to identify the trends in employees' expectations of benefits and motivation and make the benefits system flexible. One essential step before implementing changes to employee benefits is to understand the voice of the workforce, their opinions on the existing programs, and their expected tweak or redesign of the system. More recent research has called for the personalization of benefit programs in response to changes in individual age, life events, skill development, history of applied leave, and relocation. [26] This study took a significant step forward to boost employee motivation and engagement with the personalized benefits program. Nevertheless, whether companies should offer personalization as suggested in this study depends on the available resources, HRM strategy, and careful consideration of the trade-offs.

5. Benefits of Employee Benefits on Business Performance

The majority of studies done to date about employee benefits show positive impacts of these programs on business performance, with some taking a more comprehensive understanding of business performance in general [27] while others focus on specific perspectives such

as employee retention, engagement, commitment, motivation, and productivity.

5.1 Retention

Employee turnover is costly in terms of expenses associated with recruiting, selecting, and training. In markets with increasingly fierce competition, human resource managers are facing more significant challenges in retaining top talent. When compared to counterparts in the same industry, the quantity and quality of employee benefits negatively impacted the resignation rate, specifically the amount of health-related employee benefits and the percentage of employee benefit expenses over the total staff costs. [28]

By analyzing the survey responses from 1228 employees in Japan, a study [29] indicated that the amount of employee benefits practices that have been implemented, which are more objective and simpler for employers to understand, was found to be necessary as a retention-promoting factor. In comparison, job satisfaction as a subjective factor affects retention by lowering withdrawal thoughts. This study made a breakthrough in distinguishing the objective and subjective factors in examining the influences of employee benefits on retention.

In the research carried out by Bryant and Allen [6], the relationship between pay and compensation and employee retention is further broken down into five aspects, including compensation structure, procedure, types of compensation, perceived fairness and equity, and vesting schedules. The findings are aligned with the importance of transparent and clear communication of the procedure and perceived fairness discussed in the reasons contributing to the mismatch of employees' expectations and actual benefits offered. Therefore, just providing the amount and type of benefits expected by employees is insufficient to reduce the likelihood of staff turnover, what is also important is the perceived justice and benefit distribution process.

5.2 Engagement

Engaged workers are powerful organizational strategic assets that bring companies competitive advantages according to the resource-based view. [30] Proper remuneration practices encourage employees to work diligently and are a significant factor in employee engagement. [31] A number of other studies also prove that wages and perks raise employee engagement levels. [32] However, a contradicting result was found in the research done by Asri and Liani [33] that compensation and benefits do not have a direct impact on employee engagement. However, as this study was mainly targeted at the employees from a developer firm in Batam City, the result could be affected by the specific external factors in Batam City and the operation performance of the company studied, resulting in the dismal opinion of the perks. Therefore, when evaluating the effects of employee benefits on workforce engagement, it is crucial to be aware of the context of the business and society in general.

5.3 Commitment

Employees that feel obligated to stay with the company are regarded as having "organization commitment". [34] There are three parts to organizational commitment, according to a well-known paradigm put forward by Allen and Meyer, namely affective, continuous, and normative commitment. The affective commitment is defined as the employee's emotional ties to, identification with, and involvement in the company. The term "continuous commitment" refers to a commitment based on the costs an employee would incur if they left the company. Normative commitment is the feeling of obligation an employee has to stay with the company.

One study about the impact of both mandatory and fringe benefits on employee commitment in the food manufacturing industry in Malaysia showed that both types of benefits have a significant positive relationship with organizational commitment, with fringe benefits playing an even more substantial role. [4] However, this study did not specify the effects of these two benefits on different types of commitments. Research by Sinclair's team [35] addressed this problem and indicated that employee benefits' efficacy and efficiency have a positive relationship with affective commitment but not always with continuation commitment. Specialized research focusing on the effect under the context of times of crisis corroborated this finding on the diverse impacts on different types of commitment. [36] Although continuous commitment is partly influenced by the availability of employee perks, unlike affective commitment, it is not considerably impacted by changes in the status quo. Only the association between insurance benefits and affective commitment seems to be substantially moderated by subjective utility assessments. The scope of this study is limited to the downturn of the economic cycle in Greece in which the period that employees' direct compensation, like wages and salaries, experienced a reduction. The potential effect of a reduction in wages or salaries, which might affect the fringe benefits' utility, was not controlled.

5.4 Motivation and productivity

Programs for employee benefits tend to have more of an effect on employee motivation than productivity based on results from questionnaires from 11970 employees and managers. [37] This research also showed that gender, marital status, age, and educational level all affect the perception of employee benefits impact, which add more dynamics and uncertainties to the results when human resource managers implement particular benefit program. A number of other studies also tested this positive relationship between employee benefits and productivity. [38][39][40] A more recent study further breaks down the effects of benefits into embodied and disembodied effects. [41] Benefits had an impact on productivity via the embodied effect rather than the disembodied effect. This difference can be explained by the agent theory and transaction cost theory, that employee benefits lead to issues with moral hazard and free-rider behavior. Benefits are also dispersed equally among all employees ra-

ther than disproportionately to those based on individual accomplishments. Benefits thus hardly ever help to foster good ties between management and unions. Additionally, benefits may have a delayed impact on employees, which may not be immediate but relatively long-term. Disembodied effects are typically observed over time.

Apart from examining the overall employee benefits, there is also a specialized study on a specific element of the benefits. Wellness programs such as practices promoting healthy eating, counseling, and the gym are beneficial in reducing employee stress and burnout, thus reducing medical costs and absenteeism and improving employee productivity. [42]

6. Conclusion

This paper reviewed the studies over the past 30 years on employee benefits and their effects on business performance. It contributes to a systematic understanding of the important elements of employee benefits, reasons for the mismatch of employees' expectations and actual benefits offered, which led to dissatisfaction, and the impacts of benefits on four aspects of business performance, namely retention, engagement, commitment, motivation and productivity. Since most of the studies are focused on a specific industry, it is essential to acknowledge the differences in the nature of these industries could affect the expectation of employees regarding perks and availability. Another factor that needs to be taken into consideration is the characteristics of a company and individual employees, such as the human resource strategy at an organizational level and the age, gender, and educational backgrounds of employees. The differences could affect the perception of employee benefits and therefore affect the level of satisfaction of the different employees. Additionally, managers should not only pay attention to the amount and types of benefits offered to employees but also put effort into the communication and benefit delivery process to ensure perceived justice and fairness from the staff's perspective.

There are studies focusing on the effect of a specific element of employee benefits, like wellness programs and pensions, on employee performance. These findings help us to understand the impacts of individual benefit programs which support human resource managers when designing the benefits system. However, when implementing several benefit programs together, the internal connections and correlations among different benefits should not be overlooked. This calls for the need for future research to get a clearer picture of the interconnection among various employee benefits, which will contribute to the design of a more effective benefits package to enhance workforce performance. The Importance-satisfaction Model, as mentioned in the third section of this study, can be applied to discover the relationship between the perceived importance of different perks and satisfaction.

References

1. Nebeker, D., Busso, L., Werenfels, P. D., Diallo, H., Czekajewski, A., & Ferdman, B. (2001). Airline station performance as a function of employee satisfaction. *Journal of Quality Management*, 6(1), 29-45.
2. Vroom, V.H., *Work and Motivation*, Wiley, New York, NY, 1964.
3. Marescaux, E., De Winne, S., & Sels, L. (2012). HR practices and HRM outcomes: The role of basic need satisfaction. *Personnel Review*, 42(1), 4-27.
4. Ju, S. Y., Kong, L. K., Hussin, Z., & Jusoff, K. (2008). The influence of employee benefits towards organizational commitment. <http://psasir.upm.edu.my/7606/>
5. Abdul Khaliq, A., Arif, J., Parveen, K., Umar, S., & Rao, B. Y. (2020). Relationship between Organizational Benefits and Employee Job Engagement. <http://ir.unimas.my/id/eprint/30889/>
6. Bryant, P. C., & Allen, D. G. (2013). Compensation, benefits and employee turnover: HR strategies for retaining top talent. <http://wrap.warwick.ac.uk/57072/>
7. Siyal, Saeed & Garavan, Thomas. (2020). Employee Benefits. 10.1007/978-3-319-31816-5_361-1.
8. Beam, B. T., & McFadden, J. J. (2001). *Employee benefits*. Dearborn Trade Publishing.
9. Herzberg, F.M., "One more time: how do you motivate employees?", *Harvard Business Review*, 1968, pp. 53-62.
10. Yusoff, W. F. W., Kian, T. S., & Idris, M. T. M. (2013). Herzberg's two factors theory on work motivation: does its work for today's environment. *Global journal of commerce and Management*, 2(5), 18-22.
11. Yang, C. C. (2003). Establishment and applications of the integrated model of service quality measurement. *Managing Service Quality: An International Journal*, 13(4), 310-324.
12. Richardson, Scott., & Koay, Felice. (2010). The importance of staff benefits: a case study of the Dorsett Hotel in Kuala Lumpur, Malaysia. Richardson, S & Koay, F 2010, "The Importance of Staff
13. Greenwald, Lisa, and Paul Fronstin. 2019. The State of Employee Benefits: Findings From the 2018 Health and Workplace Benefits Survey. EBRI Education and Research Fund 420: 5-15.
14. Shtembari, E., Kufo, A., & Haxhinasto, D. (2022). Employee Compensation and Benefits Pre and Post COVID-19. *Administrative Sciences*, 12(3), 106. <https://doi.org/10.3390/admsci12030106>
15. Dencker, J. C., Joshi, A., & Martocchio, J. J. (2007). Employee benefits as context for intergenerational conflict. *Human Resource Management Review*, 17(2), 208-220.
16. Levinson, D. J. (1986). A conception of adult development. *American psychologist*, 41(1), 3.
17. Duda, J. (2007). Evaluation to providing of employee benefits related to gender of employees. *Acta Universitatis Agriculturae et Silviculturae Mendelianae Brunensis*.
18. O'Rand, A. M. (1986, September). The hidden payroll: Employee benefits and the structure of workplace inequality. In *Sociological Forum* (Vol. 1, No. 4, pp. 657-683). Dordrecht: Kluwer Academic Publishers.
19. Alan R. Freitag, & Gaelle Picherit-Duthler. (2008). A Hierarchical Model for Employee Benefits Communication Based on Media Richness Theory. *Public Relations Journal*, 2(1). <https://doaj.org/article/ff5064160c7742c38f14da8dea3ef14>
20. Cole, N. D., & Flint, D. H. (2005). Opportunity Knocks: Perceptions of Fairness in Employee Benefits. *Compensation & Benefits Review*, 37(2), 55-62. <https://doi.org/10.1177/0886368704274446>
21. Laundon, M., Cathcart, A., & McDonald, P. (2019). Just benefits? Employee benefits and organisational justice. *Employee Relations: The International Journal*, 41(4), 708-723. <https://doi.org/10.1108/er-11-2017-0285>
22. LoJacono, S. (2001). Mildly Ill/Back-Up Child Care: A Growing Trend in Employee Benefits. *Compensation & Benefits Review*, 33(5), 54-58.
23. Dulebohn, J. H., Molloy, J. C., Pichler, S. M., & Murray, B. (2009). Employee benefits: Literature review and emerging issues. *Human resource management review*, 19(2), 86-103.
24. Sinclair, R. R., Hannigan, M. A., & Tetrick, L. E. (1995). Benefit coverage and employee attitudes: A social exchange perspective.
25. Booth, J. E., Park, K. W., & Glomb, T. M. (2009). Employer-supported volunteering benefits: Gift exchange among employers, employees, and volunteer organizations. *Human Resource Management: Published in Cooperation with the School of Business Administration, The University of Michigan and in alliance with the Society of Human Resources Management*, 48(2), 227-249.
26. Arunima Nandy, & Rita Basu. (2018). Role of HR Digitisation in Personalization of Employee Benefit. *Srusti Management Review*, Vol XII, Iss II, 28-35. <https://doaj.org/article/cd62cbc247704b90a12f896f13445d33>
27. Adnan, M., Zarrar, S., & Zaffar, K. (2021). Employee Empowerment and Compensation as A Consequence on Employee Job Performance with the Moderating Role of Employee Accountability. *iRASD Journal of Management*; Vol. 3 No. 3 (2021): December 2021; 218 - 232; 2709-8451; 2709-8443; 10.52131/10.52131/Jom.2021.0303. <https://journals.internationalrasd.org/index.php/jom/article/view/477>
28. Bennett, N., Blum, T. C., Long, R. G., & Roman, P. M. (1993). A firm-level analysis of employee attrition. *Group & Organization Management*, 18(4), 482-499.

29. Yamamoto, H. (2011). The relationship between employee benefit management and employee retention. *The International Journal of Human Resource Management*, 22(17), 3550-3564.
30. Joo, B.K. (Brian), & Mclean, G.N. (2006). Best employer studies: A conceptual model from a literature review and a case study. *Human Resource Development Review*, 5(2), 228–257
31. Kwon, B., Farndale, E., & Park, J.G. (2016). Employee voice and work engagement: Macro, meso, and micro-level drivers of convergence? *Human Resource Management Review*, 26(4), 327–337. <https://doi.org/10.1016/j.hrmmr.2016.04.005>
32. Jiang, H., & Men, R.L. (2017). Creating an engaged workforce. *Communication Research*, 4(2), 225–243. <https://doi.org/10.1177/0093650215613137>
33. Asri, D. H., & Liani, J. (2022). Analysis of the Effect of Employee Engagement Mediated Human Resources on Developer Companies in Batam City. *International Journal of Social Science and Religion (IJSSR)*; 2022: Volume 3 Issue 3; 381-402 ; 2746-086X ; 2723-5920 ; 10.53639/Ijssr.V3i3. <http://ijssr.net/index.php/ijssr/article/view/122>
34. Allen, N.J. and Meyer, J.P. (1991) A Three-Component Conceptualization of Organizational Commitment. *Human Resource Management Review*, 1, 61-89. [http://dx.doi.org/10.1016/1053-4822\(91\)90011-Z](http://dx.doi.org/10.1016/1053-4822(91)90011-Z)
35. Sinclair, R.R., Leo, M.C. and Wright, C. (2005), "Benefit system effects on employees' benefit knowledge, use, and organizational commitment", *Journal of Business and Psychology*, Vol. 20 No. 1, pp. 3-29, doi: 10.1007/s10869-005-6981-1.
36. Galanaki, E. (2019). Effects of employee benefits on affective and continuance commitment during times of crisis. *International Journal of Manpower*, 41(2), 220–238. <https://doi.org/10.1108/ijm-08-2018-0270>
37. Hong, J., Yang, S., Wang, L., Chiou, E., Su, F., & Huang, sui-Lan. (1995). Impact of employee benefits on work motivation and productivity. *International Journal of Career Management*, 7(6), 10–14. <https://doi.org/10.1108/09556219510098064>
38. Choi, G. (1996). *Employee Benefits and Productivity Improving. Company organization and Productivity: A Socio-economic Approach*, Sowha publishing co., 237-280.
39. Kang, Y. K. (2002). Employee Benefits and Productivity. *Korean Management Review*, 31(2), 529-550.
40. Shin, B. C. (2005). An Empirical Analysis on Productivity Effects of the Employee Welfare in Korea Using Panel Data on the Employee Welfare Fund. *Kukje Kyungje Yongu*, 11(2), 1-31.
41. Kang, D. U., Yu, G. J., & Lee, S.-J. (2016). Disentangling The Effects Of The Employee Benefits On Employee Productivity. *Journal of Applied Business Research (JABR)*; Vol. 32 No. 5 (2016); 1447-1458 ; 2157-8834 ; 0892-7626. <https://clutejournals.com/index.php/JABR/article/view/9771>
42. Ngeno, W. K., & Muathe, S. M. A. (2014). Critical review of literature on employee wellness programs in Kenya. <http://ir-library.ku.ac.ke/handle/123456789/13085>