

Employee Compensation Practices in Industrial Enterprises of Bangladesh: A Public-Private Sector Comparison

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Abstract

Compensation is one the most important functions of human resource management (HRM). The present study aimed at exploring differences between the public and private sector industrial enterprises of Bangladesh with respect to overall status of compensation practices. Data collected from twenty-six public and thirty-four private industrial enterprises shows that the overall status of compensation practices of the private sector industrial enterprises is significantly better than that of the public sector industrial enterprises in Bangladesh. Some implications are also offered for overall improvement of the compensation practices of the public and private sector industrial enterprises of Bangladesh.

Key words: *compensation, public sector, private sector, industrial enterprises*

JEL Classification: *M12*

Introduction

Employee compensation is one of the major functions of HRM. Dessler (2007) defined employee compensation as “all forms of pay or rewards going to employees and arising from their employment”. Compensation is important for both employers and employees. It is important to the employees because it is one of the main reasons for which people work. Employees’ living status in the society, motivation, loyalty, and productivity are also influenced by the compensation (Aswathappa, 2008). Again, it is very important for the employers because it creates substantial cash out flow of an enterprise (Weeratunga, 2003). Compensation includes both financial and non-financial benefits (Aswathappa, 2008). Financial elements comprise two elements, namely: direct and indirect forms of payments to the employee. Direct compensation includes hourly and monthly rated wages or salaries, and incentives such as bonuses, commissions, and profit sharing plans. Indirect compensation includes benefits such as

provident fund, gratuity, and health insurance, paid leaves, vacations, company car, furnished house, retirement benefits, stock option, and the like. Non-financial benefits comprise challenging job, responsibilities, appreciation, working environment, empowerment, and others.

The compensation that an organization provides may be based on either membership (job) or performance (skill). In the traditional system, employees are paid according to the job or membership that has no connection with the employee's or organization's performance. On the contrary, in the case of performance or skill based pay, employees are compensated with respect to their performance, abilities, and knowledge. In practice, performance may be a minor determinant of compensation though academic theories extend the view that performance-based compensation leads to high motivation of employees (Decenzo and Robbins, 1999). Compensation, once determined, should not remain the same for years. It should be reviewed and changed after a certain period through a proper pay survey. Compensation serves many functions. Sound compensation can attract, motivate, and retain the competent employees of an organization (Werther and Davis, 1996).

Statement of the Problem and Rationale of the Study

In 1971, Bangladesh started its journey as an independent and sovereign nation. During that time, only 4% gross domestic product (GDP) came from the industrial sector, most of which were mainly small scale industries (Ahmed and Patan, 1979). The socialist prone philosophy and huge immobilized abandoned industrial units of the non-Bengali communities led the nationalization of industries soon after the independence. The investment policies of 1973 and 1974 gave further emphasis on public sector oriented industrialization and were against the expansion of the private sector. Nevertheless, the public sector industrial enterprises, unfortunately, did not perform well. They were rather emerging as a white elephant through incurring huge losses every year (Abedin, 1988; Hoque, 1994; Khan and Alauddin, 1995). On the other hand, from December 1975 until now, all the governments have been emphasizing the development of the private sector industrial enterprises through the investment policy of 1975, and industrial policies of 1982, 1986, 1991, 1999, and 2005. However, it is also found that the performance of the private sector industrial enterprises has not achieved ultimate success (Aowrangazab, 2005, Sikder, 1996). A number of issues are liable for such state of affairs in the public and the private sector industrial enterprises of Bangladesh where ineffective compensation practices are reported to be one of them (Ali, 1989; Khan, 2007). Therefore, a study to evaluate the comparative status of compensation practices in the public and the private sector industrial enterprises of Bangladesh can be pertinent and worthwhile. The research findings would help the public and the private sector industrial enterprises in Bangladesh to improve their compensation practices towards creating a sustainable competitive advantage based on human capital. The research findings would be also useful for the academicians, researchers, policy- makers, and practitioners of HRM.

Literature Review

Compensation has been researched from different perspectives at home and abroad. Rab (1991), in a study on 24 small enterprises operating in Dhaka, identified that most of the enterprises (87.5%) paid one or more types of allowances in addition to salary. He found that nearly 7% enterprises paid festival bonus, 20% paid medical allowance, and 20% provided pay increment. A case study (Taher, 1992) on the overall personnel management (HRM) practices of Khulna Hard Board Mills Ltd unearthed inadequate compensation as one of the main problems of that enterprise. Chowdhury (2000) in a book review mentioned that compensation has been a very important aspect of HRM in a developing country like Bangladesh where employees are commonly low paid with little or no fringe benefits. A research study (Mamun and Islam, 2001)

examined the HRM practices of the ready-made garments (RMG) enterprises. The study identified that compensation and labor productivity of workers in Bangladesh were very low in comparison to competing nations. Ernst and Young, and Metropolitan Chamber of Commerce and Industry (2007) in a survey on HR practices in Bangladesh found that most of the surveyed organizations have in-house payroll processing. It was also found that sales incentives and pay based on individual performance were not widely practiced in the surveyed organizations. Uddin, Habib, and Hassan (2007) depicted a comparative scenario of HRM practices with respect to two public and the private sector organizations of Bangladesh. The study discovered that most of the employees of Wartsila, the private sector organization, were satisfied with their salaries whereas most of the employees of Bangladesh power development board (BPDB), the public sector organization, were highly dissatisfied with their salaries. A study (Huda, Karim, and Ahmed, 2007) on the HRM practices of 20 non-government organizations (NGOs) of Bangladesh observed that inadequate financial incentives represented one of the main reasons behind the job dissatisfaction of the employees. The study recommended determining entry-level remunerations and benefits properly to attract qualified candidates. Khan (2007) categorically mentioned that the public and the private sector institutions of Bangladesh failed to discharge their duties properly due to incorrect recruitment and selection of employees, politicization of promotion and posting, low compensation, and ineffective training.

Hoque (1994) investigated 10 industrial enterprises (5 public and 5 private) located in Chittagong. He found that human resource development (HRD) had a positive impact on organizational effectiveness (OE). He measured HRD in terms of investments in HRD in the forms of employees' compensation, their training and development expenses, and OE was measured in terms of growth and profit effectiveness. The empirical study depicted that with respect to the broad staffing (HR) pattern, qualities of employees, delegation of authority to subordinates, decentralization of decision and policy makings, and span of supervision, the private sector enterprises were in a much better position than the public sector enterprises. The study identified that low investment in HRD had created lower growth and profit in the public sector enterprises, unlike private sector ones. He finally recommended that any enterprise, especially the public sector industrial enterprises, should develop their human resources through more investment in the forms of compensation, and training and development expenses.

A study (Ali, 1989) on the employees of nine public sector industrial enterprises identified pay structure as the prime reason behind the dissatisfaction of the workers. The other reasons for dissatisfaction of workers were job security, promotion system, and work autonomy. The employees in the mentioned firms were highly dissatisfied with pay and benefits. A large number of employees were even found to be ready to sacrifice quick promotion, job security, and friendly colleagues for higher pay and fringe benefits. Thus, the study challenged the western belief of motivating workers more by the intrinsic rewards like autonomy, and task identity. He claimed that unless salary and benefits met the basic needs, the intrinsic rewards might not work in Bangladesh.

Through an in-depth study on 178 industrial enterprises of Greece, Katou and Budhwar (2007) found that HR practices such as recruitment, training, promotion, compensation, involvement, and safety and health were positively related with the elements of organizational performance such as innovation and satisfaction of stakeholders. Then, employee compensation, especially the performance based compensation system, resulted in better organizational performance in Indian firms (Singh, 2004). Huselid (1995) investigated the impact of HRM practices such as recruitment and selection, training, compensation on turnover, productivity, and corporate financial performance in USA. He found that investment in HRM practices was associated with lower employee turnover, greater productivity, and higher corporate financial performance. Huang (2001), in a study on the past, present, and future challenges of HRM practices of Taiwan, demonstrated compensation as the second most important functions of HRM in achieving organizational objectives. Yeganeh and Su (2008) examined the HRM practices

including compensation of Iranian public sector enterprises. They found that in Iranian public sector enterprises, employee compensation was basically determined on the basis of seniority and education. Performance based compensation was not that much prevalent in Iranian public sector.

Thus, the above literature survey indicates that compensation has been investigated from different perspectives around the globe as an important practice of HRM. It is also evident that very limited number of comparative studies were conducted on compensation practices with respect to the public and the private sector industrial enterprises of Bangladesh. Moreover, no specific study was found on employee compensation in Bangladeshi context. The present study is, therefore, an endeavor to fill up this obvious research gap.

Objectives

- To explore the differences between public and private sector industrial enterprises of Bangladesh with respect to the overall status of compensation practices;
- To put forward policy implications for overall improvement of the compensation practices of the public and private sector industrial enterprises of Bangladesh.

Hypothesis

Hypothesis 1: H_0 = There is no difference between the public and the private sector industrial enterprises of Bangladesh with respect to the overall status of compensation practices.

Here, the researchers formulated only one hypothesis for contrast the public and the private sector industrial enterprises of Bangladesh with respect to the overall status of compensation practices.

Research Methodology

Research methodology is defined as the common approaches the researcher uses in carrying out the research project (Leedy and Ormrod, 2005). Research methodologies of the present study are outlined below.

Sample

A sampling frame of 155 public and private sector industrial enterprises was prepared comprising 64 public sector industrial enterprises (running) under all the six state-owned industrial corporations (GOB, Ministry of Finance, 2007) such as Bangladesh Chemical Industries Corporation (BCIC), Bangladesh Steel and Engineering Corporation (BSEC), Bangladesh Sugar and Foods Industries Development Corporation (BSFIDC), Bangladesh Forest Industries Development Corporation (BFIDC), Bangladesh Jute Mills Corporation (BJMC), and Bangladesh Textile Mills Corporation (BTMC), and 91 private sector industrial enterprises (CSE, Annual Report, 2007) listed under Chittagong Stock Exchange (CSE). These six state-owned industrial corporations (BCIC, BSEC, BSFIDC, BFIDC, BJMC, and BTMC) represent all public sector industrial enterprises of Bangladesh. On the other hand, private sector enterprises are selected from the listed firms of Chittagong Stock Exchange (CSE), the second largest stock exchange of Bangladesh. Various established approaches are used in determining sample size such as using a census in case of small population, imitating a sample size of analogous studies, using published tables, and using formulas to calculate a sample size (Israel, 2003). For the present study, the published table method was used in the determination of the

sample size. Israel (2003) developed the table by using the formula of Yamane (1967), which is presented in Table 1.

Table 1. Sample size for $\pm 5\%$, $\pm 7\%$, $\pm 10\%$ precision levels where confidence level is 95% and $p = 0.5$

| Size of Population | Sample Size(n) for Precision(e) of | | |
|--------------------|------------------------------------|-----------|------------|
| | $\pm 5\%$ | $\pm 7\%$ | $\pm 10\%$ |
| 100 | 81 | 67 | 51 |
| 125 | 96 | 78 | 56 |
| 150 | 110 | 86 | 61 |
| 175 | 122 | 94 | 64 |
| 200 | 134 | 101 | 67 |

Source: adapted from Determining Sample Size by Israel, 2003

Table 1 shows that a sample size is feasible and valid at different precision levels. From the field survey it was found that the total population for the present study was 155 that falls within the population range of 175 in the table. Considering the sample size to be determined at 10% precision level, it can be seen that the sample size for the present study came to 64 within the predetermined population range of 175. Since the study was directed towards comparing the status of compensation practices between the public and the private sector industrial enterprises of Bangladesh, the stratified random sampling technique was applied here to get a representative sample. In selecting samples from both sectors (strata) – the public and the private, the present study also used ‘*proportionate allocation method*’ (Kothari, 1990). Therefore, the following overall sample size was obtained for the present study.

Table 2. The overall sample size of the study

| Sector | No. of units |
|-------------------|--------------|
| Public | 26 |
| Private | 38 |
| Total Sample Size | 64 |

Source: Survey data

Data Collection

Questionnaire survey method was used to gather data in the present study. Compensation was measured by a scale (Cronbach’s $\alpha = .97$) composed of five items on five-point Likert type scale (where 1 = strongly disagree to 5 = strongly agree). To assess the validity of the scale of the present study, content validity was used. It is a “subjective but systematic evaluation of how well the content of a scale represents the measurement task at hand” (Malhotra, 2007). For this purpose, the contents of the questionnaire were prepared with the help of leading literature, models, theories, and texts pertaining to the subject and questions of research. After necessary modifications, the content validity of the scale was approved by a panel of experts. As HR managers are the most competent persons to provide data related to any HR practice such as compensation (Huselid and Becker, 1996), the structured questionnaire was sent to the HR managers of all the 64 surveyed industrial enterprises. Finally, 60 useable questionnaires were obtained for the study (26 from public sector and 34 from private sector).

Analysis

To analyze the data, this study used descriptive (mean, standard deviation) and *difference inferential statistics* (Leech, Barrett, and Morgan, 2005) such as *t*-test, *F*-test. All statistical calculations were carried out by *SPSS* version 11.5, the most widely used set of programs for statistical analysis in the social sciences (Bryman and Cramer, 2003).

Findings and Analyses

The status of compensation practices of the public and the private sector industrial enterprise was assessed by five items (Cronbach's $\alpha = .97$). The descriptive statistics of the five items are shown in Table-3.

Table 3. Descriptive statistics of the items assessing the status of compensation practices

| Se. No | Item | Type of the Organization | N | Mean | Std. Deviation | Std. Error Mean |
|--------|--|--------------------------|----|------|----------------|-----------------|
| 1 | Salary and benefits are competitive | Public | 26 | 1.23 | .587 | .115 |
| | | Private | 34 | 4.71 | .676 | .116 |
| 2 | Salary and benefits are offered on the basis of competencies or abilities of the employees | Public | 26 | 1.19 | .567 | .111 |
| | | Private | 34 | 4.85 | .359 | .062 |
| 3 | Compensation is linked to performance | Public | 26 | 1.35 | .846 | .166 |
| | | Private | 34 | 4.88 | .327 | .056 |
| 4 | Pay survey is conducted regularly | Public | 26 | 1.35 | .562 | .110 |
| | | Private | 34 | 4.41 | .892 | .153 |
| 5 | Non-financial benefits are emphasized | Public | 26 | 2.54 | 1.208 | .237 |
| | | Private | 34 | 4.53 | .896 | .154 |

Source: Survey data

Table 3 shows the sample size (N), mean (M), standard deviation (SD), and standard error mean of all the five items used to assess the status of compensation practices in the public and the private sector industrial enterprises of Bangladesh. From the means of items, differences were observed between the public and the private sector industrial enterprises of Bangladesh. To make sure whether these differences were statistically significant, independent-samples t -test was carried out for every item. The results are presented in Table 4.

Table 4. Independent-samples t -test for the items assessing the status of compensation practices

| | | | Levene's Test for Equality of Variances | | t-test for Equality of Means | | |
|---|---|-----------------------------|---|------|------------------------------|--------|-----------------|
| | Item | | F | Sig. | t | df | Sig. (2-tailed) |
| 1 | Salary and benefits are competitive | Equal variances assumed | .408 | .526 | -20.878*** | 58 | .000 |
| | | Equal variances not assumed | | | -21.277 | 56.993 | .000 |
| 2 | Salary and benefits are offered on the basis of competencies/abilities of the employees | Equal variances assumed | .954 | .333 | -30.508*** | 58 | .000 |
| | | Equal variances not assumed | | | -28.789 | 39.876 | .000 |
| 3 | Compensation is linked to performance | Equal variances assumed | 11.084*** | .002 | -22.338 | 58 | .000 |
| | | Equal variances not assumed | | | -20.195*** | 30.739 | .000 |
| 4 | Pay survey is conducted regularly | Equal variances assumed | 12.950*** | .001 | -15.342 | 58 | .000 |
| | | Equal variances not assumed | | | -16.268*** | 56.167 | .000 |

Table 4 (cont.)

| | | | | | | | |
|---|---------------------------------------|-----------------------------|---------|------|-----------|--------|------|
| 5 | Non-financial benefits are emphasized | Equal variances assumed | 4.873** | .031 | -7.336 | 58 | .000 |
| | | Equal variances not assumed | | | -7.053*** | 44.489 | .000 |

Source: Survey data; ** $p < .05$; *** $p < .01$.

Item-wise interpretation of Table-4

Item 1: Salary and benefits are competitive.

Equal variances were assumed for this item. Accordingly from the t -test, the difference between the public and the private sector industrial enterprises of Bangladesh with respect to offering competitive salaries and benefits to the employees was found to be significant ($t = -20.878$, $p < .01$). Hence, it can be inferred that the private sector enterprises ($M = 4.71$) are in significantly better position than the public sector enterprises ($M = 1.23$) with respect to offering competitive salaries and benefits to the employees.

Item 2: Salary and benefits are offered according to employees' competencies /abilities

Equal variances were assumed for Item 2. Consequently from the t -test, the difference between the public and the private sector industrial enterprises with respect to offering salaries and benefits based on competencies/abilities of the employees was found to be significant ($t = -30.508$, $p < .01$). Thus, it can be inferred that the private sector enterprises ($M = 4.85$) are in a significantly better position than the public sector enterprises ($M = 1.19$) with respect to offering salaries and benefits according to employees' competencies/abilities.

Item 3: Compensation is linked to performance

Equal variances were not assumed for this item as $F = 11.084$, $p < .01$. Accordingly from the t -test, it was found that there was significant difference between the public and the private sector industrial enterprises with respect to offering compensation linked to performance ($t = -20.195$, $p < .01$). Hence, it can be inferred that the private sector enterprises ($M = 4.88$) are in significantly better position than the public sector ($M = 1.35$) enterprises with respect to offering compensation linked to performance.

Item 4: Pay survey is conducted regularly

Equal variances were not assumed for this item as $F = 12.950$, $p < .01$. As a result from the t -test, significant difference was found between the public and the private sector industrial enterprises with respect to conducting regular pay survey ($t = -16.268$, $p = .000$). It can, therefore, be inferred that the private sector enterprises ($M = 4.41$) are in significantly better position than the public sector ($M = 1.35$) enterprises with respect to conducting pay survey regularly to review the salaries and benefits of employees.

Item 5: Non-financial benefits are emphasized

Equal variances were not assumed for this item as $F = 4.873$, $p < .05$. So from the t -test, significant difference was observed between the public and the private sector industrial enterprises with respect to emphasizing on non-financial benefits ($t = -7.053$, $p < .01$). It can, thus, be inferred that the private sector enterprises ($M = 4.53$) are in significantly better position than the public sector ($M = 2.54$) enterprises with respect to emphasizing on non-financial benefits.

Testing of Hypothesis

Next, the difference between the public and the private sector industrial enterprises of Bangladesh with respect to overall status of compensation practices was investigated. The hypothesis mentioned below was developed for testing.

Hypothesis 1: $H_0 =$ There is no difference between the public and the private sector industrial enterprises of Bangladesh with respect to the overall status of compensation practices.

$$H_0 : \mu_1 = \mu_2$$

$$H_1 : \mu_1 \neq \mu_2$$

Table 5. Descriptive statistics of the status of compensation practices

| | Type of the Organization | N | Mean | Std. Deviation | Std. Error Mean |
|--------------|--------------------------|----|--------|----------------|-----------------|
| Compensation | public | 26 | 2.0385 | .52769 | .10349 |
| | private | 34 | 4.8235 | .38695 | .06636 |

Source: survey data

Table 6. Independent-samples t-test for status of compensation practices

| | | Levene's Test For Equality of Variances | | t-test for Equality of Means | | |
|--------------|-----------------------------|---|------|------------------------------|--------|-----------------|
| | | F | Sig. | t | df | Sig. (2-tailed) |
| Compensation | Equal variances assumed | .003 | .954 | -23.598*** | 58 | .000 |
| | Equal variances not assumed | | | -22.654 | 44.134 | .000 |

Source: Survey data, *** $p < .01$.

To test the above hypothesis, independent-samples *t*-test was run with SPSS. Before *t*-test, *Levene's test for equality of variances* was carried out to be certain about the homogeneity of variances of the comparing groups. From the *Levene's test for equality of variances*, it was found that variances were equal. Accordingly, independent-samples *t*-test showed that the difference between the public and the private sector industrial enterprises with respect to overall status of compensation practices was statistically significant ($t = -23.598$, $p < .01$). As a result, the null hypothesis was rejected and it can be concluded that overall status of compensation practices of the private sector industrial enterprises ($M = 4.8235$) is significantly better than that of the public sector industrial enterprises ($M = 2.0385$) of Bangladesh.

Summary and Implications

Compensation is identified as the most vulnerable side of the HRM practices of public sector enterprises. In every aspect of compensation practices such as competitiveness of salary and benefits, competency-based compensation, performance-based compensation, regularity in pay survey, and non-financial benefits, the public sector enterprises are in a lower position than the private sector enterprises. This is due to the fact that in the public sector, compensation is offered with respect to seniority and position. Pay review in the public sector also generally

takes place after several years. These generate mismanagement, poor motivation, and corruption in the public sector enterprises. The inequality of compensation between the public and the private sector is now so prevalent that an entry-level officer of a private sector enterprise is getting a higher salary than even a top level manager of a public sector enterprise.

With respect to ownership, the industrial sector of Bangladesh is mainly divided into two sectors: public and private. Though governments of Bangladesh have been patronizing the development of the private sector since 1975, the importance of the public sector towards the economic development of the country is still well-recognized. Moreover, the public sector is composed of some industries such as fertilizer, jute, and forest where the private sector does not have any mentionable presence. However, these industries (fertilizer, jute) also have significant contributions to the growth in the agriculture sector of Bangladesh. Therefore, for the overall economic emancipation of Bangladesh, an industrial sector comprising of well functioning public and private sectors is a must. Human resource management practices such as compensation can play vital roles for the public and the private sector led industrial development of Bangladesh.

The following implications may be useful to consider in improving the overall status of employee compensation practices of the public and the private sector industrial enterprises of Bangladesh.

Implications of the Findings for the Public Sector Industrial Enterprises

The most unimpressive side of HRM practices of the public sector enterprises of Bangladesh is inadequate compensation package for the employees. That is why nowadays it is hardly possible for the public sector enterprises to get and to keep capable employees. As money is the prime motivator, the public sector enterprises of Bangladesh should offer competitive salaries and benefits to their employees. Salary and benefits must be linked to the qualifications, skills, knowledge, and performance of the employees. It is reported that pay scale changes in the public sector after every 5 to 10 years, which is quite irrational and frustrating. Regularity in pay review should be maintained through pay survey to offer pay that is equitable and consistent with the society's changing needs. Non-financial benefits should also be provided to the employees who devote time, effort, knowledge, expertise and everything for the improvement of the organizations.

Implications of the Findings for the Private Sector Industrial Enterprises

The private sector enterprises should extend financial and non-financial benefits to their employees. Besides financial rewards, non-financial rewards such as challenging job, empowerment, recognition, job security, better working conditions should also be provided to the employees. Fringe benefits and perquisites such as provident fund, gratuity, medical care, health insurance, paid holidays, transport, housing, stock option schemes should be offered for the overall well-being of the employees and their dependants.

Limitations and Directions for Future Researches

The present study obtained data in the form of perceptual measures of compensation practices, although objective measures are more desirable. There are a number of areas where future studies can be directed. Case studies may be undertaken on compensation practices of selected public and private sector industrial enterprises for thorough analysis. Studies may also be carried out on compensation practices of service sector enterprises.

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Practicile de compensare a angajaților din întreprinderile industriale din Bangladesh: analiză contrastivă între sectorul public și cel privat

Rezumat

Compensarea constituie una dintre cele mai importante funcții ale managementului resurselor umane (HRM). Articolul de față își propune să exploreze diferențele dintre întreprinderile din sectorul public și din cel privat din Bangladesh cu privire la statutul de ansamblu al practicilor compensației. Datele colectate din 26 de întreprinderi publice și 34 întreprinderi private indică statutul practicilor compensației din întreprinderile private ca fiind în mod semnificativ mai bun decât cel al întreprinderilor publice din Bangladesh. Se oferă totodată câteva sugestii în vederea perfecționării practicilor legate de compensațiile oferite în întreprinderile industriale publice și private din Bangladesh.