

ASSESSMENT OF THE IMPACT OF COMPENSATION ON EMPLOYEES PERFORMANCE

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ABSTRACT

The major objective of most employers is to obtain optimum result possible from employees. The employees aspire to obtain maximum level of compensation from their labour input. Any exercise of performance evaluation may therefore be an assessment of the level of effectiveness of compensation. This paper attempts to analyse the impact of compensation on performance of the employees. Survey research method was used in the conduct of the study. The researchers used questionnaires as the instrument of data collection. The data collected were analysed using descriptive method and simple percentage. The hypothesis proffered was tested with the use of chi-square. The study revealed that there a positive relationship between compensation and employees performance. That is, if employees were adequately compensated, they will perform better than those that were poorly compensated.

Keywords: *Compensation, Employee, Pay, Performance, Reward.*

INTRODUCTION

One of the important and complex issues on human resource management is compensation (Berstein, 1997 and Crystal, 1995). Compensation is a vital and complex part of the employer–employee relationship (Fama and Jensen, 1983). Research on compensation has gone on for more than 70 years and has accumulated toward a total of more than 300 studies (Gomez-Mejia and Wiseman, 1997). However, researchers using different data sets, measurement of variables, statistical techniques have often found weak or even statistically relationships between compensation and performance (Kerr and Bettis, 1987; Jensen and Murphy, 1990). In addition, almost all empirical studies on compensation conducted in the past have utilized United States data and/or have focused on United States contexts (Barkema and Gomez-Mejia, 1998). This work fills research gaps created by previous studies by looking at impact of compensation on employees performance in a developing economy such as Nigeria by using a general system mobile (GSM) communication provider as a case study.

STATEMENT OF THE PROBLEM

Compensation is the centerpiece and the manifestation of an exchange relationship between the two key players--the employees and the employers –in an industrial set up. However, it is pertinent to know that employees usually perform at varying degrees that that are on the same job and in the same organization .This variance in employees performance was attributed to many factors of which monetary values is an important one. This is where compensation comes to play. The management of compensation is today more complex that it had hitherto been during the past four decades or so (Banjoko, 2006) The reason for this is that in the last two decades, many unanticipated changes in socio-cultural, political-legal, technological and economic environments have surfaced in recent time. This has necessitated the need for the contents of any compensation packaged as this has impact on employees' performance.

JUSTIFICATION FOR THE STUDY

A review of academic literature on the subject of compensation and performance reveals that there is a dearth of literature on it in the third world countries including Nigeria. This is even more glaring in the GSM communication companies that started their operations during the era of the present administration in Nigeria. Thus, it is hoped that this study will fill the existing gaps in developed countries of the world such as Nigeria .It will also provide a fresh dimension for understanding the relationship between compensation and employees performance. Studying compensation and performance is especially important because of their link to employees' subsequent behaviors such as absenteeism, turnover and assumption of responsibility. Equally noteworthy is fact that the study will be of immense benefit to practicing mangers in maintaining good employer-employee relationship.

WORK AND LITERATURE REVIEW

COMPENSATION.

Griffin (1999) is the financial remuneration given by the organization to its employees and arising from their employment and it has two components- direct payments. Fajana (2002) says compensation is a contractual phenomenon. In compensation is the totality of the financial and other non financial rewards that return for his labour or services to the organization. Compensation was (1979) to mean a double input-output exchange between a worker and the organization. Compensation includes everything that an employee receives in return for his labour and other numerous financial and non financial rewards that in turn he lives in the society.

Compensation may also be viewed as:

1. A device that motivates employees to perform;

2. A communication device through which the organizations convey and reinforce the values, norms and standards they require; and

3. A mechanism that enables organizations to achieve their business objective.

From the employees' perspective, compensation is a return in an exchange between their employer and them for being an employee of the company, or as a reward for a job well done (Griffin, 2005)

DEFINITION

The most important obligation owned by an employer to an employee is to pay him fairly. Typically, every compensation package is usually composed of three major components: basic pay, incentives, and the fringe benefits.

The amount of pay an employee receives is usually his wage or basic salary, the level of which varies from the other depending on skill, qualification, experience and expertise. The major factors that determine the amount or size of basic pay are the labour market situation, productivity level within the organization, the employee's ability to pay, cost of living, collective bargaining, government regulation and

1. Special compensation payments made to an employee based on the amount of work done. Examples are piecework programmes, gain-sharing programmes, bonus systems, and commission-based compensation.

2. Fringe benefits refer to compensation other than basic pay and incentives. Fringe benefits are designed to improve the quality of life for employees. Cockman (1975) writes that fringe benefits are those which are supplied by an employer to or for the benefits of an employee, and include such things as wages, salaries and time-rated payments.

PAY.

Pay is the most important and continuous, and is of equal interest to the employer, employee and society (Griffin, 1998). He went further to say the following:

1. Pay is a significant part of his costs, increasingly important to his business as it becomes more competitive and to his ability to recruit and retain a labour force.

linking compensation to employee performance (Brown and Armstrong, 2000). High performance requires much more than employee's motivation. Employee's performance level can be raised if performance enhancement facilities are made available. Such facilities include adequate equipment, good physical working conditions, effective leadership and management, health and safety among others. However, employees' motivation to work harder and better is obviously an important factor (Ivancevich, 2003). A number of studies indicate that if pay is tied to performance, the employee produces a higher quality and quantity of work (Peach and Wren, 1992; LeBlanc 1994; Lawler III, 2000). However, not everyone agrees with this, some researchers such as Stern and Stewart III (1993), and Bates (2002) argue that if you tie pay to performance, you will destroy this intrinsic rewards a person gets from doing the job well. The key to making compensation systems more effective is to be sure that they are directly connected to expected behaviors (Gillen, 2001). Research on the relationship between pay and employee's performance continues, but with contradictory results (Caudron, 1996). However, it still can be concluded that pay is an important outcome to employees (Blau, 1994).

RESEARCH METHODOLOGY

This study examined the impact of compensation on employee's performance. The theoretical population of study consists of the entire workers of the chosen company. The researcher adopted survey research design method in carrying out the study. The samples used for the study were randomly selected. The entire population was stratified into three strata based on their levels in the organization's hierarchy. A total of 100 samples were selected out of which 90 of them filled and returned the questionnaires distributed to them. The high response rate of 90% achieved was due to the interest of the workers in the topic of discussion and repeated visits made by the research. The research instrument used by the researcher is structured questionnaire. This was carefully constructed for the purpose of eliciting the required data from the respondents. The research instrument used for this study was tested for validity so as to be sure of the accuracy of the measurement. Validity deals with the degree to which a measuring instrument measures what it is designed to measure (Ojo, 2003). Therefore, the more adequate the measurement, the more valid is the instrument. The first draft of the questionnaire was subjected to face and content validation by experts in the field of industrial relations and human resource management. The data collected from the respondents were analyzed using descriptive, summarization statistics as well as simple percentage. The research hypotheses were tested using chi-square parametric test.

DATA ANALYSIS

The first variable we examined was the management capabilities of the chosen firm using the level of the education of the staff. We discovered that the company is made up of highly qualified personnel who have relevant qualifications to do the job.

Table 1: Educational Qualification of the Respondents

| Variables | No of Respondents | Percentage |
|-------------------|-------------------|------------|
| WASC/SSCE/GCE O/L | Nil | Nil |
| OND/HSC/NCE | Nil | Nil |
| B.SC/BA/HND | 63 | 70% |
| MASTERS DEGREE | 12 | 13.33% |
| Others | 15 | 16.67% |
| Total | 90 | 100% |

Source: Field Survey, 2006.

Table 1 above shows the educational qualification of the employees of the chosen firm. It indicates that 63 people representing 70% of our respondents have either First degree or Higher National Diploma. 12 workers have Masters Degrees while the remaining 15 workers have other qualifications. This distribution, as shown in the table above, shows that it is skewed around first degree and higher national diploma holders. We also examine the organizational levels of the employees and the result is as presented in table 2 below:

Table 2: Management Level of Respondents

| Variables | No of Respondents | Percentage |
|-------------------------|-------------------|------------|
| Top Level Management | 15 | 16.67% |
| Middle Level Management | 33 | 36.67% |
| Lower Level Management | 42 | 46.67% |
| Total | 90 | 100% |

Source: Field Survey, 2006

In table 2 above, it can be seen that the firm is managed by a group of highly qualified personnel and supported by other relevant education and experience. We note in particular the fact that about 16.67% of the workforce constitutes the top management while 36.67% of the workforce is middle level managers and the remaining 46.67% of the workforce are lower level managers. One interesting thing about this organization is that it has distributed its workforce in line with the prediction of management theorists that is the pyramidal structure the organization. this pyramidal structure suggests that few people should be at top management level, more people at the middle level and much more people at the lower level.

Table 3: Payment of Compensation is Relevant

| Variables | No of Respondents | Percentage |
|-------------------|-------------------|------------|
| Strongly Agree | 48 | 53.33% |
| Agree | 30 | 33.33% |
| Undecided | 3 | 3.33% |
| Disagree | 6 | 6.67% |
| Strongly Disagree | 3 | 3.33% |
| Total | 90 | 100% |

Source: Field Survey, 2006

From the above table 3, 48 people, which means 53.33% of the respondents strongly agree with the statement. 30 or 33.33% of the respondents agreed with the statement. Three people are undecided about the statement. 6 people disagreed with the statement. Therefore it is observed that about 78 people or 86.66% of the respondents concurred that compensation is relevant.

Table 4: There is a Linkage Between Compensation and Performance

| Variables | No of Respondents | Percentage |
|-------------------|-------------------|------------|
| Strongly Agree | 6 | 6.67% |
| Agree | 60 | 66.67% |
| Undecided | 3 | 3.33% |
| Disagree | 21 | 23.33% |
| Strongly Disagree | Nil | Nil |
| Total | 90 | 100% |

Source: Field Survey, 2006

Table 4 above revealed that 6 respondents representing 6.67% of the total respondents strongly agreed that there is linkage between compensation and employees performance.

Overwhelming majority of the respondents, 66.67% of them readily agreed that there is linkage between compensation and performance. Three respondents are undecided about the issue while 21 respondents disagreed with the issue. Thus, based on majority view, one can say that there is a linkage between compensation and performance.

Table 5: Effective Compensation Package Increases Employees Performance

| Variables | No of Respondents | Percentage |
|--------------|-------------------|------------|
| Yes | 84 | 93.33% |
| No | Nil | Nil |
| I don't know | 6 | 6.67% |
| Total | 90 | 100% |

Source: Field Survey, 2006

From table 5 above, 84 respondents representing 93.33% of the total respondents agreed that compensation package increases employees' performance. From the respondents' perspective, it shows that effective compensation package can boost the workers performance. None of the respondents said no to the statement while only six respondents said they don't know whether effective compensation increases workers performance.

RESEARCH HYPOTHESIS

In this study, the researchers proffered only one hypothesis which was tested using the chi-square.

The decision made was based on the premise that if the calculated value of chi-square is greater than the tabulated value of chi-square the null hypothesis will be rejected and the alternative hypothesis is therefore accepted.

H_0 = There is no significant relationship between compensation and performance.

H_1 = There is a significant relationship between compensation and performance.

Table 6: Observed and Expected Responses at 0.05 Level of Significance

| Variables | Observed(O) | Expected (E) | O-E | (O-E) ² | (O-E) ² |
|-------------------|-------------|--------------|-----|--------------------|--------------------|
| Strongly Agree | 6 | 18 | -12 | 144 | 8.0 |
| Agree | 51 | 18 | 33 | 1089 | 60.5 |
| Undecided | 15 | 18 | -3 | 9 | 0.5 |
| Disagree | 12 | 18 | -6 | 36 | 2.0 |
| Strongly Disagree | 6 | 18 | -12 | 144 | 8.0 |
| Total | 90 | 90 | | | |

Source: Field Survey, 2006

The degree of freedom for the contingency table above is $(r-1)(c-1) = (5-1)(2-1) = 4$.

From the above computations, the calculated chi-square value is 79.00 while the tabulated chi-square value is 9.49. Since the calculated chi-square is greater than the statistical value of chi-square, it falls in the rejection region. Thus, we reject the null hypothesis and infer that there is a significant relationship between compensation and performance.

SUMMARY

This study tries to examine the impact of compensation on employees'. A review of previous studies on the impact of compensation on employees' performance was carried out and we saw mixture of opinions.

It was discovered that compensation has significant impact on employees' performance. This was deduced from the analysis of data collected for this study.

This finding confirms the results of other researchers like Peach and Wren (1992), LeBlanc (1994), and Lawler (2000).

CONCLUSION AND RECOMMENDATION

The focus of this research work has been on the appraisal of the impact of compensation on employee's performance; this study reveals that compensation is a vital tool in influencing employee's work behaviour. That compensation affects employee's performance. It inspires, encourages and motivates workers to perform their best in achieving organizational goals and objectives. Good compensation package helps in attracting and retaining qualified employees which in turn increases the organization's efficiency and effectiveness.

Financial incentives are very important in the lives of employees and as such should be made available to them to aid in the attainment of individual and organizational goals.

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