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TOPIC: EMPLOYEE COMPENSATION: A PANACEA FOR ORGANIZATIONAL PERFORMANCE

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ABSTRACT

The paper anchored on employee compensation as a panacea for organizational performance. Compensation is the total amount of the monetary and non-monetary pay provided to an employee by an employer in return for work performed as required. This paper therefore, x-rays the importance of employee compensation to organizational performance. It examines the extent to which increase in fringe benefits could affect organizational performance. It also tries to ascertain the extent to which increment in salaries could enhance organizational performance. Furthermore, the paper tries to find out the extent to which increase bonuses could improve organizational performance. This study adopted a survey research method. In determining the sample size, "confidence level approach" was adopted and 188 (one hundred and eighty-eight) was the sample size which was drawn out of 4000 (four thousand) population. At the end of the study, it was discovered that a well-structured program with a good balance of wages, benefits, and rewards will support an organization to remain competitive in today's labour market and ensure sustainability in the future. Hence, organizations were advised to develop a good compensation and. rewards program since that will give them edge over their competitors and help them check employee turnover rate.

KEYWORDS: Labour Market and Ensure Sustainability in the Futur, Sample Size, "Confidence Level Approach"

INTRODUCTION

Compensation includes not salary, but direct and indirect rewards and benefits the employee is provided with in return of his or her contribution to the organization. To determine compensation, organizations should develop a compensation and reward program. This type of program outlines an equitable process for compensating employees. A well structured program with a good balance of wages, benefits and rewards will support an organization to remain competitive in today's labour market and ensure sustainability in the future (Ezezue, Agha, Nome, Ndieze, 2015).

Furthermore, Ezezue et.al (2015) quoting, Ugbam (2011) opine that compensation which is popularly regarded as reward or remuneration refers to the financial remuneration which the employer gives to the employee in return for his/her services. Also Ugbam (2011) quoting Griffin (1996) state’s that the word reward actually originated from a Latin word, "movere" meaning move. This then highlights the role of reward as an employee motivator.

In the same vein, Eze (2011) asserts that compensation consists of wages paid directly to workers for time worked and indirect benefits which employees receive as part of their employment relationship with the organization, wages paid for time worked, are payment made in cashable form, which reflect direct work-related remuneration such as basic pay, merit increases or bonuses. Benefits in themselves are forms of compensations beyond wages, for time worked. Benefits also include protection plans like health and life insurance, services such as organizational cafeteria and health centers, payment made in respect of time not worked such as annual leave and sick leave periods and income supplement of various kinds.

Again Eze (2011) quoting Bohlander and Snell (2004) says that compensation is a major consideration in Human Resources Management because "it provides employees with tangible reward for their services, as well as a source of recognition and livelihood". All forms of reward and pay received by employees for the performance of their jobs, whether directly, indirectly or non-financial, constitute salaries, wages, incentives, bonuses and commissions. Indirect includes many benefits while non-financial includes recognition, rewarding jobs, and organization support and work environment.

OBJECTIVES OF THE STUDY

- To examine the extent to which increase in fringe benefits could affect organizational performance.
- To determine the extent to which bonuses could improve organizational performance.
- To evaluate the relationship between recognition and performance.
- To ascertain the extent to which increment in salaries could enhance organizational performance.

CONCEPTUAL REVIEW

When most people hear the term compensation, they think about "what a person is paid". Although this is true, it is only one aspect of a complex topic. Compensation includes not only salary, but also the direct and indirect rewards and benefits the employee is provided with in return for his or her contribution to the organization. To determine compensation, organizations should develop a compensation and reward program (hrcouncil.ca/hr-tool/kit/) and (en.m.wikipedia.org/wiki/compensation).

Compensation also includes payments such as bonuses, profit sharing, overtime pay, recognition rewards and checks and also sales commission. Compensation can also include non-monetary perks such as company paid car, stock options in certain instances, company-paid housing, and other non-monetary but taxable items (www.thefreedictionary-com/jdict.aspx?) and (dictionary.reference.com/.../compensation...).

Workers compensation laws are equally enacted to protect people who are injured on the job. They are designed to ensure that employees who are injured or disabled on the job are provided with fixed monetary rewards, eliminating the need for litigation. These laws provide benefits for dependents of those workers who are killed because of work related accidents or illnesses. Some laws also protect employers and fellow workers by limiting the amount an injured employee can recover from an employer and by eliminating the liability of co-workers in most accidents (www.merriam-website.com/.../...).

Many factors affect compensation. These factors were categorized under internal and external factors. Under internal factors we have:

- Equity
- Ability to pay
- Productivity

- Competitive pay position (Ezezue et.al 2015 quoting Ugbam 2011).

While external factors include:

- Labour market
- Government policies
- Labour unions and collective bargaining
- Cost of living
- State of economy
- Legal requirement (Ezezue et.al 2015).

There are also some basic components of employee compensation and benefits; among them are:

- **Guarantee pay** - This is *a* fixed monetary (cash) reward paid by an employee. The most common form of guaranteed pay is base salary (https://en.wikipedia.org/wiki. compensation and benefits.
- **Variable pay** - A non-fixed monetary (cash) reward paid by an employer to an employee that contingent on discretion, performance, or results achieved. The most common forms of variable pay are bonuses and incentives, overtime pay and more.
- **Benefits -** Programs an employer uses to supplement employees' compensation, such is paid time off, medical insurance, company car and more.
- **Equity based compensation** - Stock or pseudo stock programs an employer uses to provide actual or perceived ownership in the company which ties an employee's compensation to the long-term success of the company. The most common example is stock options (https://en.wikipedia-org/wiki/cornpensation_and_benefits).

Difference between Salaries and Wages

As Eze, (2011) quoting Dawson (1998), salaries are mainly paid to non-manual workers while wages constitute the main method of financial remuneration, afforded to manual workers. Salaries tend to be paid on monthly basis while wages are paid more frequently and sometimes, in cash.

Salaries and wages are payments made to the workforce for placing their skills, abilities and energy at the disposal of their employers. There are two types of wages: money wages and real wages. Real wages are goods and services which money wages can buy. So real wages depend on the movement of prices, rising prices which during inflation, mean falling in real wages - particularly if in spite of rising prices, money wages remain unchanged.

Nigerian Social Insurance Trust Fund (NSIF) Plans Rehabilitation Centers for Employee Compensation Scheme

The Nigerian Social Insurance Trust Fund (NSIF) said it is currently in talks with some state governments to establish rehabilitation centers for injured workers across the country, as part of efforts to explore the full potentials of the employee compensation scheme (ECS).

This, it said became necessary, as most workers who sustain injury in the work place are rarely-able to continue in same line of work, and usually need refraining in a new line where they would be able to cope.

The managing director of NSIF, Mr. Munir Abubakar speaking with "This Day Newspaper" in an interview, disclosed that the fund would also collaborate with foreign manufacturers of artificial limbs for accurate measurement of the needed body parts and for training workers who may need them.

Furthermore, Mr. Munir Abubakar said that "experience has shown us that some workers no longer have the ability to continue in their area of specialization after sustaining injury and that is why we are also going to add re-orientation and retraining of injured workers in profession where, they will be able to cope, injured workers will no longer entertain the fear of job loss as a result of work place injury "he said".

The ECS, Abubakar added that he has made much progress in the last four years with over 28,000 employers registered under the scheme, particularly from the private sector (Abubakar 2015).

THEORETICAL FRAMEWORK

There are so many theories on compensation but for the purpose of this paper, the study was based on the following theories.

Marginal Productivity Theory: This is concerned with predicting the pay levels of employees. Many of its propositions about employee compensation are made with a context of analyzing the firm's ability to generate profits and maximize productive output. The size of the employee pay package reflects the firms net profits. In a firm where the entrepreneur is the sole owner and functions as chief executive officer, the entrepreneur desires to achieve the highest returns on his investments and this will occur where the marginal cost of production is equal to the market price of the product. At this point the firm maximizes its profits and the employee maximizes his compensation which is equivalent to the profits of the firms,

(www.yourarticielibrary.com/businessmanagement/importanttheoriesthatcanexplaincompensation/2595/.)

Governance Theory: This is another theory of compensation, it held that employees should pursue strategies that will create long term shareholder value and that they should receive closely related rewards. Employees may feel free to pursue the interests that do not coincide with those of the firm's owners, knowing that the owners have a limited ability to influence the employee's rewards. As a result, the employee compensation package may not be effectively linked to performance that creates or maximizes shareholder value

(www.yourarticlelibrarv.com/businessmanagement/importanttheoriesthatcanexplaincompensation/2595/.)

Furthermore, advocates of.this theory believe that a hired employee will act in the best interests of the owners if he has a personal ownership stake. Many contemporary executive compensation programmes are structured to reflect this theory by paying substantial amount of compensation in the firm of stock options.

Tournament Theory: This theory holds that the amount of compensation received by employees of an organization is similar to tournament winning. Tournament participants are members of the organization who could ultimately reach the top most post-the chief executive officer. The prospect of this prize post sends powerful signal throughout the organization that by working harder one may win the number one post. The emphasis is not on the motivational properties that employee compensation levels bring to those in the lower level of the organization.

EMPIRICAL STUDIES

Chung and Narayandas (2015) in their article "Money and Quotas motivate the sales force Best", studied several compensation schemes to see which work best. In the study they carried out in Harvard Business School, they tried to find out whether the sales rep had to do anything to earn the bonus or was just given it conditional versus unconditional. They found out that cash bonuses often motivate a sales force to step up its game, but they don't work in every scenario and in some cases can backfire.

Again, the researchers found out that the company saw a roughly 20 percent gain in sales when the bonus was conditioned on the sales person hitting a quota. When there were no strings attached to the bonus, the gains dropped to half that’s in one scenario, and to a net decrease of 8 percent in another. In the sales force setting, people work harder if they are told a specific goal, "says Chung, noting that 80 percent of firms in United States use some type of bonus to reward employees (Chung and Narayandas, 2015).

Kehinde (2012) carried out a research on Effect of Compensation Strategy on Corporate Performance: Evidence from Nigerian Firms. This study tried to link compensation with performance using selected firms in Nigeria as study areas. Three manufacturing conglomerates were specifically covered in Nigeria. The study used cross-sectional data analysis; it was found that compensation strategy has the potential beneficial effects of enhancing workers productivity and by extension improving the overall organizational performance. Therefore, the significance of compensation cannot be overemphasized in an organization and is in fact a veritable option for attracting, retaining and motivating employees for improved original productivity. The finding further enriched the literature supporting that a higher pay guarantees a higher productivity (Kehinde, 2012).

Abayomi (2014) in his study titled: The Influence of Compensation Management on Employee’s Leadership Role in Insurance Sector: Nigeria Experience, focused on influence of compensation management on employee’s leadership role in insurance sector with evidence from Nigeria. The study used quantitative (questionnaire) approach to gather information from the participants. In all, 250 questionnaire were administered to the employees of an insurance company, 213 returned and 212 (84.4%) were found usable. Ethically, participation in the survey was voluntary and confidentiality of response was of paramount esteem.

The study affirmed that there was a positive relationship amongst the variables though the association was not strong which is $r = 0.481$ (48.1%). That is, there is a correlation between compensation management and employees leadership role in the insurance industry in Nigeria. The finding of the study also reveals that compensation management do have influence on employee’s leadership roles as well that leadership do motivate employees to perform effectively. The study equally recommended that: Insurance companies should encourage more interpersonal relationships amongst employees; Insurance companies should allow the employees to play their leadership role to adequately recognize and reward others when they accomplish their goals/ objects. Lastly it recommended that for the employees to play their leadership role effectively and efficiently, the mgt of insurance companies should remunerate them adequately with the position they are holding.

Furthermore, Akpanabia (2013) in his study titled: Compensation and Rewards of Human Resources as panacea for Achieving Organizational Objectives examined the use of compensation and rewards of Human Resources as a panacea for achieving organizational objectives002E According to him, a good compensation strategy includes a balance between internal equality and external equity. In the same vein, Michael and Crispen (2009) in their article titled employee retention and turnover: using motivational variables as a panacea. This research looked at the extent to which identified extrinsic motivational variables influenced the retention and reduction of employee turnover in both public and private sector organizations. The research was aimed at identifying and establishing the key intrinsic and extrinsic motivational variables being used by selected public and private sector organizations in retaining their employees. The study adopted the cross-sectional survey research design, investigating the extent to which selected motivational variables influence employees' decision to either remain or quit an organization. Quantitative research design was used and this design was chosen because its findings are generalisable and data objective. The study examines two public and two private sector organizations in South Africa. The total population of the research comprised 1800 employees of the surveyed organizations. A self- developed questionnaire, measured on a likert scale was used to collect data from respondents. The questionnaire had a cronbach alpha coefficient of a = 0.85 suggesting that the instrument was reliable. The chi-square test of association was used in testing the hypothesis of the study. The result showed that employees in both public and private sector organization were to a very large extent influenced to stay in their respective organizations by combination of intrinsic and extrinsic motivational factors. The following motivational variables were found to have significantly influenced employee retention in both sectors: Training and Development, Compensation and Reward, Challenges/ Interesting Work, Freedom for Innovation thinking and Job Security.

METHODOLOGY

The population of the study comprises of the four thousand (4000) managerial and non-managerial staff of nine organizations studied in South-Eastern Nigeria..

Sampling Design and Technique

In determining the sample size, the researcher adopted "confidence level approach", which slates that whenever a sample of the study is made, there arises some sampling error which can be controlled by selecting a sample of adequate size (Kothari and Garg, 1990).

$N = 4000$

$e = 0.02$

$Za/2 = 2.005$

$$n = \frac{Z^2a/2\ P.q.N}{e^2\ (N-l) + Z^2a/2P.q}$$

$$\frac{(2.005)^2(.02)\ (1-0.2)\ (4000)}{(.02)^2(4000-l) + (2.005)^2(.02)\ (1-0.2)}$$

$$\frac{315.1699}{159967.0788} = \frac{315.1699}{1.6784} = 187.78 = 188$$

$$= \underline{\underline{188}}$$

CONCLUSIONS

Conclusively, organizations cannot be managed effectively if they do not know the exact nature of each job undertaken by their work-force and relative worth of each job. The relative worth of each job should also be well reflected in the job rewards system of each organization. Failing to achieve the above important goal will lead to labour turnover which is detrimental to the growth of any organization.

RECOMMENDATIONS

It was recommended that organizations should develop a good compensation and rewards program since that will give them edge over their competitors and help them check employee turnover rate. There should also be an increase in both monetary, indirect reward and fringe benefits given to outstanding and competent employees so as to motivate them to put in more or rather to put their best in the achievement of organizational objectives and goals.

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