THE EFFECT OF COMPENSATION ADMINISTRATION ON EMPLOYEE PRODUCTIVITY

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Abstract

This study is focused on the effect of compensation administration on employee productivity. The study highlighted the need for effective compensation in an organizations. The study looked at what constitutes effective compensation administration on organizations and the benefits that are to be obtained thereof. The study adopted a survey design which includes the distribution of a well-designed research instrument to 50 respondents in Dangote Nigeria Headquarters in Lagos Nigeria. The findings of the study indicates that effective compensation administration has a positive bearing on employee productivity as indicated in by the figures generated. The null hypotheses advanced for this study were thus rejected since the p. value of the analysis was less than 0.05. \( r = 0.892, r^2 = 0.795, p < 0.05 \). Employers are continually challenged to develop pay practices and procedures that will enable them to attract, motivate, retain and satisfy their employees. The findings of this study can be helpful tools which could be used to provide solutions to individual dissatisfaction to work processes. It is very pertinent at this point in time to suggest that more research should be conducted on the issues related to reward system using many private and public organizations. It is significant for further studies to be carried out in order to do justice to all issues concerning compensation and in the event of further studies the sample size to be used should be larger so as to enable the researcher get the required results from the respondents.

Key words: Compensation, Administration, Productivity, Organization,

Introduction

Compensation processes are based on Compensation Philosophies and strategies and contain arrangement in the shape of Policies and strategies, guiding principles, structures and procedures which are devised and managed to provide and maintain appropriate types and levels of pay, benefits and other forms of compensation (Bob, 2011). This constitutes measuring job values, designing and maintaining pay structures, paying for performance, competence and skill, and providing employee benefits. However, compensation administration is not just about money. It
is also concerned with that non-financial compensation which provides intrinsic or extrinsic motivation for employees to improve in their performance (Bob, 2011).

Compensation implies having a compensation structure in which the employees who perform better are rewarded much more than the average performing employees (Pearce, 2010). Compensation Administration is concerned with the formulation and implementation of strategies and Policies that aim to compensate people fairly, equitably and consistently in accordance with their value to the organization (Armstrong, 2005). The task in compensation administration is to develop policies and procedures that will attain maximum return on Naira spent in the terms of attracting, satisfying, retaining and perhaps motivating employees (Anyebe, 2003).

Over time it has been a case in some organizations that their employees are under-remunerated or that some organizations do not have good compensation administration programs. This could be that employee promotion does not come in time, or that their pay packages are not commensurate to the work they have done for the organization (Fein, 2010). At times, this could be a deliberate act by management in other to frustrate the employees or that the management lacks the required managerial capabilities to effectively administer a compensation administration program (Dyer, & Schwab 2004). Gone are those days when such issues can be condoned or accepted by the employees, and therefore there is a need to tackle the problem headlong so that employees can bring out their best in terms of performance in order to boost their productivity.

The objective of this study therefore is as follows: To find out what drives or propels employee satisfaction. To bring out the distinctions between effective compensation administration and organizational productivity. To show or prove that effective compensation administration is a tool for improving or enhancing employee productivity in the organization. In line with the objectives above, the following hypothesis are tested:

**H01:** there is no significant relationship between compensation administration and employee productivity. **H02:** Incentives do not significantly affect employee satisfaction. All assumptions and conclusions will be based on the above hypotheses.

**Literature Review**

**Compensation**

According to Teeseema and Soeters (2006). Compensation which includes direct cash payment, indirect payments in the form of employee benefits and incentives to motivate employees to strive for higher levels of productivity is a critical component of the employment relationship. A good compensation package is a good motivator. Hence, the primary responsibility of the HR manager is to ensure that the company's employees are well paid.

**Compensation Administration**

Compensation administration is a segment of administration or human resource administration focusing on planning, organizing, and controlling the direct and indirect payments employees receive for the work they perform (Ezeh, 2014). Compensation includes direct forms such as base, merit, and incentive pay and indirect forms such as vacation pay, deferred payment, and health insurance. The ultimate objectives of compensation administration are: efficient maintenance of a productive workforce, equitable pay, and compliance with federal, state, and local regulations based on what companies can afford.

Compensation Administration as the name suggests, implies having a compensation structure in which the employees who perform better are paid more than the average performing employees.
This encourages top-performers to work harder and helps to build a competitive atmosphere in the organization. Armstrong and Brown (2005) postulate that compensation administration is an integral part of HRM approach to managing people and as such it supports the achievement of business objectives and it is strategic in the sense that it addresses long term issues relating to how people should be valued for what they want to achieve; It is therefore integrated with other HRM functions, especially those concerned with human resources development.

**Theoretical Framework**

This study is based on the Vroom’s expectancy theory of motivation which states that performance or productivity can be thought of as a multiplicative function of motivation and ability, example \( P = (M \times A) \). Motivation in turn varies with the valence (V) or attractiveness of outcomes upon the performance for that task, and the instrumentality (I) of performance for attaining the outcome. Vroom is simply saying in precise mathematical language that motivation depends not just on the outcome desired by the worker, but also on the instrumentality of effort, that is the relationship perceived by the worker between his and others’ previous efforts and the desired outcome. According to Idemobi (2010), the Expectancy Theory is a process theory developed which basically concentrates on the outcomes. What Vroom explained in his theory is that in order to motivate employees or people, the effort put in by the employees, the performance generated and motivation must be linked to one another. According to Vroom, employee expectations can affect an individual’s motivation. Therefore, the amount of effort employees exerts on a specific task depends on their expectations of the outcome. Vroom contends that employees ask three basic questions before committing maximum effort to a task: Can I accomplish the task? If I do accomplish it, what’s my compensation? Is the compensation worth the effort?

Building on the Vroom model, Ejiofor (1987) identifies four critical variables in worker motivation. They are; the capacity of the worker (Ability), attractiveness of the compensations due to him (Valence), causal relationship between effort and compensations (instrumentality) and the existence of infrastructural support (Tools). Regarding the effects of these variables on motivation and employee performance, each of them has a direct relationship with motivation (Ejiofor, 1987). He argued that when holding workers’ ability, attractiveness of the compensation and infrastructural support constant, only an incentive system based strictly on perfect instrumentality can keep worker motivation and performance at optimum. He submits that perfect instrumentality is a missing link in Nigerian establishment. It is in this case that compensation administration comes in as an instrument or infrastructure to induce enhanced employees performance. This study agrees with the research carried out by Ejiofor (1987) that instrumentality is the missing link in the motivational strategies and policies of most Nigerian organizations. It is only compensation or compensation system based strictly on perfect instrumentality can keep worker motivation at optimum. In other words Vroom basically proposed three variables which in turn were vital to motivate employees in order for them to improve their performance levels. They are basically expectancy, instrumentality and valence. By any chance if employees happen to believe that any one of the three is not available, then Vroom states that the employees are unlikely to be motivated. In other words, as Vroom sees it, it is right to say that in order to motivate the employees all of the above three conditions have to be achieved by the organization. Expectancy theory does note that expectation varies from
individual to individual. Employees therefore establish their own views in terms of task difficulty and the value of the compensation.

**Effect of Compensation Administration**

Employees today are not willing to work only for the cash alone, they expect 'extra'. This extra is known as employee benefits. Also known as fringe benefits, Employee benefits are non-financial form of compensation offered in addition to cash salary to enrich workers’ lives.

Employee benefits as a whole have no direct effect on employee performance, however, inadequate benefits do contribute to low satisfaction level and increase absenteeism and turnover in employees (DeCenzo and Robbins, 2007). So you would have to carefully design your benefit package. Your package may include a cell phone to each worker, taking them to a training workshop or seminar, giving them a day or two off every month and so on. While deciding on the benefits package, do consider the associated costs. A well designed compensation and benefits plan helps to attract, motivate and retain talent in an organization. A well designed compensation & benefits plan will benefit a firm or business/employee in the following ways; 1. Job satisfaction: Employees would be happy with their jobs and would love to work for such an organization if they get fair compensations in exchange of their services. 2. Motivation: We all have different kinds of needs. Some of us want money so employees work for the company which gives them higher pay. Some value achievement more than money, they would associate themselves with firms which offer greater chances of promotion, learning and development. A compensation plan that hits workers’ needs is more likely to motivate them to act in the desired way. 3. Low Absenteeism: when worker’s compensations are adequately managed, employees will have the zeal and enthusiasm to be regular at work instead of wasting time at home. Although some tend to stay idle at work place also, but when they are treated well they will offer value for it. 4. Low Turnover: employees will not be willing to work for any other organization as long as they are treated well and get their compensations at the right time and measure. So there will be a low rate of employee turnover. The benefits of a good compensation package to employees are as identified: 1. Peace of Mind: your offering of several types of insurances to your workers relieves them from certain fears. Your workers as a result now work with relaxed mind. 2. Increase in self-confidence: Every human being wants his/her efforts to get acknowledgment. Employees gain more and more confidence in them and in their abilities if they receive just compensations. As a result, their performance level shoots up. Simply put, the elements of a total compensations program constitute all the things a business uses to attract employees, including salary, bonuses, incentive pay, benefits and employee growth opportunities such as professional development and additional training. This system provides a number of advantages to companies, particularly small businesses in which business owners and managers must foster positive personal relationships with employees.

**Methodology**

The survey research design was adopted for this study, that data collection instrument was the questionnaire whose validity and reliability was tested to achieve a Cronbach alpha level of 0.71. The sample was limited to employees of Dangote Nigeria Plc Lagos which were 50. A number of 50 questionnaires were distributed to respondents who were selected using total enumeration or census method. Regression analysis tool was used to analyze the results obtained based on the following model: \( y = a + b(x) + \mu \)
Results and Discussions

<table>
<thead>
<tr>
<th>N</th>
<th>Df</th>
<th>Correlation Coefficient (r)</th>
<th>Coefficient of Determination (R²)</th>
<th>Sig. Level</th>
<th>t-cal</th>
<th>t-tab</th>
<th>F</th>
<th>Remark</th>
</tr>
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<tbody>
<tr>
<td>50</td>
<td>48</td>
<td>0.892</td>
<td>0.795</td>
<td>0.000</td>
<td>2.955</td>
<td>2.009</td>
<td>5.12</td>
<td>Sig.</td>
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</tbody>
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Source: Extraction of SPSS results.

The R

The R is the coefficient of correlation it shows that there is a positive correlation between the variables entered for this analysis. Which means that there is a positive relationship between compensation administration and employee productivity. What it means is that employees produce better when they are compensated effectively. The figure is given as 0.892 which when converted to percentage is given as 89.2% which means that there is an 89.2% correlation between compensation administration and employee productivity. In essence, compensation and better employee productivity goes hand in hand.

The R Square.

The R square is the coefficient of determination. It tries to show that a change in the dependent variable can be accounted for by the independent variable. From the analysis, we have the R square is given as 0.795 which when converted to percentage is given 79.5% which means that 79.5% change in the dependent variable is accounted for by the independent variable. That is to say that compensation administration has a 79.5% effect on employee productivity. R² = 0.795 = 79.5% which is high. This explains the quantum effect which compensation administration has on employee productivity R² =79.5% means therefore that 79.5% change in employee productivity is caused by changes in compensation administration. This is the part that compensation administration played in employee productivity. This is not up to 100% because there are other variables which can also account for employee productivity. Such other factors include: Working conditions, Employee commitment, Motivation and Employee participation.

The decision Rule for the test analysis is stated as follows: Decision rule: if Tc < Tt = then reject H1 and accept H0 but if. TC > Tt then reject H0. So for us to test we have to obtain a degree of freedom with which we would read off our values. DF = n – k

Where, n is the total number of data or sample size and k is the number of parameters calculated. Our parameter = 1 because we have only one degree of freedom. DF = 50– 1 = 49 So our values will be read off at 49% degree of freedom on a 5% level of significance. But, TT = 2.009 and TC = 2.955. So we have to reject the null hypotheses and conclude otherwise (because TC > TT).

H0₁: there is no significant relationship between compensation administration and employee productivity. H0₂: Incentives do not significantly affect employee satisfaction.

Discussion

This encompasses all of the analysis and all responses gathered on the field through administration of questionnaire and other data collected in course of the research. This discussion consists of both the theoretical and empirical findings.

1. The implication for compensation management is that high employee productivity followed by a monetary reward will make future high productivity more likely. By the same token, high
productivity not followed by a reward will make it less likely in the future. The theory emphasizes the importance of a person actually experiencing the reward. Like reinforcement theory, expectancy theory (Vroom, 1964) focuses on the link between rewards and behaviors (instrumentality perceptions), although it emphasizes expected (rather than experienced) rewards (that is incentives).

2. Equity theory suggests that employee perceptions of what they contribute to the organization, what they get in return, and how their return-contribution ratio compares to others inside and outside the organization,' determine how far they perceive their employment relationship to be (Adams, 1963).

3. Greenberg (1990) examined how an organization communicated pay cuts to its employees and the effects on theft rates and perceived equity.

In the course of this research, questions were tactically drawn, included in the research questions and questionnaire administered in order to satisfy the research objectives and research hypothesis. The revealed findings below took its line from the analysis presented in chapter four of this study.

4. The result obtained validates that respondents agree that effective compensation administration practice in Dangote Plc. leads to improvement in employee productivity.

5. A quick reference to the study reveals that in most organizations, compensation is sometimes not commensurate with the competence and results achieved by the employees and also founded on largely subjective views. But on the contrast, a look at the result obtained reveals that there is a significant relationship between compensation administration and workers’ productivity.

6. The test of the hypothesis is a further assurance and belief in the fact that compensation administration when handled effectively has a positive impact or effect on the productivity of employees.

**Conclusion/Recommendations**

This study is deemed to have offered a reliable and valid instrument for organizations to examine and improve the productivity of their employees. It is a well-known fact that human productivity (productivity and motivation) of any sort is improved by increase in motivation. Going by the findings of this study, it can be easily inferred that workers package matters a lot and should be a concern of both the employers and employees. The study shows that organizations embraces the concept of compensation administration but there has been difficulty in compensation programs because of the many unforeseen legal, social and economic constraints as well as improper definition of compensation programs. Based on the findings of this research, it would be recommended that organizations that want to ensure an enhance productivity among the workers should ensure that the company’s compensation system must include policies, procedures and rules that provide clear and unambiguous determination and administration of workers compensation.

**Recommendations for further studies**

Employers are continually challenged to develop pay practices and procedures that will enable them to attract, motivate, retain and satisfy their employees. The findings of this study can be helpful tools which could be used to provide solutions to individual dissatisfaction to work processes. It is very pertinent at this point in time to suggest that more research should be conducted on the issues related to reward system using many private and public organizations. It is significant for further studies to be carried out in order to do justice to all issues concerning
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References


