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Compensation Strategy: a Tool for Higher Performance in Nigerian Business Organisations

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Abstract

The means to improving productivity and employee performance has been at the forefront of management debates in recent times. One of the most important human resource management functions capable of enhancing the productivity and growth of an organization is the compensation strategy. This study aims to examine the extent to which compensation strategies can enhance the performance of Nigerian business organisations. A model was developed to regress compensation strategies (Pay for Performance, Incentive Pay, Broad banding, Gain Sharing, Team based pay and Competence and skill based pay) on the employee performance. 360 Likert-type questionnaires were distributed to the employees of selected Business Organisations in Edo State, Nigeria. Results from regression analyses revealed that compensation strategies have a very high explanatory power on employee performance in Nigeria. Further analyses showed that all the independent variables have positive effect on employee performance. The study therefore concludes that compensation strategy is a veritable tool for enhancing employee performance in Nigeria.

Keywords: *Compensation strategy, Employee performance*

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Background to the Study

Organisations employ and manage a team of individuals that enable them to perform their functions and seek to achieve the stated goals for which they are established. The main strategy for achieving organisational goals is by having employees who are efficient and effective .It is customarily accepted that employees are people who discover valuable source of competitive edge for firms (Ayesha, Amna, Tahlee & Hina, 2015). Thus, employees are valuable resource of any organization. To retain competitive and productive edge these employees need to be adequately compensated. Roa (2011) asserts that compensation is what employees receive in exchange for their contribution to the organization. Employees usually offer their services for three types of rewards which are base pay, pay incentives and benefits Compensation has a great influence on the recruitment of employees, motivation; productivity and employee turnover (Benardin & Russel, 1993 cited in Wekesa & Nyaroo, 2013).

The compensation strategy is the reward strategy, which is approved by the Board of the organization, and it is always the top executive management function since it has a huge impact on the costs of the organization. It helps to define the pay market and how the desired level and position on the pay market will be achieved. The compensation strategy defines the basic compensation components used in the organization and the standard rules applied to each compensation component.

Performance as a function of compensation strategy uses the individual employee's contribution to the organization as a destination for human resource management either physical or non-physical which have a degree of willingness and a certain level of ability. It is a function of motivation and the ability to complete a task or a job in a person depending on the degree of willingness and a certain level of ability (Rival, 2004). Most Nigeria business organizations fail to realise the importance of compensation strategy. Thus this study aims to investigate the extent to which compensation strategies boost employee performance among Nigerian business organisations. Specifically, a number of compensation strategies are isolated and the study aimed to examine their effects on employee performance.
Thus the specific objectives include to examine:

1. The effect of Pay for Performance and employee performance;
2. The effect of Incentive pay on employee performance;
3. Effect of Broad banding on employee performance;
4. Effect of Gain sharing on employee performance;
5. Effect Team based pay on employee performance;
6. Effect of Competence and skill based pay on employee performance;

Review of Related Literature

The concept of compensation encompasses the output and the benefit that employees receive in the form of pay, wages and also some rewards like monetary exchange for the employee's to increase the performance (Holt,1993). It is all forms of payments or rewards given to employees which arise from employment (Dessler, 2005). Compensation is one of the basic reasons for employees to seek employment. Employees are compensated for their services and efforts that they exert on their work. Harrison & Liska, (2008) in their study affirm that reward is the centre piece of the employment contract; after all, it is the main reason why people work. compensations is a human resource management function. It deals with every type of reward individuals receive in exchange for performing organizational tasks, with a desired outcome of an employee who is attracted to the work, satisfied, and motivated to do a good job for the employer (Ivancevich, 2004). It is stated in a report "Strategic Compensation' (www.business-intelligence.co.uk) that there are four strategic elements in a continuous process. These are:

a Translating business issues into compensation or HR interventions
b Designing and delivering them with key objectives;
c Leading the resultant change process, and;
d Reviewing or evaluating the outcomes. ;

The report finds that strategic compensation is a significant contributor to different forms of competitive advantage, including

1. Better business results;
2. More effective performance;
3. Stronger capability;
4. Higher staff attraction and retention levels;
5. Heightened motivation;

In Nigeria and other developing countries, empirical evidences has shown that compensation as an incentive plans can generate substantial increases in performance (Gerhart & Rynes, 2003; Oladejo & Oluwaseun, 2014; Hameed, Muhammad, Hafiz, Ghazanfar & Muhammad, 2014; Ayesha,*et al*, 2015; Nnorom, Akpa, Egwuonwu, Akintaro, Shonubi & Herbertson, 2016). However, it is obtainable in Nigeria to see organizations sometimes delay and rule out employee compensations as a form of cost reduction measures (Ekere & Amah, 2014). It has been noted that change in compensation policy is one potential form of a shock that may cause employees to perceive a maltreatment and reduce their performance in response (Dustin, 2009). A diagrammatic analogy from Dustin (2009) showed that change in compensation may cause an employee to quit employment; but where he/she stays, it would have negative effect on work performance level of such employee.

Gibson (1996) in Muhamad, Idrus, & Rahayu (2014) noted that one important company goal to welfare of the employees is providing compensation to make employees constantly work. Thus every organisation seeks the form of compensation strategy that helps to achieve high job performance from its employees. Compensation Strategy is seen as one of the most important strategies in the human resource management function as it influences the productivity and growth of an organization (Obasan, 2012).Compensation strategy defines what the organization intends to do in the longer term to develop and implement reward policies and process that will further the achievement of its business goals. It establishes priorities for developing reward plan that can be aligned to' business and human resources strategies. Absence of a good compensation strategy can lead to employee job dissatisfaction, which in turn leads to lower productivity. The major reason of compensation strategy is to give the right rewards for the right employees behaviour, Rewards form an important part of compensation strategy.

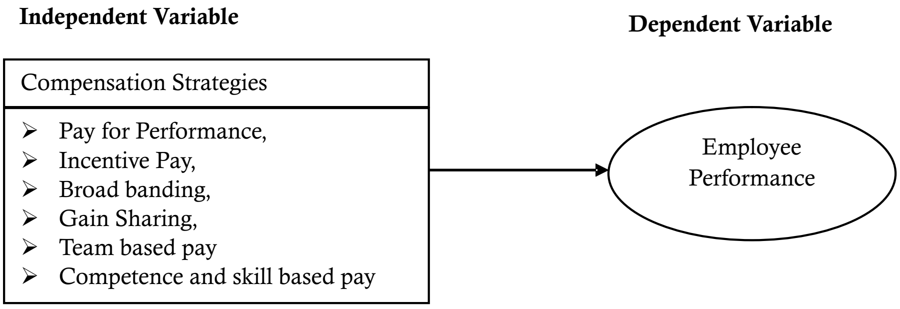

Figure 1: functional relationship between compensation strategies and employee performance

Pay for performance: The conventional compensation strategy is the pay-for-performance strategy that uses only salary and wage scales. The pay for performance is a complex of different HR Processes aimed to build the environment, which encourages employees and managers to stretch the goals and to pay the best employees more than the others. Osterion (2017) asserts that pay for performance tends to raise performance by paying bonuses when certain targets are reached. The "pay for performance" has to be included in the corporate culture and cannot be used as separated HR initiatives and HR processes as the separated usage would miss the main goal - paying the employees for the performance reached. Therefore the appraisal process is the yardstick determining the pay structure of the employees. In the case of the incentive pay, certain bonuses are reserved for employees who finishes or achieved a certain level of tasks within a time period.

Incentive pay: According to Osibanjo, Adeniji, Falola & Heirsmac (2014), incentives are rewards given for the accomplishment of pre-determined goals and are directly related to performance and have a positive influence on the employees' objectives and organizational success". It is a compensation awarded for results rather than for time worked, in other words it is a reward given to employee whenever a desired goal is achieved. It therefore serves to motivate employees towards a greater performance.

Broad banding: Another compensation strategy is the broad banding which is a job grading structure that falls between using spot salaries versus many job grades to determine what to pay particular positions and incumbents within those positions.. Sandrine Bardot (2017) defined it as a system where all jobs in the organization are grouped in bands It is a strategy for salary structures that consolidate a large number of pay grades into a few broadband . The broad banding strategy reduces the emphasis on 'status' or hierarchy and places more emphasis on lateral job movement within the company. Therefore in a broad banding structure, an employee can be more easily rewarded for lateral movement or skills development, whereas in traditional multiple grade salary structures pay progression happens primarily through job promotion steps.

Team based pay: In the team-base pay, the employees are collectively rewarded on the basis of their performance Milkovich & Newman,(1987). This strategy ties a certain portion of an employee's wages to the success of team goals, with all team members typically receiving the same or similar incentive pay.

Competency- based pay: Competency-based pay is a pay structure that rewards employees based on how well they perform in the workplace, rather than the hierarchy of their position or years of experience. Diane Chinn (2012) opines that competency based pay is when employees use their knowledge, skills and abilities on the job, they will achieve the level of accomplishments required for the organization to meet its strategic goals. This approach is designed to motivate employees to become inspirational, build on their existing skills and apply these in their job. This compensation strategy is capable of reinforcing a culture of self-improvement, improving staff retention and encouraging corporate transparency.

Theoretical Framework

This study is hinged on the expectancy theory of motivation by Victor Vroom (1964).The Vroom's expectancy model which is based on the assumption that man/woman is a rational being and will try to maximize his/her pay offer and posits that motivation to work is strongly determined by an individual perception that a certain type of behaviour leads to a certain type of outcome. Expectancy theory is a within-person theory of motivation that views performance as a joint function as a person's ability and motivational force to engage in one level of behaviour rather than another (Vroom, 1964). Motivational force, is hypothesized as a function of three factions: expectancy (the perceived link between effort and behaviour), instrumentality (the perceived link between behaviours and outcomes) and valence (the value that the person expects to derive from those outcomes). Expectancy theory may be particularly appropriate to apply in situations where pay is tightly linked to individual performance, specifically because it is a within-person theory.For example an employee may work hard in order to increase his/her performance which will definitely lead to a desired reward inform of increased compensation. However valence is the value a person assigns to his/her desired reward. He/she may not be willing to work hard to improve performance if the reward for such improved performance is not what he/she desires. Employers and managers must make sure that employees value the compensational packages in

order to motivate the employees which project an increase in employee's performance. Thus, the Vroom expectancy theory has been recommended to have some important implications for motivating employees as it identifies several important things that can be done to motivate employees by altering the person's effort-to-performance expectancy, performance-to-reward expectancy, and reward valences (Lunenburg, 2011).

Empirical Studies

Obasan (2012) linked compensation with performance using three selected conglomerate firms in Nigeria. The Likert-type questionnaire response generated was regressed using a simple OLS technique. The findings revealed compensation strategy has significant and positive effects on work productivity and organisational performance. It thus posits that compensation strategy is a veritable option for attracting, retaining, and motivating employees for improved organizational productivity.

Also in Nigeria, Ibojo & Asabi (2014)examined the extent to which compensation management affect employees performance, the relationship between working condition and employee performance, the rate at which welfare services affect employees performances, the relationship between compensation management and improved productivity and the relationship between compensation management and retention of staff. Responses obtained from the Likert-type questionnaire design for the study was analyzed using frequency table and

Analysis of Variance (ANOVA). The results showed a significant relationship between good welfare service and employees performance; compensation management and improved productivity; and compensation management and employees performance. The study thus posits that compensation management has positive effect on employee performance.

Ayesha, Amna, Tahleel & Hina (2015) constructed a structured questionnaire with which they obtained data to study the effects of compensation and motivation on employee performance. Using a sample of banking sector of Faisalabad the simple regression model revealed that incentive and motivation have significant effect on employee performance.

Oladejo & Oluwaseun (2014) examined the effect of compensation plan on workers performance in the Nigerian food and beverage manufacturing companies using a sample of 125 questionnaires administered and distributed to the staff of the selected food and beverages companies in Lagos state. Analyses from frequency table and percentage and Chi- square test showed that compensation plan has significant and positive effect on workers performance.

Hameed, Muhammad, Hafiz, Ghazanfar & Muhammad (2014) examined the impact of compensation on employee performance of banks in Pakistan. a questionnaire was designed to collect the data on the factors related to compensation like salary, rewards, indirect compensation and employee performance. Findings from correlation and regression analyses showed that compensation has positive impact on employee performance.
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Nnorom, Akpa, Egwuonwu, Akintaro, Shonubi & Herbertson (2016) examined the effect of compensation administration on employee productivity. The data gathered from the structured questionnaire on 50 respondents in Dangote Nigeria Headquarters in Lagos Nigeria, revealed that effective compensation administration has significant positive effect on employee productivity.

Using a sample of 126 workers of the work at Local Apparatus Work Unit (LAWU) at Local Revenue Management in Kendari, Muhamad, Idrus,Djumahir, & Mintarti (2014) investigated the effect of compensation on motivation, organizational commitment on employee performance. The data analysis from SEM (Structural Equation Model) indicated that compensation has significant effect on motivation and organizational commitment, but does not have significant effect on employee performance. The study posits that compensation cannot directly improve employee performance thus contradicting the earlier assertions that compensation has a direct effect on performance.

All the studies reviewed indicated that compensation has significant effect on employee performance. Most of the studies examined compensation package itself with only one study without looking at the major components of compensation strategy, which has created a research gap. Thus this research tends to examine the specific effects of the various component of compensation strategies on employee performance.

Methodology

Research Design

This study employed the survey research design that uses questionnaires to elicit data from the respondents. This design is appropriate because it provides an accurate account of the behaviour, opinions, abilities, beliefs, and knowledge of a given individual on the issue studied.

Study Population, Sample and Sampling Technique

The target population of the study are the employees of some selected incorporated business organizations in Edo State, Nigeria. However, samples of three hundred and sixty (360) respondents were randomly selected across the incorporated business organization in the study area.

Sources of Data

The data employed for the study is a primary source obtained using a structured Likert-type questionnaire. The questions were designed to sample the views of the respondents on the effect of compensation strategy on employees' performance. The questionnaire is rated using a five-point scale ranging from strongly agree to strongly disagree. The use of questionnaire was employed to gather necessary and relevant data from the respondents. These methods were used in order to minimize the problems associated with data collection and to ensure that the results are visible and bias free as expected.

Validation and Reliability

The instrument was validated by distributing it to experts in business management and professors in the Department of Business Administration in one of the Nigerian universities in Edo State. Pilot testing was carried out using 20 participants. The correlation analysis was used to find the association between the first and second distribution of the questionnaire to the selected participants. The coefficient of the correlation was 0.78 indicating high correlation. Thus the questionnaire was deemed reliable for the study.

Data Analysis

The conceptual link was developed into a model such that employee performance was regressed as a function of compensation strategy. The model posits that: EP = f(PP, IP, BB, GS, TBP and CSP).

Where:

EP = Employee performance
PP = Pay for Performance,
IP = Incentive Pay,
BB = Broad banding,
GS = Gain Sharing,
TBP = Team based pay and
CSP = Competence and skill based pay

The Ordinary Least Square (OLS) regression technique was adopted to analyze the relationship between dependent variables and the independent variables in each of the models. Norman (2010) has shown that data from Likert scale responses which are ordinal data are robust for non-parametric tests. The analyses of the objectives of the study was based on the coefficient of regression and t-statistics while the main objective was addressed using the coefficient of determination (R2) and ANOVA.

Decision rule for hypotheses testing: At 5% level of significance, reject null hypotheses for tests with probability estimates lower than 5% (0.05) and conclude that they are statistically significant. Otherwise, we accept (when probability estimates are above 0.05) and conclude that there is no overall statistical significance.

Results and Dicussion

Table 1: Regression Result on the effect of compensation strategies on employee performance

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	4.265	.192		7.172	.000
Pay for Performance (PP)	1.053	.022	.573	3.582	.001
Incentive Pay (IP)	.738	.829	.949	2.489	.033
Broad banding (BB)	.289	.607	.266	2.962	.010
Gain Sharing (GS)	.655	.783	.868	3.944	.000
Team based pay (TBP)	.624	.282	.941	3.751	.000
Competence and skill based pay (CSP)	.769	.987	.522	3.991	.000
Coefficient of Determination (R-Squared) = 0.882 F-Statistic (ANOVA) = 17.834 (0.000) Durbin Watson statistic = 1.827					

a. Dependent Variable: Employee Performance (OP)

The coefficient of determination (0.882) indicated that about 88% of changes in employee performance can be explained by the type of compensation strategy adopted by a business organisation among the selected firms. This implies that compensation strategy is a veritable human resource management technique to enhancing employee performance. The ANOVA result has F-value of 17.834 with probability value of 0.000. Since the p.value is less than 0.05, the study concludes that the variables of compensation strategy (pay for performance, incentive pay, broad banding, gain sharing, team based pay and competence and skill based pay) has significant effect on employee performance.

The results of the coefficient of regression for all the variables of compensation strategy are positive indicating all the compensation strategies have positive effects on employee performance. The level of contribution from each of the compensation strategies are explained using the *beta*. From the result, it can be seem that incentive pay (0.949) has the largest contribution to organisation performance followed by Team based pay (0.941), Gain Sharing (0.868), Pay for Performance (0.573) and then Broad banding (0.266). Since the p.values of each of the compensation strategies are less than 0.05 level of significance, the study conclude that all the strategies have positive effect on performance.

The present study has joined all the extant literatures to posit that compensation has positive effects on employee performance (see Obasan, 2012; Ibojo & Asabi, 2014;Ayesha, *et al*, 2015; Oladejo & Oluwaseun, 2014; Hameed, *et al,* 2014; Muhamad, *et al,* 2014 and Nnorom, *et al* 2016). These studies as the present study agree with the assumptions of the expectancy theory. Therefore, employee will tend to enhance their performance if the compensation package is attractive. This study went further to prove that a given compensation strategy can be more attractive than the other.

Conclusion

The study has explained the effect of compensation on employee performance by looking at various compensation strategies to identify their effects and most influence type. It showed that compensation is a veritable tool to enhancing employee performance. The findings of this study agree with the expectancy theory that employees can be influenced by the level of expected benefits from a given type of compensation strategy, specifically found that among the various compensation strategies incentive pay is the most influential in enhancing employee performance. The study therefore proposes that firms should imbibe the use of incentives in order to enhance employee performance.

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