

A Conceptual Review on Compensation Management and Employee Productivity

Patrick Montok Igbaji¹, Ene-Ita Ene Okpo², Josiah Josiah Ufot³, Orisa Johnson², Yahaya-Idinye Lateefah² & Obi Martins Okwudiri²

¹ Department of Business Administration, Cross River University of Technology, Nigeria

² Department of Business Management, University of Calabar, Calabar, Nigeria

³ Department of Marketing, University of Calabar, Calabar, Nigeria

Correspondence: Obi Martins Okwudiri, Department of Business Management, University of Calabar, Calabar, Nigeria.

doi:10.56397/FMS.2024.02.01

Abstract

The study examined compensation management and employee productivity in hotels of Cross River State. Compensation processes are based on philosophies and strategies that contain arrangement in the form of policies and strategies. Compensation management constitutes pay structure in terms of performance, competence, skill, and providing employee benefits. This study was anchored on equity theory. The study concluded that compensation refers to the process by which employees are remunerated for their input at the workplace. The study concluded that management should focus on employees who have the skills in performing tasks where skill based pay is a salary system that determines an employee's pay based on his or her knowledge, experience, education or specialized training.

Keywords: compensation management, employee productivity

1. Introduction

Compensation processes are based on philosophies and strategies that contain arrangement in the form of policies and strategies. Compensation management constitutes pay structure in terms of performance, competence, skill, and providing employee benefits. However, compensation management is not just about money. It is a motivation for employees to improve in their performance (Abdullah, 2022). Compensation implies having an indemnification structure in which high performing employees are rewarded much more than the average performing employees. Compensation management is concerned with the formulation and implementation of strategies and policies that aim to indemnify people fairly, equitably and consistently in accordance with their value to the organization. The task in compensation management is to develop policies and procedures that will attain maximum return on money spent in terms of attracting, satisfying, retaining and perhaps motivating employee (Bob, 2021).

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 management programme. 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. At times, this could be a deliberate act by management in order to frustrate the employees or that the management lacks the required managerial capabilities to effectively administer a compensation management programme. Gone are those days when such issues can be condoned or accepted by the employees, and therefore there is a need for organization to tackle the problem headlong so that employees can bring out their best in terms of performance in order to boost their productivity (Abdullah, 2022; Pearce, 2020; Bob, 2021).

Compensation management in form of merit based, competency based, equity based, job based are being planned on a well-articulated philosophy.

A set of beliefs and guiding principles that are consistent with the values of the organization which recognizes the fact that if human resource management (HRM) is about investing in human capital from which a reasonable return is required, then it is proper to compensate people differently according to their contribution. This emphasizes the development of the skills and competencies of employees in order to increase the resource-based capability of the organization. Employee productivity is ratio between the output volume and the volume of inputs. It measures how efficiently production inputs, such as labour, capital etc. are applied. It compares the amount of inputs used to produce those goods and services. In hospitality industry, employee productivity is the key to competitiveness. At the corporate level, it shows the efficiency of a company's production process.

Most people are motivated by money at least for their basic needs and wants. Employee motivation through compensation can be in several forms including salary, bonuses, commission, profit sharing and other extra benefits such as vacations, cars and other tangible items that are used as rewards. Compensation management is concerned with the formulation and implementation of strategies and policies that aim to pay people fairly, equitably and consistently in accordance with their value to job. Against this background, employees of hospitality industries are currently facing many challenges in form of inadequate infrastructure, lack of enabling research environment, disparity in salaries and allowances, which may affect their levels of job satisfaction. In today's organization, when there is no pay based on performance, employees are not motivated and rewarded, this will lead to low productivity.

Compensation is usually narrowed to cash and as a result, employers only have a tunneled vision when it comes to the issues of compensation for their employees. Other aspects of compensation which makes up the total compensation package for the employee are not given much attention. Employees themselves fail to recognize the fact that their compensation is a package and not only related to cash. The process of understanding compensation is that it is poorly managed and most of the time performance is affected adversely. The general problem inherent in the organizational set up is low salaries, irregular promotional structure and lack of recognition of worker achievements. All these tend to dampen workers' morale and consequently affect their productivity.

Lack of performance based pay can lead to unhealthy competition, stress, and resentment among employees if the performance criteria are seen as unfair. It can also damage team work, collaboration and trust by promoting individualism and self-interest. In addition, when employees are not skillful it may create disparity in compensation between different job types. In the organization, employees are faced with problems of high administrative cost in the area of profit sharing when making earnings. The present study is to find out if compensation management will result to increased productivity. The study intends to investigate the effect of compensation (performance based pay, skill based pay, profit sharing) on employee productivity in hospitality Industry.

2. Theoretical Framework

This study is anchored on Equity theory and Vroom expectancy theories.

2.1 Equity Theory

This theory was propounded by Stacey Adams in 1963. Equity theory is a process model of motivation. It says that the level of reward we receive, compared to our own sense of our contribution, affect our motivation. The theory considers the concept of equality and fairness, as well as the importance of comparison to others. The assumption is that employees expect a fair return for what they contribute to their job. Equity is measured by comparing the ratio of contributions (or costs) and benefits (or rewards) for each person. The relevance of the theory states that employees seek to maintain equity between the inputs that they bring to a job and the outcomes that they receive from it against the perceived inputs and outcomes of others.

According to equity theory, in order to maximize individuals' rewards, we tend to create systems where resources can be fairly divided amongst members. The belief is that people value fair treatment which causes them to be motivated to keep the fairness maintained within the relationships of their co-workers and the organization. The structure of equity in the organization. The theory is built-on the belief that employees become de-motivated both in relation to their job and their employer, if they feel as though their inputs are greater than the outputs.

Employees are expected to respond in different ways, including de-motivation, reduced effort etc. The balance or in-balance that exists between employee's inputs are; effort, loyalty, hard work, commitment, ability etc. And outputs are financial rewards, salary, benefits, recognition, praise, job security and job satisfaction. Equity theory aims to strike a balance between an employee's input and output in a workplace. If the employee is able to find his or her right balance it would lead to a more productive relationship with the management. This theory depicts

individual's satisfaction at workplace, as directly linked to the efforts he or she is putting and what exactly he or she is getting out of it.

2.2 Compensation Management

Milkovich and Newman (2020) was of the opinion that compensation is all about developing a positive employment relationship and psychological contract that adopt a total compensation approach which recognizes that there are numbers of ways in which people can be compensated (Peters, 2021). Compensation management is a crucial component of the overall management of an organization. It refers to the process by which employees are remunerated for their input at the workplace (Khan, 2021; Abolade, 2022; Milkovich & Newman, 2020). Compensation represents both the intrinsic reward and extrinsic rewards employees receive for performing their jobs. Intrinsic compensation reflects employees psychological mind sets that result from performing their jobs while extrinsic compensation includes both monetary and non-monetary rewards (Ahlstrom, 2020).

Compensation or reward management aims at the formulation and implementation of strategies and policies that are aimed at rewarding people fairly, equitably and consistently in accordance with their value to the organization (Armach, 2022). Pearce (2020) view compensation as an important sub system in human resource management. No other issue is more relevant and crucial to any employee than his or her financial remuneration. In developing nations of the world, money is regarded as a motivation and a catalyst to building a loyal workforce. In today's highly competitive business environment, attainment of maximum organisational productivity may take into cognizance the need to inspire and motivate the human resource of the organization via the plan, design, establishment and implementation of a rewarding compensation system that brings out the best in the employees in terms of their performance, loyalty, commitment and dedication. Employees after expending their time, efforts, energy and labour in helping the organization achieve its goals, expect adequate compensation and reward in form of money and other entitlements to satisfy personal, economic, psychological, social, self-actualization, security and growth needs. Milkovich and Newman (2020) posit that compensation as the monetary payment- wages, salaries entitlements, bonuses both current and deferred, used to reward employees.

Compensation can best be described as including direct and indirect compensation individuals receive in an organization plus various aspects of the pleasant work environment that serve as entrance to their self-respect and esteem e.g., provision of car parking facilities, sound policies, competent supervision, comfortable working conditions, flexitime, job sharing, cafeteria and other compensation etc. Direct compensation includes the basic salary or wage that the individual is entitled for his job. This includes overtime work, holiday premium, bonuses based on performances, commissions etc., while indirect compensation includes protection programs, insurance plans, educational assistance, and pay for time not worked, the Job interesting duties, challenging responsibility, opportunity for recognition, feeling of advancement, achievement opportunity. Compensation systems may affect employees' job satisfaction and thus influence intentions to quit but higher compensation level cum benefit packages leads to higher job satisfaction and retention rates will also be high.

2.3 Performance Based Pay

It is a compensation that is tied to employee's contributions to a company. This kind of pay structure ensures that only the top-performing employees survive. Performance based pay is an effective way to motivate your employees and reward them for being more productive. The advantages include increased employee retention, better recruiting and higher performance. About 25 per cent of monthly salary will be monthly performance pay and a quarterly performance pay depends on units and company's performance in that quarter (Abolade, 2022).

Performance based pay provide financial compensation based on either individual or group performance. It involves how to distribute financial rewards to employees. In contrast with set salaries, performance pay is based on compensating the employee per their individual contribution, not the value of the position itself. There is individual performance pay, which is often associated with sales personnel who depend on commissions, and skill-based pay, in which compensation is connected to competency. Some companies engage in profit-sharing which means that employees will receive a certain percentage of the company's financial gains (Abdullah, 2021).

2.4 Skill Based Pay

It is a compensation system that rewards employees with additional in exchange for formal certification of the employee mastery of skills, knowledge and or competencies. Skill is acquired and observable expertise in performing tasks and knowledge is acquired, information used in performing tasks. Skill based pay is a salary system that determines an employee's pay based on his or her knowledge, experience, education or specialized training. Depending on the company, the employee might also receive a higher salary for earning formal certification in his or her company. Skill based pay allows companies to review market, compensation data and

determine pay based on the assessed value an employee has within an organization.

Skill based pay refers to a pay system in which pay increases are linked to the number of depth of skills an employee acquires and applies and it is a means of developing broader and deeper skills among the workforce. Such increases are in addition to, and not in lieu of, general pay. The increase is usually based on horizontal skills, which involves a broadening of skills in terms of the range of tasks, vertical skills which involve acquiring skills of a higher level and depth skills which involve a high level of skills in specialized areas relatively to the same job. Skill-based pay is a person based and not a job-base system.

2.5 Profit Sharing

Profit sharing is various incentives plans introduced by businesses that provide direct or indirect payments to employees that depend on company's profitability in addition to employees' regular salary and bonuses. In a profit-sharing plan, employees receive an amount from their employer based on company's profit. All eligible employees are eligible to receive an employer discretionary profit sharing contribution. It gives employees a share in their company's profits based on its quarterly or annual earnings (Resurrection, 2022).

Profit sharing is a system by which all the people who work in a company have a share in its profits. It is a type of compensation programme that awards employees a percentage based on the company's quarterly or annual earnings. It makes businesses share a certain percentage of the company's annual profits with their employees. Profit sharing is a method of supplemental compensation used by businesses to share profits with employees. As the name suggests, profit sharing is a way for employers to contribute some of their profits to their employees (Shaw, 2014).

2.6 Effect of Compensation Management on Performance

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 (Femi, 2020). So you would have to carefully design your benefits 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 plan helps to attract, motivate and retain talent in an organization. A well designed compensation and benefits plan will benefit firm or business/employee in the following ways. Job satisfaction: Employees would be happy with their jobs and would love to work for such an organization if they get fair compensation in exchange of their services.

2.7 Employees' Productivity

There are several factors that have been identified as influencing the productivity of employees. They include managerial factors, employees' health, employees' motivation, and interpersonal communication involved in the production process. Effect of compensation on employees' productivity could be very strong in some organizations. It is stated that good compensation for employee will be able to stimulate the emergence of fresh ideas and employees' innovation. With so many ideas from employees, it would be very useful for the company. In a similar study, Bob (2021) found that the existence of a good compensation of employees will make the health of employees also good. With the maintenance of health, the employee will get maximum performance opportunities.

The number of working hours or employee present hours is able to obtain a maximum work performance. As a result, the planning process can be obtained with good production. They also noted that low compensation toward employees will trigger the employee to try to get their own business or side job. With the side business, it will disrupt the quality of employees' work and concentration. Low concentrations of certain employees have a negative impact on quality and quality of production of goods in the company. From these facts, it is clear that the influence of compensation on employee productivity is very strong. If it given more reasonable compensation to employees, the higher the productivity of employees. Conversely, if it given lower compensation for employees, the lower the productivity of the employee.

3. Conclusion

The study is centered on compensation management and employees' productivity in hospitality industry in Cross River State. The study depicts that 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. Compensation implies having an indemnification structure in which the employees who perform better are rewarded much more than the average performing employees.

Compensation management is a crucial component of the overall management of an organization. It refers to the

process by which employees are remunerated for their input at the workplace. Compensation can best be described as including direct and indirect compensation individuals receive in an organization plus various aspects of the pleasant work environment that serve as entrance, their self-respect and esteem e.g., provision of car parking facilities, sound policies, competent supervision, comfortable working conditions, flexitime, job sharing, cafeteria compensation etc.

4. Recommendations

In line with findings of the study, the following recommendations were made thus:

- 1) Management should come up with a suitable pay structure that will make only the top-performing employees are rewarded. Since it is an effective way to motivate employees and reward them for being more productive.
- 2) Management should focus on employees who have the skills in performing tasks where skill based pay is a salary system that determines an employee's pay based on his or her knowledge, experience, education or specialized training.
- 3) Organization should make profit-sharing compensation as compulsory policy since it is used in ensuring maximum performance.

References

- Abdullah, A. M., (2022). Employee motivational factors: A comparison between Malaysia and Sultanate of Oman. *Journal of Global Business Advancement*, 5(4), 285-306.
- Abolade, D. A., (2022). Impact of unionization and non-unionization of workers on organizational efficiency in work organization in south western Nigeria. *Economic Insight-Trends and Challenges*, 64(2), 19-29.
- Ahlstron, D., (2020). International management: *Strategy and culture in the emerging word*. Cengage Learning, EMEA.
- Armach, J., (2022). Effect of compensation and other motivational techniques on organizational performance. *Franklin Business and Law Journal*, (1), 88-96.
- Bob, N., (2021). Making employees suggestions count. *Journal of Personnel Management*, 12, 20-41.
- Femi, B., (2020). Compensation management strategies. *Journal of personnel Administration*, 18, 13-27.
- Khan, R. I., Aslam, H. D. & Lodhi, I., (2021). Compensation management: A strategic conduit towards achieving employee retention and job satisfaction in banking sector of Pakistan. *International Journal of Human Resource Studies*, 1(1), 89-97.
- Milkovich, G. T. & Newman, J., (2020). *Compensation approach*. Global publishers.
- Pearce, L., (2020). Managerial compensation based on organization performance. *Journal of Industrial Relation*, 52, 3-28.
- Petera, P., (2021). Evaluating the quality of rewards systems. *European Financial and Accounting Journal*, 6(3), 66-91.
- Resurreccion, P. F., (2022). Performance management and compensation as drivers of organizational competitiveness: The Philippine perspective. *International Journal of Business and Social Science*, 3(21), 20-30.
- Shaw, J. D., (2014). Pay dispersion. *The Annual Review of Organizational Psychology and Organizational Behaviour*, (1), 521-544.

Copyrights

Copyright for this article is retained by the author(s), with first publication rights granted to the journal.

This is an open-access article distributed under the terms and conditions of the Creative Commons Attribution license (<http://creativecommons.org/licenses/by/4.0/>).