

## **Compensation Management and Employees Performance in the Manufacturing Sector, A Case Study of a Reputable Organization in the Food and Beverage Industry**

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**Abstract:** *This paper examined the effect of Compensation Management on Employees Performance in the Manufacturing Sector, A case study of A Reputable Food and Beverage Industry. The objectives were to: determine the extent at which compensation management affect employees performance, evaluate the relationship between working condition and employee performance, access the rate at which welfare services affect employees performances, explore relationship between compensation management and improved productivity and explore the relationship between compensation management and retainment of staff.*

*Primary and secondary sources were used. The use of questionnaire was employed to gather necessary and relevant data from the respondents. The 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. The data was analyzed using inferential and descriptive statistics. The descriptive statistics involves frequency table, likert scale while the hypotheses were tested using Analysis of Variance (ANOVA).*

*The results of the findings show the  $f$  – statistics of 32.222 which implies that the model is statistically significant. It shows that there is a significant relationship between good welfare service and employees performance. The  $f$ -statistics of 12.052 shows that the model is statistically significant. This shows that there is a significant relationship between compensation management and improved productivity. The  $f$  – statistically of 11.237 shows that the model is statistically significant. It shows that is a significant relationship between compensation management and employees performance.*

*From the results of the study, it can be concluded that there is a significant relationship between good welfare service and employees performance. More so, there is a significant relationship between compensation management and improved productivity. Aside from these, there is a significant relationship between compensation management and retirement of staff. Conclusively, there is a positive significant relationship between compensation management and employees performance*

**Keywords:** *Compensation Management, Employees, Performance and Relationship*

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### **1. INTRODUCTION**

Compensation Management is one of the most complex and dynamic issues in the field of human resource management. For an organization to achieve its stated objectives, there is the need to effectively manage the human resources aspect of the organization, taken into cognizance one of the core aspect of resource management known as compensation management. The ability of a manager to achieve its stated objectives to a large extent depends on the effective implementation

of compensational packages in order to motivate the subordinates and employees within and beyond their expectation.

Compensation Management plays a crucial and functional role because it is the heart beat of human resource management. It is also vital to both employees and the employer. This is because employees typically depend on wages and salaries, and must be equivalent to the work done. However, to managers, compensation decisions influence the cost of doing business and thus, their ability to sell at a competitive price in the product market (Barry et al, 1995)

It is an obvious fact that effective implementation of favorable compensation management will not only aid in stabilizing and retaining employees but also helps in reducing labour turnover within the organization. Employees' compensation can be seen as all forms of financial returns and tangible benefits that employees receive as part of an employment relationship. It can be referred to as the totality of the financial and non-financial rewards an employee receives in return for his/her labor or services.. Compensation management refers to the process of establishing the structure of wages level for the various positions designing incentive systems, setting individual wages and incentives within the established structures. It is an integral part of human resources management that affects the performance of employees because it establishes the degree of relationship between employer and the employee. The manufacturing sector is one of the sectors responsible for the food and beverage industry. It is one of the sub-sectors of the manufacturing sector but responsible for the manufacturing of daily products, beverages, seasoning, convenience foods confectionaries and staple foods.

### **1.1 Objectives of the Study**

The objectives are stated below:

- 1 To determine the extent at which compensation management affect employees performance
- 2 To evaluate the relationship between working condition and employee performance
- 3 To access the rate at which welfare services affect employees performances
- 4 To explore relationship between compensation management and improved productivity
- 5 To explore the relationship between compensation management and retainment of staff.

## **2. LITERATURE REVIEW**

Armstrong (2005) stated that compensation management is an integral part of human resource management approach to productivity improvement in the organisation. It deals with the design, implementation and maintenance of compensation system that are general to the improvement of organisational ,team and individuals performance Compensation management is concerned with the formulation and implementation of strategies and policies that aim to compensate people fairly, equitably and consistently in accordance with their values to the organisation, (Armstrong, 2005). Compensation management as the name suggests, implies having a compensation structure in which the employees who perform better are paid more than the average performing employees (Hewitt, 2009). This encourages employees to work harder in order to regain more salaries. Armstrong and Brown (2005) postulated that compensation management is an integral part of human resource management (HRM) approach to managing people and as such it supports the achievement of business objective and it is strategic in the sense that it addresses longer term issue relating to how people should be valued for what they want to achieve.

Amstrong (2005) was of the opinion that compensation management is all about developing a positive employment relationship and psychological contract that adopt a total compensation approach which recognises that there are numbers of ways in which people can be compensated. In similar view, Bob (2001); Anyebe, (2003) saw compensation management as being based on a well-articulated philosophy –a set of beliefs and guiding principles that are consisted with the values of the organisation which recognises the fact that if HRM is about investing in human capital from which a reasonable return is required, then it is proper to compensate people differently accordingly to their contributions. Harrison and Liska (2008) in their study positioned that reward is the centre piece of the employment contract; after all it is the main reason why people work. This includes both extrinsic and intrinsic received as a result of the employment by the organisation. In similar pattern, Brown (2003) saw compensation as a return in exchange

between the employees and themselves as an entitlement for being employee of an organisation, or as a reward for a job well done, Employees pay does not depend solely on the jobs they hold, instead organisation vary the amount paid according to differences in performance of the individual, group or whole organisation as well differences in employees qualities such as security, education levels and skills (Gehart and Milkovich 1992). Compensation is defined by Mondy (2010) as the total of all rewards provided to employees in return for their service, the overall purposes of which are to attract, retain and motivate employees. As compensation is comprised of both fixed and variables components as well as employees benefits and services, an optimum combination of these elements is ideal to effectively influence position employees' performance.

However, direct compensation fully mediates the relationship between indirect compensation and performance (Namasivagam and Zhao 2007). A statistical significant and positive relationship was found to govern rewards and motivation, implying that if rewards being offered/ to employees were to be altered, then there would be a corresponding change in satisfaction and work motivation while the periodic salary increments, allowance, bonuses, fringe benefits and other compensations on regular and specific periods keep their morale high and makes them more motivated (Danish and Usman 2010).

The effect of compensation is explained by many established motivational theories. The operant theory is based upon the premise that behaviour or job performance of an employee is not a function of inner thoughts, feelings, perceptions and emotions but is keyed to nature of the outcome of such behaviour. The consequence of a given behaviour would determine whether the same behaviour is likely to occur in the future or not .(Chandan 2005) .Based on this direct relationship of behaviour and consequence rather than the inner working of employees, management can study and identify this relationship and try to modify and gain control over behaviour.(Chandan, 2005). It is therefore necessary for managers and employers to understand the fact that compensating an employee will definitely improve employees performance ,necessary for continuous motivation in order to fast track the improvement of employee performance.

Chandan (2005) viewed Abraham Maslow theory based upon two assumption, first human beings have many needs that are different in nature ranging from biological needs at the lower level to psychological needs at the upper extreme. Secondly, that these needs occur in an order of hierarchy so that lower level needs must be satisfied before higher level needs arise or become motivation. Maslow theory made management aware that people are motivated by a wide variety of needs and management must provide an opportunity to satisfy these needs through creating a physical and conceptual work environment, so that people will be motivated to achieve organisational goal. This implies that, for an organisation to achieve its state objective d through improved employees' performance there is need to adequately continuous and constantly compensate employees effectively. However, these needs range from physiological,

A compensation theory of motivation vroom's expectancy model which is based on the assumption that man is rational being and will try to maximise his pay off this approach assume that motivation to work is strongly determined by an individual perception that a certain type of behaviour will lead to a certain type of outcome. It is therefore necessary to say that if an employee perceived that he/she will be adequately compensated such an employee will work harder to receiver more compensation. This is to ascertain the fact that compensation package has positive correction with employees performance. This theory postulated three elements which are expectancy, Instrumentality and valence. Expectancy views a person's perception of the inkelihood that a particular outcome will result from a particular behaviour or action for example; if an employee work works hard he/she will improve productivity, which may definitely lead to more compensation. However unimproved productivity or performance may not expect an increase in compensation. Instrumentality relates to a person belief and expectation that his/her performance will lead to a particular desired reward. 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.

### **3. METHODOLOGY**

#### **3.1 Research Design**

This study makes use of survey research design that allow for the use of questionnaires to elicit data from the respondents.

According to Nworgu (1991), a design can be defined as a plan or blue print which specifies how data relating to a given problem should be collected and analyzed. It provides the procedural outline for the conduct of any given investigation.

#### **3.2 Study Population/ Sample**

The actual population of this study is the entire staff of a reputable organization in the Food and Beverage Sub-Sector of the Manufacturing Industry.

#### **3.3 Sampling and Sample Size**

A sample of one hundred (100) respondents was randomly selected and was administered but 60 were duly completed and returned. The actual population of this study is the entire staff of reputable organization in the Food and Beverage Sub-Sector of the Manufacturing Industry, and considering the various constraints associated with the population, an appropriate sample was randomly selected to represent the entire population.

#### **3.4 Sources of Data**

Primary and secondary sources were used. 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. The questions were designed to sample the views of the respondents on the effect of compensation management on employees' performance.

#### **3.5 Methods of Data Analysis**

This section entails the analyzing of data and interpreting data collected from the population sample. Data was analyzed using inferential and descriptive statistics. The descriptive statistics involves frequency table, likert scale while the hypotheses were tested using Analysis of Variance (ANOVA) the use of distributive statistics was considered because of the nature of data used by the researcher.

#### **3.6 Research Hypotheses**

##### **Hypothesis 1**

$H_0$  = There is no significant relationship between compensation management and employees performance

$H_1$  = There is a significant relationship between compensation management and employees performance

##### **Hypothesis 2**

$H_0$  = There is no significant relationship between good working condition and employees performance

$H_1$  = There is no significant relationship between good working condition and employees performance.

##### **Hypothesis 3**

$H_0$  = There is no significant relationship between good welfare service and employees performance

$H_1$  = There is a significant relationship between good welfare service and employees performance

**Hypothesis 4**

H<sub>0</sub> = There is no significant relationship between compensation management and improved productivity

H<sub>1</sub> = There is a significant relationship between compensation management and improved productivity

**Hypothesis 5**

H<sub>0</sub> = There is no significant relationship between compensation management and retainment of staff.

H<sub>1</sub> = There is a significant relationship between compensation management and retainment of staff.

**4. DATA PRESENTATION AND ANALYSIS**

**4.1 Data Presentation**

*Table 4.1.1. Showing the descriptive statistics of demographics*

Variable	Frequency	Percentage
<b>Sex</b>		
Male	41	68.3
Female	19	31.7
<b>Total</b>	<b>60</b>	<b>100</b>

Variable	Frequency	Percentage
<b>Age</b>		
20 -29	30	50
30 – 45	20	33.3
45 – above	10	16.7
<b>Total</b>	<b>60</b>	<b>100</b>

Variable	Frequency	Percentage
<b>Marital status</b>		
Single	28	41.2
Married	22	36.7
Divorced	6	10
Widowed	4	6.7
<b>Total</b>	<b>60</b>	<b>100</b>

Variable	Frequency	Percentage
<b>Education qualification</b>		
SSCE	9	15
OND	14	23.3
HND	12	20
B.Sc	15	25
M.Sc/MBA	10	16.7
<b>Total</b>	<b>60</b>	<b>100</b>

Variable	Frequency	Percentage
<b>Religious</b>		
Christianity	20	33.3
Islam	35	58.3
Traditional	5	8.3
<b>Total</b>	<b>60</b>	<b>100</b>

<b>Variable</b>	<b>Frequency</b>	<b>Percentage</b>
<b>Ethic group</b>		
Hausa	15	25
Igbo	10	16.7
Yoruba	25	41.7
Others	10	16.7
<b>Total</b>	<b>60</b>	<b>100</b>

Source: field survey 2014

From the above it shows that 41 respondent representing 68.3% were female, 19 respondents representing 31.7% were male. This is due to the nature of the job. More so, there is a school of thought that believe that men are more agile than women. Aside from this, the nature of the job demands for more men than women.

Considering this table also, 30 respondents fall between the ages of 20 – 29 representing 50%, 20 respondents representing 33.3% while 10 respondents with the ages of 45 and above represent 16.7%. This shows that there is more matured, active and agile workforce in the organisation.

In the area of marital status, 28 respondents representing 41.2% were single, 22 respondents representing 36.7% were married, 6 respondents representing 10% were divorced while 4 respondents were widowed. This implies that the organisation has responsible workforce.

Considering the level of educational qualification, respondents (15%) were school certificate holders, 14 respondents (23.3%) have OND certificates, 12 respondents (20%) have HND certificates, and 15 respondents (25%) have B.sc certificates while 10 respondents (16.7%) have MSC/MBA certificate. This implies that the organisation has men and women of high education standard that can help in achieving the set objectives for the organisation.

The religious of the respondents, it show that 20 respondents 33.3% were Christians, 35 respondents representing 58.3% were Muslims while 5 respondents representing 8.3% were traditionalists. This implies that the organisation has workforce that are religiously inclined.

The analysis of the ethic group in the above table show that 15 respondents (25%) were hausa, 10 respondents (16.7%) were from igbo, 25 respondents representing 41.7% were Yoruba while 10 respondents were from other unknown ethic group.

In the area of working experience, 25 respondents representing 41.7% fall between 5 – 10years while 35 respondents representing 58.3% fall between 11 – 25years, this show that the organisation has men and women of vast experience.

## **4.2 Testing of Research Hypothesis**

### **Hypothesis 1**

$H_0$  = There is no significant relationship between compensation management and employees performance

$H_1$  = There is a significant relationship between compensation management and employees performance

**Table 4.2(a). ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.078	1	.078	12.307	.001 <sup>b</sup>
	Residual	19.142	59	.255		
	Total	19.221	60			

Source: Author’s Computation, 2014

a. Dependent Variable: employees performance

b. Predictors: (Constant), compensation management

The f-statistics of 12.307 shows that the model is statistically significant. It shows that is a significant relationship between compensation management and employees performance

**Hypothesis 2**

$H_0$  = There is no significant relationship between good working condition and employees performance

$H_1$  = There is no significant relationship between good working condition and employees performance.

**Table 4.2b. ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.016	1	.016	23.072	.000 <sup>b</sup>
	Residual	16.867	59	.225		
	Total	16.883	60			

Source: Author’s Computation, 2014

a. Dependent Variable: employees’ performance.

b. Predictors: (Constant), good working condition

The f-statistics of 23.072 shows that the model is statistically significant. It shows that there is no significant relationship between good working condition and employees’ performance.

**Hypothesis 3**

$H_0$  = There is no significant relationship between good welfare service and employees performance

$H_1$  = There is a significant relationship between good welfare service and employees performance

**Table 4.2c. ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.055	1	.055	32.222	.000 <sup>b</sup>
	Residual	18.465	59	.246		
	Total	18.519	60			

Source: Author’s Computation, 2014

a. Dependent Variable: employees performance

b. Predictors: (Constant), good welfare service

The f – statistics of 32.222 shows that the model is statistically significant. It shows that there is a significant relationship between good welfare service and employees performance

**Hypothesis 4**

$H_0$  = There is no significant relationship between compensation management and improved productivity

$H_1$  = There is a significant relationship between compensation management and improved productivity

**Table 4.2d. ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.008	1	.008	12.052	.001 <sup>b</sup>
	Residual	12.070	59	.161		
	Total	12.078	60			

Source: Author’s Computation, 2014

a. Dependent Variable: improved productivity

b. Predictors: (Constant), compensation management

The f-statistics of 12.052 shows that the model is statistically significant. This shows that there is a significant relationship between compensation management and improved productivity

**Hypothesis 5**

$H_0$  = There is no significant relationship between compensation management and retainment of staff.

$H_1$  = There is a significant relationship between compensation management and retainment of staff.

**Table 4.2e. ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.312	1	.078	11.237	.002 <sup>b</sup>
	Residual	4.982	59	.063		
	Total	5.294	60			

Source: Author’s Computation, 2013

a. Dependent Variable: retainment of staff.

b. Predictors: (Constant), compensation management

The f – statistically of 11.237 shows that the model is statistically significant. This implies that there is a significant relationship between compensation management and retainment of staff.

**4.3 Discussion of Findings**

From the above tables, it shows that men are more agile than women. Aside from this, the nature of the job demands for more men than women. More so, there is more matured, active and agile workforce in the organisation. In the area of marital status, the organisation has responsible workforce.

Considering the level of educational qualification, the organisation has more men and women of high education standard that can help in achieving the set objectives for the organisation. In the field of religion, the organisation has workforce that are religiously inclined. In the area of working experience, results show that the organisation has men and women of vast experience.

In the area of Testing of Research Hypothesis, Hypothesis 1 shows that there is a significant relationship between compensation management and employees performance The f-statistics of 12.307 shows that the model is statistically significant. It shows that is a significant relationship between compensation management and employees performance. In Hypothesis 2, the f-statistics of 23.072 shows that the model is statistically significant. It shows that there is no significant relationship between good working condition and employees’ performance. In Hypothesis 3, the f – statistics of 32.222 shows that the model is statistically significant. It shows that there is a significant relationship between good welfare service and employees performance. In Hypothesis 4, the f-statistics of 12.052 shows that the model is statistically significant. This shows that there is a significant relationship between compensation management and improved productivity while in Hypothesis 5, the f – statistically of 11.237 shows that the model is statistically significant. This implies that there is a significant relationship between compensation management and retainment of staff.

**5. CONCLUSION**

The Food and Beverage Industry in the Manufacturing Sector is one of the vital sectors necessitating the growth and development of Nigerian economy, therefore, it is vital for organisations to embark on effective compensation management policies that will project and promote employees performance. Employees are integral part of the human resources management, and therefore must be properly compensated in order to effectively perform beyond expectation. It is therefore vital to say that compensation management is an issue that that is critical and vital for the running and management of the organisation. More so, it is the heart beat of the organisation. It is therefore parties germane for both parties to negotiate and implement effective compensation management policies that will benefit both parties.

From the hypotheses tested, the results show that there is a significant relationship between good working condition and employees’ performance. This shows that good working condition depends on employees’ performance. More so, there is a significant relationship between good welfare service and employees performance. Aside from this, there is a significant relationship between



compensation management and improved productivity, and in a similar manner, there is a significant relationship between compensation management and retainment of staff, therefore necessitating the need to have effective compensation policies in order to retain members of staff. Conclusively, there is a significant relationship between compensation management and employees performance, which implies that employees performance depend on planning, implementation and control of effective compensation management.

## **6. RECOMMENDATIONS**

In line with this study, the following recommendations were made.

Organisations must make sure that there is friendly and positive relationship between employers and employees in the organisation.

Management creates good and friendly working conditions that will aid employees performance.

Organisations should ensure the provision of good welfare packages that will encourage and promote employees performance.

It is the desire of every organisations to constantly increase productivity, thereby necessitating the need to motivate employees through comprehensive compensation policies and friendly working conditions.

The need to retain effective and qualified work force is a necessity for a functional organization, thereby necessitating the need to provide good working conditions and effective working packages that will aid in retaining effective work force.

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