

IMPACT OF COMPENSATION STRATEGY ON EMPLOYEES' PERFORMANCE OF DANGOTE FLOUR MILL, ILORIN, KWARA STATE, NIGERIA

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Abstract

The study seeks to investigate the impact of compensation strategy on employees' performance of Dangote Flour Mills, Ilorin, Kwara State. A sample of one hundred and forty-two (142) respondents comprising of Dangote staff was used for the study. The sampling method employed was simple random sampling technique and questionnaire was the research instrument used to obtain relevant information from respondents on the objectives of the study. Data collected were analysed using multiple regression analysis. The result shows that the impact of compensation strategy is a good predictor for effective performance of employees of Dangote Flour Mills, Ilorin, Kwara State. Based on the findings, it was recommended that organisations should adopt and implement appropriate compensation strategy for their employees in order to increase the performance of the employees.

Keywords: Compensation, Performance, Reward System, Strategy.

Introduction

Employees' willingness to stay on the job largely depends on compensation packages of the organization. Organizations need to consider a variety of appropriate ways to reward the employees to get the desired results. The degree to which employees are satisfied with their jobs and their readiness to remain in an organization is a function of compensation packages and reward system of the organisation.

Employees' compensation plays such a key role because it is at the heart of the employment relationship, being of critical importance to both employees and employers. Employees typically depend on wages, salaries, and so forth to provide a large share of their income on the benefits to provide income and health security. For employers, compensation decisions influence their cost of doing business and thus, their ability to sell at a competitive price in the product market.

The compensation strategy is approved by the Board of the organization, as the compensation strategy is always prepared by the top executive management of the organization. The compensation strategy has a huge impact on the costs of the organization and that is the main reason for the top management approval.

The compensation strategy defines the pay rate in the market the organization follows, the desired position on the pay rate and the way, how the desired level and position on the pay rate will be achieved. The compensation strategy defines the basic compensation components used in the organization and the standard rules applied to each compensation component.

The compensation strategy has to be in line with the business and HR strategies as the compensation of employees is aligned with the expectation of the top management from them. The compensation strategy does not change often as the compensation principles cannot be

changed within few days. Employees are the organization's key resource and the success or failure of organizations centre on the ability of the employers to attract, retain, and reward appropriately talented and competent employees (Gerhart, 2000).

Statement of the Problem

The hope of compensation on employees' performance could be very strong in many organizations because good compensations for employees will stimulate their performance in an organization. However, the implication of non-implementation of compensation will result in low performance and employees' turnover. In a similar study, it was found that the existence of a good compensation of employees will make the health of employees very good. With the maintenance of health, the employees will get maximum performance opportunities. The number of working hours or employees' present hours is able to obtain a maximum work performance. As a result, the planning process can be obtained with good production. It is 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 performance is very strong. The performance tends to increase when a reasonable compensation is given to employees. Conversely, if given lower compensation, employees' performance is reduced.

Also, the rate at which employees' turnover is increasing in Nigerian organisations has become a thing of concern and it is obvious that the steps taken by the managements and stakeholders have not solved this problem. The increasing number of new businesses has led to high competitions in the Nigerian organisations; this in turn has called for good formulation, administration and implementation of good compensation policies that would allow these organisations to retain their best hands. Thus, there had been constant mobility of these highly skilled personnel from one organisation to another.

Research Objectives:

Other specific objectives are to;

- i. determine the impact of effective compensation strategy on employees' performance;
- ii. examine the effect of direct compensation on employees' commitment.

Research Hypotheses

H₀₁: There is no significant effect of compensation strategy on employees' performance.

H₀₂: Direct compensation does not significantly affect employees' commitment.

Literature Review

Concept of Compensation

Compensation is any benefit an employee receives in monetary terms in the form of wages and salary to attain an increase in the employee's performance (Holt, 1993). Compensation is a piece of exchange between an employee and a business owner otherwise known to as outcome of the employment contract. From an employee's prospective, compensation is one of the most important parts of their cash flow (Ivanceikh & Glueck, 1989).

According to the American Compensation Association's (1995) definition, "compensation is the cash and non-cash remuneration provided by an employer for services rendered". It could be financial rewards which refer to any monetary rewards that go above and beyond basic pay. These rewards are separate and not added into basic salary. Examples of these include: financial incentives, bonuses, and recognition.

Supriyatin (2013) described human resource management as a management function of "planning, organizing, directing and controlling, developing, compensating, integrating, maintaining, and terminating employees, for realization of company, individuals, employees and society objectives". Compensation also denotes the provision of financial benefits by an organization to its employees where the benefits are directly or indirectly provided to the employees in the form of money in exchange for their loyalty and commitment to the company's goals and objectives (Suwatno & Priansa, 2011).

Compensation has two divisions which are direct and indirect. Direct compensations are direct rewards provided to employees such as wages, bonuses, salaries and other incentives. Indirect compensations are rewards provided indirectly by an organization to its employees such as allowances, health insurance, and other facilities.

Direct compensation includes wages, salaries, bonuses or commission based on performances, overtime work, holiday premium, while indirect compensation is paid as medical benefits, housing allowance, meal allowance, utility allowances, incentive bonus, shift allowances, hospitalization expenses, out of station allowance, vehicle loan benefits, annual leave allowances, car basic allowances, etc (Osibanjo, Pavithra & Adeniji, 2014).

Compensation Strategies in Contemporary Employment Relationship

A strategic approach to managing reward emphasizes the importance of reflecting the wider organizational strategy, objectives and culture in reward system and ensuring a fit between reward, other elements of HRM and the organizational context. The effective management of reward requires the effective management of both intrinsic and extrinsic motivation of workers (Nick, 2011). Of these two, the extrinsic motivation is of much concern in this study, which are incentives addressed through financial rewards, including financial payment and bonuses, and benefits in kind, such as company cars.

Financial payments enhance employee's financial well-being directly or indirectly (Decenzo et al, 2007). According to Dessler (2008) the direct financial reward refers to payment to employees, which when done, enhance employee's financial position directly. Direct financial rewards come in form of wages, salaries, incentives, commissions and bonuses. Bowen (2000) also notes that financial rewards mean those direct and indirect payments that enhance an employee's well-being; they make an employee to be financially sound so that he/she can fulfil his/her material desires. There are two main categories of direct financial rewards namely: Base/Basic pay and Contingent pay. Dessler (2008) reckons that financial payments are determined on the basis of equity which he defines as the fair treatment of employees. This may be internal equity where employees are paid according to relative values of their jobs within same organization or external equity where organizations' employees are paid comparably to workers who perform similar jobs in other firms.

Forms of Financial Incentives

The forms of financial incentives adopted by most organizations are discussed below:

- 1. Basic Pay:** Basic pay, also known as membership based reward, refers to the amount of pay that constitutes the rate for the job. It may vary according to the grade of the job or for manual workers, the level of skill required (Amstrong, 2008). Several factors influence the base pay; these include legal (government regulations), union (staff labour relations), company policy (company strategic aims) and equity (internal and external/market comparisons) (Dessler, 2004). Chruden and Sherman (1980) indicate that other additional factors include worth of the job and individual bargaining power.

According to Amstrong (2008) the basic pay is normally expressed in the form of normal rate and allowances. The normal rate may be hourly, weekly, monthly or annually while the allowances may be overtime, shift working or increased cost of living adjustment. DeNisi and Griffin (2008) differentiate between salary and wage by defining salary as income paid to an individual on the basis of performance or position held while wage refers to hourly compensation paid to operating employees on the basis of time worked.

- 2. Contingent Pay:** This refers to additional financial rewards that may be provided and are related to performance, competence, contribution, skill or experience (Amstrong, 2008). They may come in the form of incentives, commissions, bonuses and merit pays (Decenzo et al., 2007). Dransfield, (2000) states that automatic increases within the fixed pay bands have largely disappeared and the trend is toward performance-related-pay as the preferred method. Dessler (2008) defines financial incentives as financial rewards paid to workers whose production exceeds some predetermined standard. Bowen (2000) adds to the definitions that performance based rewards are such benefits which are provided on the basis of an employee's job performance ability. The reward depends upon the performance of an individual in the actual work floor. These rewards are exemplified by the use of commissions, piece work pay plans, incentive systems, group bonuses or other forms of merit pay plans. Many people see contingent pay as the best way to motivate people, but it is simplistic to assume that it is the only extrinsic motivator in the form of pay that creates long-term motivation (Amstrong, 2008).

Gomez et al. (2012) states that most employees believe that they should be rewarded to recognize their performance. They define pay-for-performance or incentive system as a system that rewards employees on the assumptions that individual employees and work teams differ in how much they contribute to the firm and that the firms' over-all performance depends to a large extent on the individuals and groups within the firm. They also argue that for a firm to attract, retain and motivate employees, the firm needs to reward employees on the basis of their relative performance. Lazear (2000), Paarsh and shearer (2000) and Parent (1999) submit that the use of pay performance schemes has been shown to increase employees' morale. Brown and Session (2003) confirm the same by stating that employees prefer environment where productivity is rewarded and that this increases employees' morale.

- 3. Incentives for Sales People:** Incentives for sales people come in the form of sales commissions, straight salaries or combination of both. This is done with the aim of ensuring the top line numbers or turnover (Dessler, 2008). Amstrong (2008) expounds the above points by giving the applicability of the different forms like salary only, salary plus

commission and salary plus bonus. He argues that the “salary only option” is applicable in a company where direct selling is more important than sales volume; hence need to encourage its customer service rather than high pressure selling. This may however attract under achievers while salary plus commission is more appropriate when it is believed that sales can go up, if a commission is given. However, a base salary is needed to attract people as it provides a direct motivation for performance. This may result to people concentrating on easier to sell product and not those generating high margins. Finally, the salary plus bonus operates well when flexibility in providing reward is important and sales staff need to be motivated to focus on certain aspects of their work other than simply maximizing sales volume, thus ensure that other goals like high margins are achieved. The latter may however be complex to administer and understand. Commission only works well when sales performance depends on ability to sell and staffs is not involved in non-selling activities. This provides a direct financial incentive, attracts high performing sales staff and ensure selling cost vary directly with volume. Finally, additional non-cash rewards, for example, recognition and opportunity to grow is better applied when it is believed that other methods of payments need to be enhanced to provide additional motivation to the sales person.

4. **Team or Group Incentive Plans:** These are plans in which production standard is set for a specific work group and its members are paid incentives, if the group exceeds the standard (Dessler, 2008). While team incentives may foster a sense of cooperation and unanimity, the main disadvantage of plans is that one may not get paid proportionately to the personal effort put to the work, which may de-motivate top workers (Dessler, 2008). In addition, Gomez et al. (2012) also adds that although team based approach may aid in performance measurement, the system may allow free-riding effects and social pressure may limit performance.
5. **Organization-Wide Incentive Plans:** These are also called variable pay plans. They are plans which allow all or most employees to enjoy rewards as a result of performance of over-all companywide nature (Dessler, 2008). Examples include: profit sharing, employees’ stock ownership plans (ESOP) and gain sharing plans. According to Bowen (2000), these organization-wide rewards are also called membership based rewards. They are those rewards that are paid on the basis of being a member of an organization. It means the basis of allocating rewards is employee's organizational membership. Hence, the reward goes to all employees irrespective of their performance. Incentives for managers and executives are rewards meant for recognizing the crucial roles that managers play in the divisional and companywide profitability (Dessler, 2008). They may be in the form of short-term incentives like, annual bonus or long-term incentives, like stock options.
6. **Relative performance evaluation (RPE):** The RPE is the process of comparing performance among workers, which is to reward employees’ performance based on the performance of the relative reference group. Taking the listed companies in China from 2001 to 2008 as a sample, Hu, Y.Q. and Zhou, H. find evidences to support the use of RPE, when dividing companies in the same industry into the reference group and measuring the company’s performance by return on assets. Furthermore, the paper shows that the use of RPE in executive compensation contracts varies negatively with a firm’s level of growth options. Albuquerque, also conducts a test whether growth-option firms should use CEO

compensation contracts based on RPE. In general, for the reason that growth option firms are in more volatile environments, the use of RPE can avoid exogenous shocks on CEOs and reduce the risk faced by them. However, for high growth option firms, it is difficult to find peer groups which capture common risk exposure, thus the implementation effect of the use of RPE has been affected. The paper finds that high-growth-option firms rarely use RPE to evaluate the performance of CEO.

The Match between Compensation System Design and the Organization

Many previous researches on compensation system design focused on the specific compensation design of employees and executives, and rarely involved in compensation system design at the organizational level. In recent years, many scholars have gradually paid attention to compensation system design from the angle of the organizational level.

Díaz-Fernández, López-Cabrales & Valle-Cabrera (2013) suggest that the compensation system design should be matched with the corporate strategy. Taking manufacturing enterprises as a sample, the article finds that it is because the compensation system design motivates employees to cultivate competencies matched with the corporate strategy that the compensation system design makes an enormous effect. In general, the implementation of corporate strategy requires employees to have corresponding competencies, thus the design of compensation system should be guided by these competencies.

According to Gomez et al. (2012), employee's compensation is the single most important cost in most firms; in some manufacturing organizations it accounts for 60% of the total cost. However, this is even higher in some service organizations and this means that the effectiveness with which compensation is allocated can make a significant difference in gaining or losing the competitive edge. The same is echoed by Dessler (2008) who says that developing a good employee compensation plan is important for any organization and its employees. He continues to say that improperly developed compensation plan may result to a wage rate that is too high, hence unnecessary expenses; while paying less may guarantee inferior employee's quality and high employee's turnover. At the same time internally inequitable wage rates reduce employee's morale and cause endless complaints from the employees.

The most important aspect of any compensation plan is the relationship that exists between performance and reward (Nelson & Spitzer, 2003). For that reason, administration of compensation in any organization involves designing a cost effective pay structure that will attract, motivate and retain competitive employees (Decenzo et al, 2007). Armstrong (2008) also notes that one of the aims of reward management is to motivate people and obtain their commitment and engagement.

Theoretical Framework

Reinforcement and Expectancy Theories of Compensation

Reinforcement theory states that a response followed by a reward is more likely to recur in the future (Thorndike's Law of Effect). The implication for compensation management is that high employee's performance followed by a monetary reward will make future high performance more likely. By the same token, high performance 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.

Equity Theory of Compensation

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 fair they perceive their employment relationship to be (Adams, 1963). Perceptions of inequity are expected to cause employees to take actions to restore equity. Unfortunately, some such actions (e.g., quitting or lack of cooperation) may not be helpful to the organization.

Equity theory focuses on determining whether the distribution of resources is fair to both relational partners. It proposes that individuals who perceive themselves as either under-rewarded or over-rewarded will experience distress, and that this distress leads to efforts to restore equity within the relationship. It focuses on determining whether the distribution of resources is fair to both relational partners. Equity is measured by comparing the ratios of contributions and benefits of each person within the relationship. Partners do not have to receive equal benefits (such as receiving the same amount of love, care, and financial security) or make equal contributions (such as investing the same amount of effort, time, and financial resources), as long as the ratio between these benefits and contributions is similar. Much like other prevalent theories of motivation, such as Maslow's hierarchy of needs, equity theory acknowledges that subtle and variable individual factors affect each person's assessment and perception of their relationship with their relational partners (Guerrero et al., 2005). According to Adams (1965), anger is induced by underpayment inequity and guilt is induced with overpayment equity (Spector 2008). Payment whether hourly wage or salary is the main concern and therefore the cause of equity or inequity in most cases.

In any position, employees want to feel that their contributions and work performance are being rewarded with their pay. If an employee feels underpaid, then it will result in the employee's feeling hostile towards the organization and perhaps their co-workers, which may result in the employee's not performing well at work anymore. It is the subtle variables that also play an important role in the feeling of equity. Just the idea of recognition for the job performance and the mere act of thanking the employee will cause a feeling of satisfaction and therefore help the employee feel worthwhile and have better outcomes.

Empirical Review

Omoayo et al. (2014) analyse the impact of compensation system on the job performance of employees and work on only preferred private institutes in Ogun State, South-West Nigeria by using a questionnaire. He found that institutes which have more appropriate compensation packages embed an affirmative effect on employee's performance. Therefore, the turnover of employee become decrease and sincere with their jobs and stay in the organization. Muhammad (2014) studied the impact of compensation on the performance and commitment of the employee, by using SPSS as a statistical tool and concluded that compensation in the form of incentives, salaries will perform an important part to enhance motivation of an employee in Local Revenue Management.

Sajuyigbe, Olaoye and Adeyemi (2013) examined the impact of reward on employee's performance in selected manufacturing companies in Ibadan, Oyo State, Nigeria. Structured questionnaire was used to collect data from one hundred (100) participants through purposive sampling method and data were analysed by multiple regression analysis with the aid of

statistical package for social science (SPSS) version 16. Results showed that reward dimensions jointly predict employees' performance which accounted for 71% variance of performance.

Methodology

The research design adopted is survey method; the population for the study consisted of 232 Dangote PLC staff in Ilorin, Kwara State. Taro (1968) was used to select 147 respondents for the study. Questionnaire was employed as instrument of primary data collection. A total number of one hundred and forty seven (147) copies of the questionnaire were administered on the respondents and only one hundred and forty two (142) i.e. 96.6% were filled and returned by the respondents while the remaining five respondents failed to return their questionnaire. Multiple regression analysis was used to test the research hypotheses.

Test of Hypothesis

H01: There is no significant effect of compensation strategy on employees' performance.

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.315 ^a	.562	.073	1.09668

a. Predictors: (Constant), Territory volume compensation, Commission only, Straight salary compensation, Salary plus commission

Source: SPSS Result, 2019

Table 1 reveals that the coefficient of multiple determinations is 0.562; the implication of this is that about 56.2% of the variation of compensation strategy is explained by variables in the model while the remaining 43.8% is explained by other factors.

Table 2 ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	ig.
1	Regression	18.102	4	4.526	3.763	.006 ^a
	Residual	164.771	137	1.203		
	Total	182.873	141			

a. Predictors: (Constant), Territory volume compensation, Commission only, Straight salary compensation, Salary plus commission

b. Dependent Variable: Employees performance

Source: SPSS Result, 2019

The F-statistic as shown from the ANOVA table above is significant since the ANOVA significance of .006 is less than the alpha level of 0 .05, thus the model is fit and the overall objective is achieved. From the ANOVA Table .p-value=0000< 0.05(sig)

Since $p\text{-value} < 0.05$ (critical value). The null hypothesis is rejected and the alternative accepted. This implies that at least one of the predictors is useful for determining employees' performance; therefore the model is useful.

Table 3 Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	2.790	.457		6.109	.000
Straight salary compensation	.165	.072	.195	2.304	.023
Salary plus commission	.241	.085	.247	2.826	.005
Commission only	.073	.070	.089	1.054	.294
Territory volume compensation	.121	.082	.119	1.465	.145

a. Dependent Variable: Employees' performance

Source: SPSS Result, 2019

Table 3 shows the coefficient of the regression model. The intercept and slope (i.eB) as reflected on the table 0.165,0.241,0.073 and 0.121 respectively. This could be written in model form as $y=0.165+0.241+0.073+0.121x$. Where $y=$ Employee's performance and $x=$ 'compensation strategy).

Decision Rule: As a result of the outcome, the Null hypothesis (H_0) is rejected on the basis that the $p\text{-value}$ is less than 0.05. Hence, the alternative hypothesis which states that compensation strategy factors have impact on employees' productivity is accepted.

H02: Direct compensation does not significantly affect employee's commitment.

This objective was address through the formulated hypothesis using simple linear regression as shown below:

Table 4 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.723 ^a	.523	.519	1.11569

a. Predictors: (Constant), Direct compensation

Source: SPSS Result, 2019

Table 4 above shows the R^2 which is an indication of the coefficient of determination. The R^2 gives approximately 52% which means that 52% of Employees' commitment (dependent variable) is affected by direct compensation (independent variable) while the remaining percentage of the commitment of employees may be affected and determined by other unexplained factors.

Table 5 ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	190.783	1	190.783	153.269	.000 ^a
	Residual	174.266	140	1.245		
	Total	365.049	141			

a. Predictors: (Constant), Direct compensation

b. Dependent Variable: Employees commitment

Source: SPSS Result, 2019

The F-statistic as shown from the ANOVA table above is significant since the ANOVA significance of .000 is less than the alpha level of 0.05, thus the model is fit and the overall objective is achieved.

Table 6 Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.670	.201		13.263	.000
	Direct compensation	.206	.065	.259	3.171	.002

a. Dependent Variable: Employees commitment

Source: SPSS Result, 2019

The coefficients of individual independent variable indicated that direct compensation (.206) has a fair effect as a determinant of employee's commitment. In addition, the {probability} and t-statistics value of {.002} and 3.171 further suggest that the relationship between Direct compensation and employees commitment is significant since alpha level of .05 is greater than the p-value of 0.002. The conclusion therefore is that the null hypothesis which states that 'Direct compensation does not significantly affect employee's commitment' is rejected.

Conclusion and Recommendation

In this study, efforts were made to investigate impact of compensation strategy on employee's performance using Dangote flour mills as a case study. The regression analysis indicated that compensation strategy have strong impact on employee's performance.

The impact of compensation strategy on employee's performance cannot be overemphasised. It is therefore important to realize that compensation strategy should not be limited to basic salary, but also to other factors such as providing support and motivation.

The study therefore recommends that the organisation should consistently review its compensation strategy and ensure that it is fair and commensurate with the performance of employees. This will in turn increase the productivity of the employees in the organisation.

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