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RESEARCH ARTICLE

Effect of Compensation Management on Employee Performance

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Abstract

The study investigated the impact of compensation management on employee performance. The study used a survey design, with 50 respondents from Alo Aluminum – Emene Enugu Nigeria receiving a well-designed research instrument. The hypothesis was tested using regression analysis. Employee performance benefited from effective compensation management, according to the study. Because the p. value of the analysis was less than 0.05, the null hypothesis for this study was rejected. ($r = 0.892$, $r2 = 0.795$, $p < 0.05$). The study concluded that compensation management had a positive and significant impact on employee performance and recommended that pay practices and procedures be continually developed in order to attract, motivate, retain, and satisfy employees.

Keywords	*Employees' Compensation Management*; *Employee Performance*; Pay Practices; *Enugu and Niger*
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Introduction

The remuneration given to an employee in exchange for their services is referred to as compensation. Compensation has the potential to increase or decrease employee achievement (performance), job satisfaction, and motivation. When employees put forth their best efforts in the right direction, an organization's goals can be met. As a result, they should be properly nurtured and compensated for their work, performance, and services, among other things. Employees receive a variety of incentives, benefits, and services in addition to their wages or salaries. Employee compensation should be reasonable and equitable, as it can improve employees' ability to increase work productivity (Kadarisman 2012). Direct forms of compensation include merit and incentive pay, as well as indirect forms such as vacation pay, deferred payment, and health insurance. Other types of employee rewards, such as recognition ceremonies and achievement parties, are not included in compensation (Kadarisman 2012). Compensation management is a branch of human resource management that deals with the planning, organization, and control of direct and indirect payments made to employees for the work they do. The ultimate goals of compensation management are efficient workforce maintenance, equitable pay, and regulatory compliance based on what companies can afford. Employees are the driving force behind a company's success. As a result, the daily performance of the workforce has a significant impact on a company's success or failure. Businesses must find ways to maintain and bring out the best performance from their employees to stay successful in today's market. There have been instances in the past where employees were underpaid or where compensation management programs were lacking in some organizations. This could cause the employee's promotion to be delayed, or their pay packages to be inadequate for the work they do for the company. This could be a deliberate attempt by management to frustrate employees, or it could indicate that management lacks the necessary managerial skills to effectively administer a compensation management program (Dyer & Schwab 2004). Employee contributions should be financially recognized, and positions of equal value should be compensated equally. The impact on employees could be significant if organizations handle this incorrectly or manipulate it in some way (Hawita 2019). As a result, there is a need to investigate the nexus between compensation management and employee performance. The study's goal is to determine the impact of compensation management on employee performance, with the following research hypothesis: H01 - compensation management has no significant impact on employee performance.

Literature Review

Compensation management refers to the development and implementation of sound compensation policies, programs, and practices. It is essentially the use of a systematic and scientific approach to fairly, equitably, and logically compensate employees for their work (Dobre, 2013). Compensation Management, as it is now known, has long been a critical component of attracting, retaining, and motivating the necessary human resources for any company. Although most employees at the middle and senior levels claim that money does not play a significant role in their decision to leave or stay in a company, most employees are motivated by money. Compensation is defined as the total amount paid, allowances received, and various other benefits and services provided by the company to its employees (Noe, Hollenbeck, Gerhart, & Wright, 2017). In other words, compensation refers to all monetary rewards, services, and benefits that employees receive from their employers as part of their employment relationship. Wages/salaries, bonuses, overtime payments, and incentives are all examples of cash compensation (i.e., gross payment). This is known as direct compensation, whereas indirect compensation includes things like life, accident, and health insurance, vacation or illness pay, retirement benefits, and so on. In a nutshell, compensation is the monetary benefits and rewards that employees receive based on the value of their jobs, their contributions, and overall performance. Employees receive such rewards from their employers based on the company's financial ability and legal requirements (Hawita, 2019). Any dissatisfaction can lead to a fight or a disagreement. This dissatisfaction may have an impact on the employee's performance, as well as the equity between human capital investment and expected returns to the company (Moniz, 2014). A gap between an employee's expectations and the feeling or experience of worth is defined as satisfaction or dissatisfaction. This feeling or experience is the result of the employee's efforts to perform, his or her comfort at work, inflation protection, and appreciation. A good remuneration package can help motivate employees. As a result, the Human Resource manager's primary responsibility is to ensure that the company's employees are well compensated (Redling, 2018). According to Maslow's Need Hierarchy Theory, compensation is in the middle to lower rungs of the pyramid, with other factors such as job satisfaction and fulfillment at the top. For the vast majority of employees, getting the right compensation is a motivating factor in and of itself. As a result, if employers want to get the most out of their employees, they must properly quantify their contributions (Noe, Hollenbeck, Gerhart, & Wright, 2017). Companies must consider how much they can afford to pay their employees as well as the consequences of their decisions, such as how they will affect employee turnover and productivity. Furthermore, some employers and managers believe that pay has an impact on employee work ethic and behavior, and thus links pay to performance. Compensation management is also influenced by social, economic, legal, and political forces, making it a complex but necessary part of business management (Pathak, Hoskisson, & Johnson, 2021). Compensation management, according to Sullivan (2020), is an integral part of the Human Resource Management (HRM) approach to managing people, and as such, it supports the achievement of business objectives. It is strategic in that it addresses long-term issues relating to how people should be valued for what they want to achieve; it is thus integrated with other HRM functions, particularly those concerned with human resource development.

Performance

Employee performance refers to how well a person performs in their job, completes required tasks, and behaves in the workplace. Work quality, quantity, and efficiency are all factors in determining performance. When leaders keep track of employee performance, they can get a sense of how the company is doing. This information not only helps to highlight what companies can do now to improve their business, but it also feeds into future growth plans. Employee performance is defined by Ashwini (2020) as "the real behavior that each person displays as an achievement of their work by their respective roles in the organization." According to Sullivan (2020), performance is defined as the quality and quantity of work accomplished by an employee in carrying out his or her duties by the sole responsibility that was assigned to him. Quality of work, the quantity of work, and the execution of duties, according to Pearce (2010), are indicators of performance. According to Ashwini (2020), ability and motivation factors influence the achievement of performance.

Theoretical Review

This study is based on Vroom’s expectancy theory of motivation. Vroom is the father of the Expectancy theory. According to this theory, individuals make choices based on their perceptions The Vroom expectancy theory of motivation is used in this study. Expectancy theory was founded by Vroom. Individuals make decisions based on their perceived likelihood of receiving certain rewards, according to this theory. This translates to: they are only motivated to act in a certain way if they believe they will achieve the desired result. According to the theory, most people make rational decisions. As a result, they consider their actions and act in ways that meet their needs and help them achieve their objectives. The basic premise of expectancy theory is that people are motivated by the promise of a reward tied to a specific goal. The theory is based on the understanding that people's needs and, as a result, the importance they place on rewards differ dramatically. Individuals will choose to perform at a level where their efforts yield the greatest benefit in organizations. They will work hard if they expect to be rewarded for their efforts, such as a raise in salary, promotion, or recognition (Schultz, 1982). As a result, it is critical to link performance to rewards (Roberts, 2005).

Empirical Review

In the Mining Company, Saman (2020) conducted research on the impact of compensation on employee satisfaction and performance. Data was gathered through interviews, observations, and a literature review. The research involved 51 employees, and the data was analyzed using Partial Least Squares (PLS). According to the findings of the study, compensation has a significant impact on job satisfaction and employee performance. The Effect of Compensation on Employee Performance at Accra Technical University, Ghana was investigated by Afriyie, Twumasi, Sarpong, and Darko (2020). The investigation used a descriptive survey design. A simple random sampling technique was used to select 40 respondents from a total population of 57 Administrators, 35 of whom completed the 20-item questionnaire. The responses were presented using frequency tables. The main findings were that administrators were more interested in management sensitivity to their needs than monetary compensation. The study also discovered that housing loans and lodging are the most critical requirements. Management should create a second form of set-off package in addition to the one in the condition of service to encourage employees to give it they are all.

Methodology

For this study, a survey research design was used, and the data collection instrument was a questionnaire whose validity and reliability were tested and yielded a Cronbach alpha level of 0.71. The sample was restricted to 50 factory workers from Alo Aluminum in Emene, Enugu. The questionnaire was distributed in 50 copies to respondents who were chosen using the total enumeration or census method. The results of the following model were analyzed using the regression analysis tool: y = a + b(x) +µ

Results and Discussions

N	Df	Correlation Coefficient (r)	Coefficient of Determination (R^2)	Sig. Level	t-cal	t-tab	F	Remark
50	48	0.892	0.795	0.000	2.955	2.009	5.12	Sig.

Source: Extraction of SPSS results.

The R

The R stands for coefficient of correlation, and it indicates that the variables used in this analysis have a positive correlation. This indicates that compensation management and employee productivity have a positive relationship. What this means is that when employees are properly compensated, they produce more. The figure is 0.892, which when converted to a percentage is 89.2 percent, indicating that compensation management and employee performance have an 89.2 percent correlation.

The R Square

The coefficient of determination is represented by the R square. It tries to demonstrate that the independent variable can account for a change in the dependent variable. The R square is 0.795, which is converted to a percentage of 79.5 percent, indicating that the independent variable is responsible for 79.5 percent of the change in the dependent variable. That is compensation management influences employee performance by 79.5 percent. R2 = 0.795 = 79.5 percent, which is a significant figure. This explains why compensation management has such a big impact on employee performance. R2 = 79.5 percent indicates that changes in compensation management are responsible for 79.5 percent of changes in employee performance. The final decision following is the rule for the test analysis: If TC TT =, reject H1 and accept H0, but if TC TT =, accept H0. H0 is rejected when TC > TT. As TT = 2.009 and TC = 2.955, the null hypothesis is rejected because TC > TT, and we draw the opposite conclusion.

Conclusion

Compensation improves performance, according to this study, and compensation management has a positive and significant impact on employee performance. The study concludes that compensation packages should be continuously developed to motivate employees as well as attract and retain prospective employees.

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