

RELATIONSHIP BETWEEN COMPENSATION AND EMPLOYEE PRODUCTIVITY

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Abstract

Labour unrest in the form of strike actions in both public and private corporate organizations underscore the importance employees attach to the issue of compensation. As a result, the human resource functions of many corporate organizations are challenged to develop and implement effective compensation schemes which will lead to the achievement of organizational goals. This study seeks to examine the relationship between compensation and productivity in the banking industry in Ghana. Using case study approach, a descriptive survey was carried out to collect data from employees of Ghana Commercial Bank in the Greater Accra Region of Ghana. Data was analysed in terms of descriptive statistics. Pearson chi square was used to test the significance of relationship between employee compensation and productivity. The results indicated a significant relationship between compensation and productivity.

Keywords: employee compensation, motivation, productivity.

1. Introduction

[1] observed that becoming an effective employer is one of the biggest obstacles for most entrepreneurs. According to them, keeping employees motivated and loyal can be particularly difficult during the early stages of a startup. [2] argued that those employees who feel that they are cared for by their organization and managers not only have higher levels of commitment, but that they are more conscious about their responsibilities, have greater involvement in the organization, and are more innovative and productive. They suggested that managers and organizations must reward and support their employees for the work that they do because this perceived support allows for more trust and job satisfaction in the organization.

These observations bring to the fore the relevance of employee motivation in ensuring productivity. It is an undeniable fact that productivity of an organization depends upon the satisfaction level of its workforce and even more, on the compensation of employees [3]. As a result there has been a great interest in the assessment of compensation variables of employee as they impact on productivity [4]. According to him, the concept of compensation has attracted considerable attention over recent years and has become a central objective of human resource management. He indicated that Human Resource Management policies are now being designed to maximize organizational integration, employee commitment, flexibility and quality of work.

[5] observed that compensation and employee satisfaction drive productivity, indirectly creating profit for an organization. To them, these are also prerequisites for staff retention. They also observed that organizations with higher staff retention rates are naturally better at retaining knowledge, which can lead to better performance and profit for the business. According to [5], compensation variables improve employee satisfaction, reduce the cost of staff turnover, build brand loyalty with staff and position the company as an employer of choice that attracts talented people to the organization.

It is common knowledge that most employees agitate for better conditions of service, while employers complain of low productivity. Employees are always on the lookout for advertisements on what they describe as better jobs. These employees are ready to leave their jobs for other jobs. Others use their present jobs to develop the necessary skills and experience, a requirement for most jobs. Employers also put in several enticing conditions of service and try to create healthy working conditions in an effort to gain the commitment of employees. The question that one may want to ask is whether there is any relationship between compensation and productivity.

2. Research Objectives

The following are the objectives of this study:

- To identify the factors that determine compensation packages in an organization.
- To ascertain the effect of compensation on employee performance.
- To ascertain whether there is a significant relationship between compensation and productivity.

3. Literature Review

3.1 Compensation and 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 [7]. [8] stated that good compensation for employees 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, [8] 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 [7].

3.2 Financial Incentives in the Workplace

No one works for free, nor should they. While pursuing money based on negative motives can lead to a poorer psychological well-being, this is not the same as pursuing money to provide security and comfort for oneself and family. Obviously, employees want to earn fair wages and salaries, and employers want their workers to feel that is what they are getting. To that end, it is logical that employees and employers alike view money as the fundamental incentive for satisfactory job performance [9]. The use of monetary or other financial incentives in the classic work performance paradigm is based primarily on reinforcement theory [9]. Reinforcement theory, they explained, focuses on the relationship between a target behaviour (work performance) and its consequences (pay). This is premised on the principles and techniques of organizational behaviour modification. Organizational behaviour modification is a framework within which employee behaviors are identified, measured and analyzed in terms of their functional consequences (existing reinforcements) and where an intervention is developed using principles of reinforcement.

In a much publicized study, [10] analyzed thirty-nine studies conducted over four decades and found that cold-hard cash motivates workers whether their jobs are exciting or mundane, in labs and real-world settings alike. However [10] acknowledges that money is not the only thing that concerns employees. He noted that beyond a certain point higher salaries will make employees happier, but it will not "buy" better performance. In another study [11] warned that employers who dole out small merit raises, less than 7% of base pay, may do more harm than good. According to her, small raises can actually be dysfunctional in terms of motivation because employees become irritated that their hard work yielded so little. As a result, she advises employers who must give small raises to be careful about linking them to results and to be scrupulous about being fair.

3.3 Financial Incentives and Type of Institution

Differences in institutional arrangements contribute to the feasibility and effectiveness of various monetary incentives, as do differences in employees' preferences for specific incentives [3]. By this, companies are wise to study these issues before implementing changes to existing incentive plans. This is especially pertinent for service organizations, where financial reinforcements tend to produce a stronger effect on task performance than non-financial rewards used alone [11]. To them, even stronger results are seen with a composite approach. In a similar study by [12], one meta-analysis of 72 field studies found that monetary incentives improved task performance by 23%, social recognition improved task performance by 17% and feedback elicited a 10% improvement. Simultaneously combining all three types of reinforcements improved performance by 45%. [12] however, suggested that group incentive systems are consistently effective in private sector settings. In general, the effectiveness of compensation is dependent on the characteristics of the reward system, the organization, the team and the individual team members he observed.

3.4 Rewards and Performance

Among the factors that affect productivity, the issue of compensation is one that is dear to both employers and employees. The type of compensation and the relevance of the compensation benefits to the employee is very important. [13] noted that the challenge for every organization and every manager in the organization is to satisfy each employee's personal needs. These needs they indicated included: (1) The need to belong (involvement); (2) The need for recognition (feedback and rewards); and (3) The need for growth.

In a similar discussion, [14] indicated that most organizations lack effective incentive systems. According to him, the greatest motivational impact can be achieved when rewards are frequent, immediate, can be related to individual contribution, and are of significant value to the employee. [14] noted that typical profit sharing plans and merit salary increase plans are ineffective as employee motivators, since they fall short in all of these areas. He explained that the employee may have great difficulty in seeing the link between the amount of the payout and his or her performance and the payout may be too small to be of significance. In most organizations, merit increases given to superior performances vary by only one or two percent from those increases given to average performers. This is a more symbolic than real recognition of the difference in skill and effort required achieving high levels of performance.

4. Methodology

This study was exploratory in nature. The population consisted of all employees of Ghana Commercial Bank in the Greater Accra Region of Ghana. Structured questionnaire was the instrument used to collect the data. A sample of 60 respondents was selected for the study using convenience sampling technique. This is on the basis of the willingness of respondents to provide information and the respondents' ability to provide the needed information. The opinions of respondents were described using simple frequencies and percentages; and a chi square test was done to ascertain the relationship between compensation and employees productivity.

5. Results and Discussion

Demographic profile

Fifty-three percent of the respondents were males with the remaining 47% being females. On age, 25% of the respondents were below age 30, while 35% were between the ages of 30 - 40 years. Twenty-five percent were aged between 41 – 50 years while the remaining 15% aged above 50 years. The respondents were grouped into senior staff (20%), middle level staff (48%) and junior Staff (32%). They held a variety of certificates (academic qualification). Twelve percent of them were Diploma certificate holders, 20% HND certificate holders, 15% had professional certificates, and 12% second degree holders (Master's Degree). Forty percent (40%) of the respondents held a first degree as their highest education, with only one person holding secondary school certificate. The longest serving staff has been with the organization for more than 6 years (17%). Ten respondents, representing (17%) had been in their current position for a period below a year, while 28% have been with the organization for a period between 1 and 3 years. The modal class was 4 – 6 years (38%).

Objective 1: Several factors that determine compensation packages in an organization were identified by the respondents. Seventy percent (70%) of respondents indicated the Job or position of employees is seriously considered in determining the package. Equally important was the contribution of employee's job to organization's mission and objectives (73%). Others also said the package was based on employee performance (67%), skills and knowledge (60%), educational qualification of employees (53%), and the collective agreements with unions (40%). Though not very well represented, some respondents were of the view that compensation was based on who one knows in management positions (25%). Some respondents even believed that religious affiliation (3%), affected compensation packages in their organization.

Objective 2: The second objective was to ascertain the effect of compensation on the performance of employees. Several indicators were used to rate the performance. These included efficiency of employees, absenteeism, and employee turnover. The others were: corporate image, relationship among the various levels, and reduced wastage. Increased morale and employees' willingness to take extra duties were also measured. Fifty-three percent of the respondents agreed that compensation packages increased their efficiency on their jobs, 12% undecided with 35% in disagreement. Sixty-one percent agreed that compensation for employee reduced employee absenteeism, reduced employee turnover (76%), improves corporate image (48%) and 62% of the respondents agreed that compensation created good relations among the staff. Eighty percent of the respondents agreed that they were willing to take on extra duties as a result of their compensation packages. Eighty-seven percent of the respondents agreed that compensation packages for

employees affected their productivity levels positively, thereby bringing about an increased productivity in the organization.

Objective 3: A chi square test was used to test the significance of the relationship between compensation and productivity. The test was carried out with .05 alpha levels and a degree of freedom (df = 6). The result is shown in table 1.

Table 1 Chi Square Test

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi Square	26.296	7	0.002
Likelihood Ratio	29.815	7	0.004
Linear-by-linear association	9.029	1	0.012
N of valid cases	60		

(p < 0.05)

The Pearson Chi Square value was 26.296, with an associated significant level of 0.002. With an associated significant level of 0.002, a value less than the alpha value of 0.05, it means that the test result is significant. Therefore, there is statistically significant relationship between compensation and productivity in an organization. These findings support the view of [7]. They were of the view that good compensation remains the most important motivational strategy. [3] also posited that compensation is one of the major tools management have at its disposal to motivate employees and to increase productivity. Similarly, [15] found that the performance of a person as well as the decision to remain in an organization is influenced by the compensation package.

Conclusion

With a highly competitive employment market in the Banking Industry, employers need to offer their employees a compensation package that would enable them attract, retain and motivate employees. This exploratory study has shown that compensation has a direct influence on employee productivity. However, this can be achieved if there is transparency in the reward system and if the rewards or compensation meets the aspirations of the beneficiaries. Hopefully, the results of this study will enhance the understanding of management on issues bordering on the perception of employees about compensation and productivity and help managers in developing policies related to these issues. It is recommended that the study be replicated in other organizations and with a larger sample size.

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