European Journal of Finance and Management Sciences | *ISSN 2754-4109*
Published by DEQE Publications| *https://ejfms.deqepub.org*
4 Rhindmuir Dr, Baillieston, Glasgow G69 6ND, UK
deqepub@gmail.com; enquiry@deqepub.org

RESEARCH ARTICLE | OPEN ACCESS

Effect of Compensation Management on Employee Performance in Manufacturing Firms in Enugu State

Emeh, Ndidiamaka Chioma PhD*
Enugu State University of Science and Technology ESUT, Enugu State, Nigeria

***Corresponding Author**

ABSTRACT

This study investigated the effect of compensation management on employee performance. The study adopted a survey design which includes the distribution of a well-designed research instrument to 50 respondents of Alo Aluminum – Emene Enugu Nigeria. Regression analysis was used to test the hypothesis. The study found out that effective compensation management had a positive effect on employee performance. The null hypothesis for this study was rejected since the p. value of the analysis was less than 0.05. ($r = 0.892$, $r2 = 0.795$, $p < 0.05$). The study concluded that compensation management had positive and significant effect on employee performance and recommended for continual development of pay practices and procedures that will attract, motivate, retain and satisfy employees.

Keywords: *Compensation Management; Employment Performance; Manufacturing Firms; Enugu State*

Background

Compensation refers to the remuneration given to an employee in exchange for their services. Compensation can increase and decrease the achievement of work (performance), the satisfaction of work, and motivation of the employees. An organisation's goals can be achieved when its employees put in their best efforts in the right direction. Hence, they should be nurtured properly and paid well for their work, performance, services, etc. Besides wages or salaries, organisations provide different kinds of incentives, benefits and services to their employees.

Providing compensation to employees should be reasonable and fair, because it can improve the ability of employees to increase work productivity (Kadarisman, 2012). Compensation includes direct forms such as merit, incentive pay and indirect forms such as vacation pay, deferred payment, and health insurance. Compensation does not refer, however, to other kinds of employee rewards such as recognition ceremonies and achievement parties (Kadarisman, 2012).

Compensation management is a segment of management or human resource management focusing on planning, organising, and controlling the direct and indirect payments employees receive for the work they perform. The ultimate objectives of compensation management are: efficient maintenance of a productive workforce, equitable pay, and compliance with regulations based on what companies can afford (www.referenceforbusiness.com, 2024).

Employees are the force that drives a company forward. So, the daily performance of the workforce hugely influences the success or failure of a business. To stay successful in today's market, businesses must find ways to maintain and bring out the best performance from their employees.

Over time, there has been cases in some organisations were employees were under-remunerated or that some organisations do not have good compensation management programmes. This could delay the employee promotion; or that their pay packages are not commensurate to the work they do for the organisation. At times, this could be a deliberate act by management to frustrate the employees or that the management lacks the required managerial capabilities to effectively administer a compensation management programme (Dyer, & Schwab 2004).

Citation: Emeh, N. C. (2025). Effect of Compensation Management on Employee Performance in Manufacturing Firms in Enugu State. *European Journal of Finance and Management Sciences 9(2), 1-5. DOI: https://doi.org/10.5281/zenodo.17270595*

Euro. Journ. of Fin. & Man. Sci.
Vol. 9 No. 2 | *Imp. Factor 5.3209*
DOI: https://doi.org/10.5281/zenodo.17270595

Good salary administration requires that employees should receive financial recognition for the contribution they make, and that positions of equal value should be entitled to equal compensation. If organisations handle this incorrectly, or manipulate it in some way, the impact on the employee could be significant (Hawita, 2019), therefore there is need to investigate the nexus between compensation management and employee performance. The objective of the study then is to investigate the effect of compensation management on employee performance and the research hypothesis is: Ha1 - there is significant relationship between compensation management and employee performance.

Literature Review

Compensation Management refers to the establishment and implementation of sound policies, programmes and practices of employee compensation. It is essentially the application of a systematic and scientific approach for compensating the employees for their work in a fair, equitable and logical manner (Dobre, 2013*).*

Compensation Management as it is known today has been a very important source of attracting, retaining and motivating the required human resource for any organisation. Although most employees at middle and senior levels claim that money does not play a very important role in their decision to change or to stay in an organisation but in reality, it is money that motivates most of the employees.

Compensation is defined as the consolidated amount, allowances received and various other kinds of benefits and services which are offered by the organisation to their employees (Noe.; Hollenbeck.; Gerhart.; and Wright, 2017). In other words, compensation refers to all forms of financial returns, services and benefits received by the employees from their organisation as a part of their employment relationship.

Such compensation may be received in the form of cash i.e. wages/salaries, bonus, overtime payments, incentives (i.e. gross payment). This is called direct compensation, while benefits that come under indirect compensation may consist of life, accidents and health insurance, pay for vacation or illness, retirement benefits and so on.

Thus, in short, compensation is direct and indirect monetary benefits and rewards received by employees on the basis of the value of the jobs, their personal contributions and overall performance. Such rewards are given to employees by their organisation according to the ability of the organisation to pay and the legal provisions (Hawita, 2019).

Any dissatisfaction may result into a conflict or a dispute. This dissatisfaction may not only affect the performance of the employee but also imbalances the equity between human capital investment and expected returns to the organisation (Moniz, 2024).

The satisfaction or dissatisfaction is a gap between the expectations of an employee and the feeling or the experience of worth. This feeling or experience is an outcome of efforts offered to perform, comfort felt at work place, cushion for inflation, and appreciation perceived by the employee. A good compensation package is a good motivator. Hence, the primary responsibility of the Human Resource manager is to ensure that the company's employees are well paid (Redling, 2018).

Maslow's Need Hierarchy Theory talks about compensation being at the middle to lower rung of the pyramid and the other factors like job satisfaction and fulfilment being at the top, for a majority of employees, getting the right compensation is by itself a motivating factor. Hence, employers need to quantify the employee's contribution in a proper manner if they are to get the best out of the employee. (Noe.; Hollenbeck.; Gerhart.; and Wright, 2017).

Companies must consider what they can reasonably afford to pay their employees and the ramifications of their decisions: will they affect employee turnover and productivity? In addition, some employers and managers believe pay can influence employee work ethic and behaviour and hence link compensation to performance. Moreover social, economic, legal, and political forces also exert influence on compensation management, making it a complicated yet important part of managing a business (Pathak, Hoskisson, & Johnson, 2021).

Armstrong and Brown (2005) postulate 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 objectives and it is strategic in the sense that it addresses long term issues relating to how people should be valued for what they want to achieve; it is therefore integrated with other HRM functions, especially those concerned with human resources development.

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Performance

Employee performance is how a member of staff fulfils the duties of their role, completes required tasks and behaves in the workplace. Measurements of performance include the quality, quantity and efficiency of work. When leaders monitor the performance of employees, they can paint a picture of how the business is running. This not only helps to highlight what companies could be doing in the present to improve their business, but this information also feeds into future growth plans (www.perkbox.com).

Ashwini (2023) defines employee performance as the real behaviour that is displayed by each person as an achievement of their work in accordance with their respective roles in the organisation. Sullivan (2020) opines that performance is the result of work by the quality and quantity of what is achieved by an employee in carrying out their duties in accordance with sole responsibility that was assigned to him. Pearce (2010) suggests that indicators of performance are: quality of work, quantity of work, the implementation of the duties. Factors that influence the achievement of performance, according to Ashwini (2023) is the ability and motivation factors.

Theoretical Review

This study is based on the Vroom's expectancy theory of motivation. Vroom is the father of Expectancy theory. According to this theory, individuals make choices based on their perceived expectancy that certain rewards will follow. Translated, this means that they are only motivated to act in a specific way if they believe that a desired outcome will be attained. The theory postulates that people are mostly rational decision makers. They therefore think about their actions and act in ways that satisfy their needs and help them attain their goals. In essence, expectancy theory points to the fact that people are motivated by the promise of reward, which is linked to a specific goal. The theory is based on the knowledge that there are huge differences among people in their needs and as a result in the importance they attach to rewards. In organisations, this means that individuals will choose to perform at a level where results translate to the greatest benefit. They will therefore work hard if they expect this effort to lead to desirable rewards such as salary increase, promotion or recognition (Schultz, 1982). Given this, it is important to tie performance to rewards (Roberts, 2005).

Empirical Review

Saman (2020) did a study on Effect of compensation on employee satisfaction and performance in the Mining Company. Data was collected by interview, observation and literature study. The study was conducted with 51 employees and data was analysed using Partial Least Square (PLS). From the result of the study, it was concluded that compensation has a significant effect on job satisfaction and employee performance.

Afriyie, et al. (2020) investigated the Effect of compensation on employee's performance of Accra Technical University, Ghana. Descriptive survey design was used for the investigation. A simple random sampling technique was used to sample 40 respondents out of a total population of 57 Administrators of which 35 responded to the Twenty-item questionnaire. Frequency tables were used to present the responses. The main conclusions were that administrators were not attracted by the monetary aspect of compensation but rather management sensitivity to their needs. The study also found out that, housing loan and accommodation are the most crucial needs. The recommendation was that Management should create another form of set-off package alongside with the one in the condition of service to encourage workers to put up their best.

Methodology

The survey research design was adopted for this study, that data collection instrument was the questionnaire whose validity and reliability was tested to achieve a Cronbach alpha level of 0.71. The sample was limited to factory workers of Alo Aluminum, Emene - Enugu which were 50. 50 copies of the questionnaire were distributed to respondents who were selected using total enumeration or census method. Regression analysis tool was used to analyze the results obtained based on the following model: $y = a + b(x) + \mu$

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 is the coefficient of correlation and it shows that there is a positive correlation between the variables entered for this analysis. This means that there is a positive relationship between compensation management and employee productivity. What it means is that employees produce better when they are compensated effectively. The figure is given as 0.892 which when converted to percentage is given as 89.2% which means that there is an 89.2% correlation between compensation management and employee performance.

The R Square

The R square is the coefficient of determination. It tries to show that a change in the dependent variable can be accounted for by the independent variable. From the analysis, the R square is given as 0.795 which when converted to percentage is given 79.5% which means that 79.5% change in the dependent variable is accounted for by the independent variable. That is to say that compensation management has a 79.5% effect on employee performance. R2 = 0.795 = 79.5% which is high. This explains the significant effect which compensation management has on employee performance. R2 =79.5% means therefore that 79.5% change in employee performance is caused by changes in compensation management.

The decision Rule for the test analysis is stated as follows: Decision rule: if $T_C < T_T$ = then reject H1 and accept H0 but if. TC > T_T then reject H_0. So, the TT = 2.009 and TC = 2.955, so the null hypothesis is rejected because TC > TT and we conclude otherwise.

Conclusion and Recommendation

This study has demonstrated that compensation improves performance and concludes that compensation management has a positive and significant effect on employee performance. The recommendation of this study is that there should be a continual development of compensation packages that should not only motivate employees but attract and retain prospective employees.

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