

Chapter 4

Analysing Compensation and Benefit Management in Business Organisation

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Introduction

Employers regularly monitor their compensation policies to ensure they are paying employees in an equitable manner and as competitively as possible when compared to other businesses in the industry. Having a written reward and compensation policy helps employees understand consequences and how to align their work with their goals. Many organizations have a policy of not disclosing pay related information; in order to avoid any discontent that might result from employees' knowing what every employee else is being paid (Byars & Rue, 2003). In that respect Ferris and Buckley (1996) claimed that pay secrecy leads to low trust, and on the other hand open pay can induce management to effectively administer the pay system. Employees' satisfaction Torrington et al. (2005) argued that the compensation policy should be satisfactory for both the employer and the employee, and meets the objectives of these two parties. According to Suliman (2007) job satisfaction influences work performance, in that respect Mullins (1998) stated that motivation, job satisfaction and work performance are affected by the employees' needs and expectations, and the extent to which they are fulfilled. Nickson (2007) argued that employees seek a range of monetary and non-monetary rewards and benefits from employment, of which money is only one aspect, even if it is often the primary consideration for employee. Thus employees seek: (1) extrinsic rewards; which relates to tangible rewards such as pay, fringe benefits and conditions of work, (2) intrinsic rewards; which relates to psychological rewards and internal feelings such as the sense of personal satisfaction from the job, challenge, achievement and being treated in a considerate manner (Mullins, 1998). Everton et al. (2007) stated that when an organization is perceived to be fair and supportive, employee deviant behavior (i.e., unexplained absenteeism and stealing) will decrease. As emphasized by Negi (2002), Kotler et al. (2003) and Kandampully (2007) employee satisfaction produces ultimately customer satisfaction. Concerning the relation between the retention of employees and compensation system, Jones and Haven-Tang (2005) mentioned that there is a correspondence between these factors, they added also that there is a link between the firm size, pay levels and the retention of employees, because of the fact that employees in small enterprises often have to apply for jobs in other firms if they want better positions with higher payment.

Compensation Policy

Employees have a variety of changing, and often conflicting, needs and expectations at work which they seek to satisfy in a number of different methods. Therefore Riley (2000) emphasized that employees have quite separate feelings about pay that produces their earnings. Montana and Charnov (2000) stated that compensation could be categorized into two types: cash, which refers to wages or salaries, and non-cash, which includes all other benefits offered by the organization to its employees. Ivancevich et al. (1997) provided three selected methods of compensation;

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employees can be paid for the time they work (flat rates), the output they produce (individual incentives), or a combination of those two methods.

Cascio (2006) indicated that the broad objective in developing a pay system is to assign a monetary value to each job in the organization (a base rate) and a procedure for increasing the base rate (e.g., based on merit and inflation). Certo (1997) pointed out that when employees believe that the pay policies is unfair; they may change their work inputs to better match pay they are receiving, they may also try to change pay they receive by asking for a raise, or they may decide to quit the job. Ferris and Buckley (1996) claimed that pay policies have an impact on the organization's image, performance and the effective use of its human resources. Not all employees are in favor of job evaluation because it evaluates a job rather than the person's contribution to the employer, but this criticism can be met, however, through incentives and merit awards in a well-designed salary structure. Pay includes only the actual money employees receive in exchange for their work, incentives are rewards offered in addition to the base salary and are directly related to performance, and benefits are rewards employees receive as a result of their employment in the organization . Incentives are offered in order to focus the employees' attention on the employer objective; thus managers consider incentives as the oil that makes the organization system functions effectively. In that respect Koh and Neo (2000) stated that incentives schemes if effectively managed can be a useful mechanism to enhance employee satisfaction, even if the influence is restricted to their satisfaction with pay and with the organization itself. Scarborough and Zimmerer (1996) and Cascio (2006) claimed that many incentive programs are improperly designed, because they violate one or more of the following rules:(1) be simple; the rules of the system should be clear and understandable, (2) be specific; employees need to know precisely what they are expected to do, (3) be attainable; every employee should have a reasonable chance to gain something and (4) be measurable; measurable objectives are the foundation on which incentive plans are built.

Types of Compensation Incentives

Individual Incentive

An individual incentive system consists of an objective standard against which the employee's performance is compared, and if effectively designed, individual incentive plans can be a powerful motivator. Ferris and Buckley (1996) argued that management's inability to accurately measure individual contribution often results in incentives being incongruent with actual performance, and the motivational affect disappears. Furthermore Baker (2002) and Lyons and Ben-Ora (2002) added that the strength and value of incentives in organizations are strongly affected by the performance measures available. Thus Ivancevich et al. (1997) emphasized that individual incentives are possible only in cases where performance can be well specified in terms of output, they added also that individual incentives are attacked by advocates of teamwork and employee involvement-oriented plans, thus the encouragement of teamwork is assumed to be virtually impossible with the traditional plans of individual incentives.

Group incentives

Group incentives mean paying incentives to all group members according to the performance of entire group; the group may be as large as the entire organizational work force or as small as three or four members of a work team. Using group incentives is recommended when it is difficult to separate or evaluate individual performance and when the organization goals or the nature of work demands close cooperation in the workforce. Thus, group incentives have the advantage of encouraging cooperation among employees, on the other hand, group incentives may lead to competition between teams; and employees will not be able to see their individual contributions to the output of team, so they will not be motivated enough to produce more (Cascio, 2006). Profit sharing systems are designed to reward employees on the basis of the profit a company earns in a specific period, as this encourages employees to take a broad view of their activities and feel connected with the company as a whole (Hill & Jones, 1998). In that respect Certo (1997) claimed that profit sharing system makes employees think more like an owner and ultimately do a better

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job of building a successful organization. Other authors (Dale et al., 1997; Ivancevich et al, 1997; Byars & Rue, 2003 ; Cascio, 2006) also stated that this system (1) improves productivity and quality (2) establishes a flexible system that reflects a company's actual economic position and (3) encourages employees to reduce costs in order to raise the organization profits. On the downside, many employees may not feel that their performance have a direct impact on profits, or at least they can't see that link, specifically with the existence of many factors affecting profits such as the strength of the demand and competition, so there is no guarantee that profits will increase automatically according to performance (Cascio, 2006).

Employee Benefit

Byars and Rue (2003) defined benefits as all rewards employees receive as a result of their employment. Non-cash compensation is becoming an important factor in attracting and retaining qualified employees (Montana & Charnov, 2000). As indicated by Stahl (1995) and Donnelly et al. (1998) benefits are usually tied to employment, not performance, as the form of behavior that is rewarded is joining the organization and staying in it; thus they are considered as supplementary compensation, over the salary. Benefits often include: holiday, life insurance, personal accident insurance, company car schemes, mobile telephone package, and retail vouchers (Bateman & Snell, 1996; Beech & Chadwick, 2006). It is worth noting that benefits vary widely in availability, depending on the size of the tour operator company and the number of employees; since many tour operation companies use a small skeleton staff of employees, benefits packages are not too common (Eberts et al., 2006). There are other types of benefits that raise the image of the job such as private offices, cafeterias, advanced communications systems and modern conferences rooms (Haksever et al., 2000) as much benefits contribute to the quality of working life and make it an attractive and worthwhile place in which to be employed (Armstrong, 2006). In his book "How to motivate every employee" Bruce (2003) explained that benefits offered by the organization should fit for the employee desires and needs, for instance, a telemarketer appreciates a week-end with meals and accommodation provided, but for a tour leader such a benefit may not excite him, who spends a great deal of time in hotels and restaurants. In that respect Byars and Rue (2003) emphasized that the organization should learn what the employee perceives as a meaningful reward, which is not necessarily what management perceives. Certo (1997) claimed that non-monetary benefits can be also through advertising jobs internally before going outside to fill vacancies, which makes employees committed and motivated.

Direct monetary stipend

Direct monetary stipend could be a reward / punishment is named the incomes or wages square measure paid regularly by the due date fastened. In line with the understanding that, wages or pay rates taken also as an installment inside the sort of cash in money or in a comparable way gotten by specialists of the usage work, (Baker, 2012). Gotten compensation to fulfill essential needs like nourishment, wear and lodging. Each company in significant to the number of compensation paid to the laborer ought to be conceivable, so rock bottom wage that's given to fulfill the prerequisites of their life (Kanzunnudin, 2007). A few financial specialists opine concerning the means of wages. Implicit contract show briefly illustrated that the compensation of professionals in a company is decided by the contract between the boss and the union. This implies that in the nearness of solid unions, wage rates cannot be effectively changed as in a superbly competitive showcase. Compensation unbending nature and particularly compensation will be amazingly difficult to diminish on the off chance that there is stagnation. Insider-outsider models consider that the markets for products and labor markets are blemished. In the labor advertise there is a union and a generally constrained number of undertakings, the wage rate is decided from the collective contract assertions between unions and managers. Union members called insider and who are not in a union called the outsider. Compensation determination with the contract likely to be higher than was the case in a superbly competitive showcase. Wage flexibility is the primary subject of the economy, are generally found in the literature related to the provision of motivating forces given by the company. A number

Sustainable Management Practice - Interdisciplinary Perspective

of theoretical models have created a clarification of how the company ought to plan compensation plans to energize employees to work for the benefit of the corporation. The decision is put a few exertion into their work to maximize corporate profits (Prendergast, 2009). Wages become an imperative feature of being compelling if connected to the execution significantly (Umar, 2012). Giving wages recompense is the most difficult errand for the industry, is too the most significant viewpoints for laborers, because of the sum of wages reflects the estimate of the value of their work among the specialists themselves, their families and communities. Wages are exceptionally imperative for the industry since it reflects the industry's endeavors to guard human assets in order to have a high devotion and commitment to the industry. Effective wages technique is anticipated to contribute to maintaining the practicality of the work constrain, the realization of the vision and mission, as well as for the accomplishment of work objectives (Umar, 2012). Shields (2007) sights basic recompense as a vital portion of overall pay that is immovable and primarily time-bound, other than performance-based. It too acts as a yardstick for other currency motivating forces such as revenue sharing, which is communicated as a rate of essential pay. Essential pay makes a difference to draw in and hold representatives. Representatives utilize essential pay to compare their work offers instep of utilizing inborn recompenses and other rewards not captured in the formal organizational system up to counting work security. In a competitive market, organizations pay over the showcase rates to hold their employees.

Fringe Benefit

The primary effect of fringe benefit is to retain the employee in the organization. The practical operational value to the employing organization include maintenance of workforce in competition with the organizations, preservation of some degree of labor management peace in collective bargaining arrangements and maintenance of acceptable levels of general morale. It will produce varying values e.g. paid vacation is presumed to provide a mental and physical respite that generates increased interest and activities on the job. Life insurance reduces worry about one's family security and thus leads to greater concentration upon work. Company cafeterias promote the eating of balanced meals thus reducing fatigue in the late afternoon. Medical services help to keep the employees in good health therefore reducing absenteeism. The returns of employee benefits to the company can take various forms, these includes; More effective recruitment, improved morale and loyalty, good public relations, reduced influence of unions and reduced threat of further government intervention (Flippo, 2014). The dollar return from employees benefits is almost impossible to measure. Worker benefits and motivating forces propel workers to endeavor for a higher level of productivity. It enables the organizations to attract and retain competent career personnel and it encourages all employees to work enthusiastically towards the efficient and effective achievement of organizational goals (Okumbe, 2011). Benefits should be viewed as an investment on the part of the employer. Soft returns delivered by an effective benefits program incorporate reputation, a sense of meeting commitments and goodwill. Difficult returns, which tend to have a more quantifiable impact on a company's bottom line, incorporate worker attraction, retention and efficiency (Leopold, 2010). Offering more flexible work arrangements has been helpful for retaining best female employees. Other firms may need to find other ways to reduce voluntary turnover (Susan & Schuler, 2010). Sabbaticals are benefits that some companies offer to prevent employee burnout. Numerous businesses are starting to offer vacation advantage to hold skilled workers. Workers are permitted time off to rejuvenate; and the manager spares cash by holding ability rather than investing funds to supplant workers who end up quitting the organization (Knudson, 2006).

Non-Financial Rewards

The non-financial rewards incorporate job design, the working atmosphere, career improvement, training, cooperation and also acknowledgment. Work plan points are usually focused at improving worker fulfillment and finishing organizational goals and objectives by planning the content, strategies and association of jobs, according to the preference and capacities of various employees.

Sustainable Management Practice - Interdisciplinary Perspective

The job design can demonstrate a very good role in encouraging the worker by planning the tasks in a manner that are curiously and challenging as well. A systematically planned work can increase the worker morale and motivation by making monotony and work redundancy less, (Georg & Rastogi, 2007). The perceived work requests, job control and social support through work design eventually leads to more efficiency. Work plan might be continued by adequately executing the Human Resource involvements like revolution of work, work improvement and extension of work. These intercessions are supportive in relation to making a job more challenging with changing the work hence uplifting the workers stimulation and enactment. Alternatively, adaptable work plans, work delegation and working from home moreover encourage the worker and are supportive in their day to day existence in the organization. The adaptable work plan permits the worker to decide when to arrive and also what time to leave and to perform their duties amid the core time. In work sharing, two workers can share their obligations on one work and working from home propels the worker by encouraging them to work two to three days a week while at the comfort of their homes, (Bohlander & Snell, 2014). A superior working environment points up to expanded worker belongingness, engagement commitment and execution. It uplifts the worker inspiration and hence fosters efficiency. A working atmosphere where workers feel that they are in charge and they have reasons for doing work and get pleasure from doing their work propels the worker. In working atmospheres where representatives aren't given with satisfactory assets, tools, training, programs and supplies lead dissatisfaction hence less efficiency. The wasteful working environments which include well-being issues like impoverished ventilation, seating, lighting and commotion may cause discomfort and lessen the yield, (Hughes, 2007). A working environment with no protection and communication boundaries decreases motivation and efficiency. A solid work put which is made by utilizing ergonomic furniture and accessories, lightning and useful plan will decrease trouble and progress generation. Lack of praise, acknowledgment and advancements in the working atmosphere influence the inspiration of workers.

Career Progression

Organizations usually put more emphasis on creating their representatives and improving their motivational viewpoints like self-esteem and self-actualization. Hence, they can attain the most favorable performance and hence achieve set up goals. Equal prospects for career progression and "reasonable" payment framework and preparing may increment the inspiration of employees. There is a good relationship between training and employee execution, (Whitney & Cooper, 2009). The expectation of forthcoming budgetary benefits, promotions and acknowledgment spurs the worker to adjust to modern aptitudes and innovation at the training program that begins with a needs evaluation and at that point irregularity between real and standard execution of trainee is analyzed. Afterward on, preparing targets are made. After deciding who needs the training and what type of training ought to be administered, the training package is actualized. The final step of the handle is to assess the adequacy of training programs. Training impacts a positive effect on the worker execution. Concurring to Naveed (2012) acknowledgment and recompenses usually contain coordinate effect on inspiration of workers and increment to their productivity. Acknowledgment alludes to the common affirmation or authorization of a specified event or execution (Petresca & Simon, 2008). According to Harrison (2005) worker acknowledgment is understood as a timely, educated or official affirmation of a characters behavior and exertion that specifically underpins the accomplishment and organizational objectives and values and ordinarily has been past typical desire levels. It is hence an employee's acknowledgement of an employee's achievement and exertion towards the establishment's objectives. It concludes the act of giving uncommon consideration to employee's activities, endeavors behavior or execution which can moreover be physically or mentally or both. It is really one way of managing with the representative sentiments. Worker acknowledgment is one of the methods of persuading staff in a business, making them feel esteemed and in general stimulation of worker retention not all workers are spurred to execute past the basic least with financial motivating forces by themselves (Nolan, 2012). It is hence mandatory on establishments to supply significant grants on value as a shape of worker acknowledgment.

Sustainable Management Practice - Interdisciplinary Perspective

Agreeing to Keller (2009) non-monetary rewards can be very encouraging making a difference to set up certainty sentiments and fulfillment on portion of the worker. Observational studies appear that workers who get acknowledgment at their place of work result in higher self-esteem, self-confidence and also an actuated feeling and eagerness to take up new challenges while grasping developments (Allen & Kilmann, 2011). Workers who sense acknowledgement frequently go over and past the organizational desires and are probable to remain in the organization (Welsh, 2012). Such workers gotten to be positive approximately themselves and as a result of their positive self-esteem, they end up getting to be the most excellent and dependable workers in the organization. This further deciphers into more prominent performance requiring negligible supervision. A few organizations utilize acknowledgment to spur individual execution while others utilize it to upgrade in general organizational performance. Organizations can offer employee acknowledgment in different ways extending from the arrangements of gifts cards, certificates, shopping vouchers, 'thank you', commend suppers, trophies, career progression opportunities, training's, appreciating thoughts and regard where it merits, (Nolan, 2012). Establishments have indeed formulated acknowledgment programs such as 'employee of the month year plans and long service awards.' Studies show that failing to incorporate acknowledgment as a component of stipend is a common event in most organizations (Ndetei, 2009).

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Sustainable Management Practice - Interdisciplinary Perspective

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