Compensation Management and Its Impacts on Organisational Commitment

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Abstract
Identifying all possible factors that increase organizational commitment is of utter importance to organizations as the realization of organizational goals and objectives is an organization’s main purpose. There is a need therefore to motivate and enhance the commitment of employees to the organization since they are the building blocks and driving force of any organization. Indeed, compensation management is an important element of human resource management because it influences the decision of potential employees to join an organization and also determines the employer-employee relationship after employees become a part of the organization. Compensation management should also include both monetary and non-monetary rewards provided to employees in exchange for the work they do or the services they render. This study aimed at establishing the impact of compensation management on the organizational commitment. Recommendations were made that Organisations in Nigeria such could come together and develop consistent compensation policies that will improve organisational commitment. This could bring about consistency and stability in the compensation management of all employees throughout organisations in Nigeria therefore, leading to conformity in the overall level of employee commitment experienced towards the entire organizations.

Keywords: Compensation, Management, commitment and organization
1. Introduction

Compensation management is one of the most fundamental human resource practices in management and a major subject of importance in the general field of management. Compensation management is one of the most fundamental human resource practices in management and a major subject of importance in the general field of management. This comes as no surprises considering the fact that most if not all employees accept job opportunities mostly because of the compensation being offered to them. Employees are generally motivated to exert more efforts in their jobs when they feel that their job provides them with the things that they value. Because one of the main objectives of any organization is to maximize profit, organizations are constantly seeking to ensure that employees are satisfied with their jobs to enable them put in their best effort for the organization. Very often, organizations use compensation management systems to attract, motivate, satisfy and retain employees and also to ensure that the employees give their best and increase productivity. The process of developing an appropriate compensation management system allows organizations to provide tangible and intangible value to employees for the work they do or services they render.

Researchers have further argued that compensation management system can create and sustain a competitive advantage for organizations” (Milkovich et al., 2011). Over the years, more and more organizations have embraced and implemented not just monetary rewards but also non-monetary rewards into their compensation management plans and packages (Widmier, 2002). These monetary rewards often includes basic salary, wages, bonuses, commissions etc. while the non-monetary rewards can take on several forms ranging from protection programs, pay for time not worked, services and perquisites, praise from superiors and co-workers, promises of future promotions and opportunities, feelings of self-esteem that comes from verbal acknowledgements, recognitions, recommendations, to future monetary rewards related to performance and so much more.

Compensation represents both intrinsic and extrinsic rewards that employees receive for performing their jobs. When an organization is ready to hire employees, it must develop a process to reward those employees. This process is referred to as the compensation management process. There are five main steps involved in the process of compensation management namely; organization’s strategy, compensation policy, job analysis and evaluation, analysis of contingent factors, design and implementation of the compensation plan and finally, evaluation and review. When organizations develop and maintain a well-designed and structured compensation management system, such organizations tend to attract and retain employees who are willing to work because it gives them a positive feeling and impression about their job, satisfied with their jobs and motivated to work harder to achieve objectives and, thus, desire to remain with the organization they work for.

Organizational commitment of employees on the other hand, is also an important factor that organizations must consistently strive to achieve and maintain as it tends to influence whether an employee remains a member of the organization or leaves to pursue another job. This often results in turnover for the organizations in question. Employees who are committed to their jobs often display loyalty to their organization, do not engage in withdrawal behavior, are eager to learn more on the job, and, are willing to put in their best to ensure that the organization achieves its desired goals and objectives.
Organizational commitment can therefore be referred to as the degree in which an employee is willing to maintain membership with the organization due to interest and association with the organization’s goals, values and objectives. Generally, there are three main dimensions of organizational commitment namely; “affective commitment (AC), continuance commitment (CC), and normative commitment (NC)” (Allen & Meyer, 1991). Affective commitment occurs when employees want to stay and is influenced by the emotional bonds between employees. Continuance commitment occurs when employees need to stay and is influenced by salary and benefits and the degree to which they are embedded in the community. And finally, normative commitment occurs when employees feel that they ought to stay and is influenced by an organization investing in its employees or engaging in charitable efforts. According to DeCenzo& Robbins (2006), “employee benefits as a whole have no direct effect on employee performance, however, inadequate benefits contributes to low job satisfaction and increase in employee absenteeism and turnover”. This implies that when employees are not compensated appropriately for the effort they put in to work, they become dissatisfied with the job. Organizations seeking to achieve improved performance, effectiveness and productivity must design well-structured compensation management systems that considers and satisfies not just the physical needs of the employees but also their emotional needs hence, motivating and satisfying the employees adequately enough to produce their best (Allen & Meyer, 1991).

When organizations take on the process of structuring an effective compensation management system, there are several concerns and questions that come into play, some of which could include; is it possible for an organization to design a compensation management system that would adequately have a positive impact on employee performance and their commitment towards the organization? How often should the compensation management system be reviewed? Would a fixed compensation management system bring out the required and/or desired performance from the employees? Does the compensation offered to employees solve their problems enough to boost their performance and commitment in the workplace? Can the compensation management system stand out amongst that of fellow competitors? The aim of considering these concerns when designing a compensation management plan is to enable manager’s map-out appropriate compensation management systems that tallies with the organizational goals and objectives to ensure employee satisfaction, increased productivity, performance and commitment.

2. Statement Of The Problem
In these modern times, there is a lot of interest in the field of compensation management and organizational commitment. Why because, employees are the most significant and valuable resource in any organization therefore, ensuring that they are satisfied with their job and give the organization their best is one of an organization’s main objective. There are several ways to motivate the performance of employees; one of such ways is to build an effective compensation management system.

In every organization, employees typically receive different kinds of benefits in the form of wages, salaries, bonuses, commissions etc. Most of these employees who possess good and solid educational backgrounds tend to be unmotivated to perform their best with the job when their compensation package does not measure up to their educational background and standard thus leading to dissatisfaction, withdrawal behaviors, and turnover. Organizations with more
appropriate and adequate compensation packages typically record a positive effect on employee performance which leads to an overall decrease in turnover and employees’ willingness to remain with such organizations”. This could imply that proper compensation packages would motivate employees to commit to the organizations they work for and remain loyal to it. This study is aimed at exploring the gap between the compensation management system and organizational commitment by examining the forms of compensation that the organisations disburses, the factors that influence organizational commitment in organisations and finally, the existing significant relationship between compensation management and organizational commitment in organisations. The ability to identify the plausible reasons as to how and why compensating employees adequately can lead to organizational commitment on the part of employees pushes us a step further and closer to understanding the importance of compensation management and how it greatly influences organizational commitment in the workplace.

3. Objectives Of The Study
The study examines the relationship between compensation management and organizational commitment with the following objectives:
   a) To identify the factors that influence organizational commitment.
   b) To examine the relationship between compensation management and organizational commitment.

4. Literature Review
In simple terms, the concept of compensation management can be explained as; “there is more to rewarding people than simply throwing money at them”. The concept of compensation management encourages employees to work harder while also helping to build a competitive atmosphere in the organization. Compensation management is the process of establishing and maintaining an equitable wage and salary structure, an equitable cost structure. It involves job evaluation, wage and salary survey, profit sharing and control of pay costs. According to Mulis& Watson (2001), “the monetary value in an organization’s compensation plan is very important. However, other non-monetary factors come into play and should also be considered when preparing adequate compensation plans in any organization”. Compensation management simply implies having an appropriate compensation plan where employees can be rewarded for the work they do.

Armstrong & Brown (2006) postulated that “compensation management is an integral part of human resource management as it seeks to address the long term issues relating to how people should be valued for what they desire to achieve”. Ezeh (2014), on the other hand described compensation management as a “segment of organizational management which is centered upon the planning, organizing, and controlling of all the direct and indirect payments employees are to receive for the work they do or service rendered”.

4.1 Factors Affecting Organizational Commitment
Organizational commitment in the workplace is dependent on a variety of factors. According to Colquitt et al. (2009), some of the “factors that affect organizational commitment includes; diversity of the workforce, the changing organizational culture, good working relationships within the organization, the management style of employers, job-related influences, personal characteristics of employees, organizational structure, better employment opportunities and the working environment”.

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I. Diversity of the Workforce
According to Colquitt et al. (2009), “one of the most visible trends affecting the workplace is the increase in diversity of the work force”. As work groups become more diverse with respect to age, race, gender and national origin, there is a danger that minorities or older employees will find themselves on the fringe of such networks which potentially reduces their affective organizational commitment. At the same time, foreign-born employees are likely to feel less embedded in their jobs, may perceive fewer links to their working environment and less fit with their geographic area. This feeling may reduce their sense of continuance organizational commitment.

II. Changing Organizational Culture
The changes in an organization’s culture occurs often as a result of changes in leadership, mergers and acquisitions, or, downsizing in organizations which makes it more challenging to retain valued employees (Colquitt et al., 2009). The most obvious challenge that comes with such changes is maintaining an affective organizational commitment because certain negative emotions can be stimulated by these changes which in turn reduce an employee’s emotional attachment to the organization. Another challenge with a changing organizational culture is maintaining normative organizational commitment because the sense that people should stay with their employer erodes when an organization is downsized.

III. Good Working Relationships within the Organization
An organization can be described as a workplace environment which consists of individuals who work together by utilizing the available resources to achieve organizational goals and objectives. These individuals, the employers and employees, often develop certain working relationships as they work together. Some of such relationships are supervisory relationships, groups, teams and many more. When the individuals of an organization experience a positive working relationship amongst one another, a sense of mutual respect which allows them to commit themselves to the organization they serve will be formed.

IV. The Management Style of Employers
The style of leadership that the management of an organization adopts to coordinate the activities of its employees greatly affects the commitment of employees to the organization. A suitable management style encourages employee involvement in organizational activities which helps to satisfy their desire for advancement, responsibility, achievement, recognition, empowerment and demand for commitment to organizational goals, aspirations and objectives. Zeffane (1994), suggested that, “to develop employee commitment, morale, loyalty, and attachment to an organization, managers exhibit certain leadership qualities that will motivate and encourage the employees to work harder”.

V. Job-related Influences
Several job-related influences such as job effort, promotional opportunities, absenteeism, level of responsibility, accountability, withdrawal behaviors, turnover, performance, job role etc. tend to adequately affect organizational commitment. According to Curry et al. (1986), “an ambiguous job role may lead to a lack of commitment and promotional opportunities can enhance or diminish organizational commitment”. Baron & Greenberg (1990), also stated that “the higher the level of responsibility of a given job, the less monotonous and more exciting it becomes, and, the higher the level of commitment expressed by the employee performing the job”. Therefore, it is necessary that employees are held responsible and accountable for the work they do and level
of productivity they deliver to allow them some semblance of motivation, desire and willingness to commit to the organization they serve.

VI. Personal Characteristics of Employees
Organizational commitment can be affected by employees’ personal characteristics such as age, sex, race, education, and experience (Allen & Meyer, 1991). According to Baron & Greenberg (1990), “more experienced and older employees who are satisfied with their personal levels of work performance tend to exhibit higher levels of organizational commitment than employees with less experience and low satisfaction in performance”. This implies that older people tend to be more committed to an organization than younger employees.

VII. Organizational Structure
The structure of an organization also plays an important role in organizational commitment for instance, bureaucratic organizations tend to have a negative effect on organizational commitment. According to Zeffane (1994), “the removal of bureaucratic barriers and the creation of more flexible structures within an organization is more likely to contribute to the enhancement of organizational commitment in terms of employee loyalty and attachment to the organization”.

VIII. Better Employment Opportunities
According to Curry et al. (1986), “the existence of employment opportunities can affect organizational commitment in the workplace”. “Employees who believe that they stand a chance of finding a better job become less committed to the organization they serve. But, when there is lack of other employment opportunities, the level of organizational commitment is high” (Vandenberghe et al., 2002). “More often, membership in organizations is usually based on continuance commitment, where employees are continuously calculating the risks of staying and leaving” (Allen & Meyer, 1991).

IX. The Working Environment
The working environment is also another factor that affects organizational commitment. Some factors that can affect the working environment of organizations are organizational ownership and human resource practices (recruitment and selection). When employers and employees are stockholders within the organization, it gives them a sense of belonging and importance. According to Subramaniam & Mia (2001), “managers who participate in the decision-making process of an organization tend to have a high level of organizational commitment than managers who do not have the chance to participate”.

4.2 Relating Compensation Management to Organizational Commitment
According to Bhattacharya & Sengupta (2014), “compensation is the remuneration received by an employee in return for his/her contribution to the organization. It is an important aspect of human resource management that enables organizations to motivate their employees and enhance overall organizational effectiveness, performance, and commitment. Adequate compensation packages also serve the need for attracting and retaining the best employees”. Tessema & Soeters (2006), described compensation as a “critical component of the employment relationship which includes direct payments and indirect payments in the form of employee benefits and incentives used to motivate employees to strive for higher levels of productivity”. An adequate compensation package often motivates and satisfies employees thus, organizations always strive to ensure that employees are well-paid and compensated.
Compensation management can be described as a systematic approach to providing monetary value to employees in exchange for work done or service rendered. Ash (1993), described compensation management as an “essential tool needed to integrate employees’ efforts with
strategic business objectives by encouraging the employees to do the right things thereby improving overall efficiency at the workplace”. According to Wiley (2007), “the easiest way to boost and increase the morale, productivity, and work quality of employees in an organization is to effectively reward the employees”. “Employees generally prefer jobs that reward them on the basis of what they perceive as economically justifiable” (Robbins, 2005). “Adequate compensation management plans sends a clear message to the employees of an organization informing them about expected attitudes and behaviors and how those attitudes and behaviors will be rewarded” (Schell & Solomon, 1997). This means that, effective compensation management is one of the surest ways organizations can motivate their employees to do better and influence their performance. Appropriate compensation management tends to motivate employees to remain loyal to the organization and in turn, the organizational performance increases. “Higher compensation packages tend to retain employees because such employees are more satisfied, committed and loyal” (Chiu et al., 2002). This also means that when employees feel they are not being rewarded as expected, it will decrease their job satisfaction and their motivation may suffer, leading to low motivation, low performance and low commitment. A good compensation management system benefits an organization and its employees in several ways such as increased job satisfaction – employees tend to be satisfied with their work and strive to do more when the organization rewards their efforts fairly and adequately, improved motivation to work – when an organization’s compensation plan satisfies the needs, wants, and desires of its employees, the employees are more likely to act in a positive way and increase their productivity, reduced absenteeism – adequately managed compensation policies encourages employees with the zeal, drive and enthusiasm to work harder and be more productive on the job, decrease in turnover – when employees are adequately compensated for the work they do, they become willing to remain with the organization they work for and exhibit loyalty to the organization.

5. Theoretical Review
Understanding the relationship between compensation management and organizational commitment would require an analysis of some motivational theories. The theoretical review will look into theories formulated with respect to the field of compensation management and how it can affect organizational commitment. The main theories discussed for the purpose of this study are the equity theory and expectancy theory

5.1 Equity Theory

The equity theory postulated by John S. Adams in 1963 says that an employee who perceives inequity in his/her rewards seeks to restore equity. The theory states that people will be better motivated if they are treated equitably and demotivated if they are treated inequitably. Equity theory is concerned with people’s perceptions of how they are being treated in relation to others. To be dealt with equitably is to be treated fairly in comparison with another group of people (a reference group) or a relevant other person. Equity involves feelings and perceptions, and it is always a comparative process. It is not synonymous with equality, which means treating everyone alike. That would be inequitable if they deserved to be treated differently. Equity theory is linked with the “felt-fair” principle as defined by Jaques (1961), which states in effect that pay systems will be fair if they are felt to be fair. The theory emphasizes equity in the pay structure of employees’ remuneration and provides the view that the behavior of employee is
largely influenced by the extent to which the employee interprets fairness in compensation or rewards for his/her input. Employees’ perceptions of how they are being treated by their organizations are of utmost importance to them. The dictum “a fair day work for a fair day pay” is a sense of equity felt by employees. When employees perceive inequity, it can result in lower productivity, higher absenteeism, or increase in turnover. According to the equity theory, employees tend to reflect on the ratio of their inputs and outputs to that of other employees. When there is a perceived imbalance, it often leads to conflicts and dissatisfaction in the workplace such employees may feel inclined to take actions such as decreasing their inputs, negotiating higher pay, or ultimately leaving the organization (Adams, 1963). The equity theory states that motivation does not just depend on one’s own beliefs and circumstances but also on what happens to other people. Furthermore, the equity theory suggests that employees create a “mental ledger” of the outcomes or the rewards they get from their job duties and the inputs (or contributions and investments) they put into their job duties (Colquitt et al., 2009).

5.2 Expectancy Theory
The expectancy theory which was first proposed by Victor Vroom in 1964 focuses on the link between rewards and behavior. It predicts that an individual will act in a certain way based on the expectation that the act will be followed by a given outcome and on the attractiveness of that outcome to the individual. The expectancy theory describes the cognitive process that employees go through to make choices among different voluntary responses (Vroom, 1964). It states that the actions of an individual are driven by expected consequences and motivation is the product of expectancy, instrumentality, and valence. The Vroom’s expectancy theory can be expressed with the equation: Motivation = (Expectancy) × (Instrumentality) × (Valence)

Expectancy refers to the belief that an employees’ increase in effort will lead to an increase in productivity. It is usually affected by available resources e.g. raw materials, time, money, skills, support (supervisor support or correct information on the job) and so on. Expectancy (E→P) represents the belief that exerting a high level of effort will result in the successful performance of some task (Colquitt et al., 2009). More technically, it is a subjective probability, ranging from 0 (no chance) to 1 (mortal lock) that a specific amount of effort will result in a specific level of performance.

Instrumentality refers to the belief that if an employee performs well, a valued outcome will be received. It is usually affected by a clear understanding of the relationship between performance and outcomes, mutual trust in the employers who will take the decisions on who gets what outcome, and fairness and transparency of the process that decides who gets what outcome. Instrumentality (P→O) represents the belief that successful performance will result in some outcome(s) (Colquitt et al., 2009). More technically, it is a set of subjective probabilities, each ranging from 0 (no chance) to 1 (mortal lock) that a successful performance will bring a set of outcomes. The term instrumentality makes sense because when you consider the meaning of the adjective “instrumental”. We say something is instrumental when it helps attain something else.

Finally, valence refers to the importance that an employee places upon an expected outcome. For valence to be positive, the employee must prefer attaining the outcome to not attaining it. It reflects the anticipated value of the outcomes associated with performance. Valences can be positive, negative or zero. Salary increases, bonuses and more informal rewards are typical examples of “positively valence” outcomes, whereas disciplinary actions, demotions, and terminations are typical examples of “negatively valence” outcomes (Colquitt et al., 2009).
way, employees are more motivated when successful performance helps them attain attractive outcomes, such as bonuses, while helping them avoid unattractive outcomes, such as disciplinary actions.

6. Methodology
The paper adopted a singular source of data collection. The secondary source of data generation, which include the use of textbooks written by different authors on the subject matter, journals, magazines, information from the internet and other published and unpublished materials relevant to work. The data was analyzed using the content analysis approach. This is because of its major dependence on the secondary source data.

7. Conclusion
Based on the literature reviewed, results obtained from the data analysis and findings of the study, it can be concluded that compensation management positively influences organizational commitment. It can also be said that compensation management leads to better performance, improved management, good working relationships amongst employers and employees and, increased organizational commitment in the workplace. The implementation of a compensation management system that aims to satisfy the needs of its employees is necessary. This is a fundamental reason why adequate and effective compensation management is practised all around the world. When the needs of employees are met in the workplace, they become satisfied with the work they do, and when they are satisfied with their work, they not only want to achieve more to earn better but, they also want to remain loyal and commit to the organization that looks out for them. There is a strong direct relationship between compensation and organizational commitment in organisations thus, as the overall working conditions of employees become better, the more their commitment would improve to ensure the growth and development of the bank. The main goal of this study was to establish a relationship between compensation management and organizational commitment of employees which was achieved to a comfortable level of satisfaction.

8. Recommendations
Based on the conclusions of the study, the following recommendations and suggestions can be made.

1) Organizational commitment can be influenced by the Manager in the organisation by communicating to the employees that they value their contribution and also encouraging employee participation in the decision-making process of the compensation management system at the organisation. When employees feel that their opinions are valued at the organizations they work, they tend to exhibit loyalty and commitment due to the sense of belongingness and trust from the management.

2) The results and findings of this study could be used to develop and/or enhance the strategies and policies that guide the compensation management of employees in not only the Nigerian organisations but in other part of Africa and the world. This could bring about consistency and stability in the compensation management of all employees throughout organisations thus, leading to conformity in the overall level of employee commitment experienced towards the entire organization.
3) The capabilities and potentials of employees could be strengthened by adopting several development programs such as training sessions, educational courses, orientation and counselling programs etc. to help improve their abilities and efforts thus, channelling these efforts towards achieving organizational goals and objectives more efficiently and effectively.

References


