

Importance of Compensation Management on Organisational Productivity: A Conceptual and Theoretical Analysis

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Abstract: The objective of this paper is to present a discussion on the significance of compensation management on organisational productivity. Compensation management occupy a central focus in organisational setting and the way an organisation manages its compensation affairs will go a long way to determine the fortune(s) of the organisation both in the short and long run.

To achieve this objective, a review of current related literatures of some of the major factors driving compensations as published in leading research journals was carried out. Two broad types of compensation strategies were identified being financial and non-financial compensation. Each of this broad division have attached variables and sub-variables that have direct impact on the behaviour of employees in an organisation.

The findings revealed that there is a positive relationship between employee compensation and organisational productivity. Different organisations use different methods to motivate their employees to increase and sustain productivity. It is advisable however, for organisation to use both strategies depending on their policy options and the objectives they want to achieve. Combined utilisation of these strategies especially in multi-ethnic, social and cultural dimensions as well as gender and communal issues becomes imperative so as to prevent avoidable discontent and disruptions to services being rendered by the organisation.

This study concluded that whenever management fail to formulate the right compensation policies, the will to administer and implement these policies whenever they are formulated, always have enormous capacities to stunt organisation growth and development. It is advisable that organisation management should go the extra mile to get their compensation strategies right in order to achieve the desired productivity objectives.

Keywords: Compensation management, Organisational productivity, Financial, compensation, Non-financial compensation, Employee motivation.

1. INTRODUCTION

Compensation, according to Mondy (2010) is defined as the total of all rewards provided to employees in return for their services, the overall purposes of which are to attract, retain and motivate employees to carry out organisational tasks. Most compensation management processes comprise both fixed and variables components as well as employees' direct benefits and services. An optimum combination of these elements is ideal to positively influence the behaviour of employees' performance within an organisation with the ultimate aim to drive productivity. According to Hewitt (2009) effective compensation management play crucial roles in motivating employees to achieve higher organisational productivity. Organisational productivity is a crucial issue that is significant to both employees and their employers with each party trying to get the best deal for themselves. Employees depend on wages, salaries and benefits which in most

cases would be equivalent or surpass the work done or services rendered, while management decisions will always influence the cost of doing business and thus, their ability to sell or provide services at competitive prices and or at higher profitability rate with ultimate aim to drive productivity.

Armstrong (2003) concluded that employees are the organisation's key resource and the success or failure of business enterprises rests squarely on the ability of the employers to locate, attract, employ, train, retain, and reward appropriately talented and competent employees to help the organisation to grow. The employees' willingness to stay on the job largely depends on the compensation packages the organisation is offering to them. Smith and Watts (1992) concluded that compensation management is a powerful means of focusing and or refocussing attention within an organisation which will send clear messages to all employees of the organisation informing them about expected attitudes and behaviours. Horwitz (2010) explained further that compensation management is an essential tool to integrate individual efforts with strategic business objectives by encouraging employees to do the right things with ever improving efficiency.

Compensation management is a powerful instrument in the hand of management which they can use to influence organisational processes to ensure that they achieve their objective of efficient and effective delivery of services and this could positively impact on the behaviour of employees to drive overall productivity (Bustamam, Teng & Abdullah; Greene, 2014). Compensation management largely determines the hiring and retention of employees to attain the objectives of an organisation and it is the basis of involvement for individuals to reinforce the performance of employees (Bustamam, Teng & Abdullah, 2014; Shaw 2014; Terera & Ngirande, 2014; Xavier 2014). Compensation management requires integrating employees' remuneration processes and information with business process and strike a balance to achieve optimal organisational goals and objectives as well as meeting employees' expectations. Compensation packages entails some basic features that tend to make employee contented and satisfied on their jobs amongst which include all the components of financial variables like salaries wages, bonuses and non-financial variables like recognition, responsibilities and appreciation (Idemobi, Onyeizugbe, & Akpunonu, 2011). An ideal compensation strategy should focus and encourage employees to work hard with more determination and dedication to their duties (Khan, Aslam & Lodhi, 2011).

OBJECTIVES OF THE STUDY

The broad objective of the study is to examine the impact of Compensation management on organisational productivity. The specific objectives include the following:

- ❖ Determine the extent at which compensation management affect organisational productivity.
- ❖ Examine the effect of incentives packages on employees' retention
- ❖ Review the relationship between working conditions and organisational productivity.
- ❖ Evaluate the efficacy of financial and non-financial compensation on employee motivation.
- ❖ Investigate the influence of welfare services on overall organisational productivity.
- ❖ Explore relationship between compensation management and improved productivity.

TYPES OF COMPENSATION

For the purpose of this study, compensation management can be classified into two – financial and non-financial compensation.

❖ **Financial compensation** is concerned with financial remunerations, benefits and incentives in exchange for the services rendered by employees for a specific period of time in an organised setting. Armstrong (2003) advanced that financial rewards provide a unique financial recognition to employees for their achievements in the shape of attaining or exceeding their performance targets or reaching certain threshold levels of competence. Financial incentives which are aimed at motivating employees so as to accomplish organisational goals, improve their performance or enhance their competence or skills by focusing on specific targets and priorities. The components of financial compensation are those ones that involved direct and indirect payment of cash and cash related rewards. The direct cash related components are salaries, wages and bonuses while the indirect components are fringe benefits, retirement benefits and the various allowances like house rent, conveyance/car, medical, education, recreational and club dues and paid vacation.

❖ **Non-financial compensation** does not directly involve money and is usually related to the work itself. According to Rose (1998) non-financial compensation is a non-cash award given in recognition of a high level of accomplishment or performance which is not dependent on achievement of a pre-determined target. It includes achievement, autonomy, recognition, appreciation, responsibilities and the scope of the work. Other forms of non-financial compensation include skills development, training, career development opportunities and employee involvement in decision-making process (Armstrong, 2003; Herzberg, 1964). This category of rewards aims to boost employee morale and motivates them to achieve higher productivity (Danish & Usman, 2010).

Organisations have embraced different strategies to make their compensation management robust and enticing. Quality of life issues are major consideration and managers have recognised the benefits of a happy and productive workforce. Non-financial incentives inspire and engage employees in ways that money is incapable of doing. Non-financial incentives are the types of rewards that are not part of an employee's pay and in some instances, they cost the company little or no money, yet carry significant weight because of their importance in motivating employees as they bring in psychological and emotional satisfaction. Heineman (2000) and Purcell, Kinnie and Hutchinson (2003) were of the opinion that the design, delivery and use of compensation management have undergone major review to accommodate the motivational aspect of employee performance that promotes improved organisational performance.

DETERMINANTS OF COMPENSATION PACKAGES

According to Idemobi, Onyeizugbe and Akpunonu (2011) there are many variables that affect the determination of organisations compensation management processes. Some of these variables are related to the individual employees, the fortune of the organisation itself, labour laws and labour unions, environment as well as government regulations. Organisations take critical review of these variable before arriving at a particular compensation packages for their employees. Many organisations formalise the process of compensation determination, but largely at the discretion of the executive management. The following variables are important in compensation management process:

Labour Market: Ayesha (2015) was of the opinion that the demand for and supply of labour have a major influence in the determination of wage and salary structure. When labour supply exceeds its demand, it is most likely that low wages would be paid and likewise a higher wage will have to be paid when the demand exceeds supply, as in the case of skilled labour. The current unemployment rate in the country have dragged down wages because there is excess supply. Nowadays, some companies are not so keen to employ permanent employees, instead, they outsourced these services because there is excess supply of labour as in cashiering/teller services at the banks whose applicants are mostly graduates of various disciplines.

Labour Unions: Terera and Ngirande (2014) concluded that labour unionisation have helped to determine the national minimum wage as was recently done in the country when the central labour union, Nigeria Labour Congress fought the government to a stand still before the wages were increased even though reluctantly by the government. The labour unions were able to achieve their objectives by resorting to strikes which caused several disruptions to productions and rendering of services. Bustamam, Teng and Abdullah (2014) stated that employers in non-unionised organisations enjoy the freedom to fix wages and salaries as they please, but if these wages and salaries are poor and not competitive, it will eventually affect production negatively and increase employee attrition rate.

The Economy: The state of the economy is a major factor in wage determination. The study by Martineau, Lehman, Matwa, Kathyola and Storey (2006) concluded that whenever the economy is not doing well, it is not advisable for wages to be increased because it will just aggravate the existing bad position. Also, wage increase under the depressed economy has the capability to cause and sustain inflationary trend that may spiral out of hands. The volatile situation has the potential to cause severe disruptions in the system as a result of desperation to make ends meet.

The Organisation: The performance and health of the organisation will go a long way to determine its wage policy. In the opinion of Danish and Usman (2010) if a company is not doing well operationally and their survival chances in the long run are not certain, then it would not be wise to increase wages because such an action could cause their early collapse. Where the strategy of the enterprise is to achieve rapid growth, remuneration should be higher than what competitors pay so as to motivate employees to higher productivity. Performance appraisal helps award pay increases to employees who show improved performance. Organisational performance is most likely to be rewarded with pay increase. Rewarding performance motivates the employee to do better.

Employee qualification and experience: This is a major determinant factor on wage increase. The qualification and experience the employees possesses will most likely determine its wage level. According to Mondy (2010) the higher the qualification, the more likely will be the wage level. This also apply to employees with requisite experience whose productivity is vital to the organisation growth. The highly skilled and experienced workers are in short supply and when demand exceeds supply, it pushes up wages and remunerations demand because they are not readily available. Also, the higher the supply, the lower wage rate will be paid because the supply exceeds demand and they are easily replaceable because the supply is more than the demand.

ORGANISATIONAL PRODUCTIVITY

Productivity can be described as the quantity of work that is attained in a unit of time by means of the factors of production. Bhatti and Qureshi (2007) were of the opinion that productivity can be seen as a measure of performance that encompasses both efficiency and effectiveness. There is no universal definition of organisational productivity because different disciplines and sectors have different measures to qualify them whether they are productive or not. Organisational productivity is regarded as one of the most important factors sustaining the continuity of most business organisations either as a profit or non-profit enterprises. Productivity is a measure of the efficiency of production. It is also regarded as a measure of the efficiency of companies' products and services calculated by measuring the number of units produced in relative to employees' labour hours or by measuring companies net sales relative to employees' labour hours. High productivity ultimately leads to greater profits for businesses and greater income for individuals. The consistent growth in productivity is important because it provide more goods and services to consumers which translates to higher revenue and profits. The productivity measure of manufacturing sector is different from service rendering sector, although there are cases of similarities on their measurement indicators. Several inputs of factors are required before production can take place. These inputs could be human resources, materials and machines. These factors include technology, capital, entrepreneurship, land and labour. Productivity is the total measure of the efficiency or capacity to transform inputs that is raw materials into finished products or services. Yesufu (2000) stated that the prosperity of a nation as well as social and economic welfare of its citizens is determined by the level of effectiveness and efficiency of its various sub components. The performance of a business will determine its continued existence and development is largely dependent on the degree of productivity of its workers.

McNamara (2003) advanced that different yardstick can be used to measure productivity which may be denoted in form of quality, quantity, time and cost. He further stated that evaluating productivity could relate to measuring the length of time it takes an average employee to produce a specified level of output. Although measuring productivity may seem difficult, it is however very significant since it directly affects organisational profitability and effectiveness. In order to achieve consistent growth in productivity, organisations have been taking various steps and strategies to accomplish their objectives. Organisations now set smart goals, be clear on the directions they want to go, determine what is critical to measure, implement changes and measures outcomes as well as ensure strict monitoring and implementation of their strategies.

2. LITERATURE REVIEW

Compensation management is concerned with the formulation and implementation of strategies and policies that aim to compensate people fairly, equitably and consistently in accordance with their values to the organisation (Armstrong, 2005). Most organisations now have formal compensation management process which is a structure in which the employees who perform better are paid more than the average performing employees (Hewitt, 2009). This encourages employees to work harder and be competitive in order to enjoy some extra benefits and incentives which the organisation has provided for reaching certain performance thresholds Armstrong and Brown (2005). Armstrong (2005) stressed that compensation management is all about developing a positive employment relationship and psychological contract that adopt a total compensation approach which recognises that there are numbers of ways in which people can be compensated.

Harrison and Liska (2008) in their study positioned that reward and compensation is the centre piece of the employment contract; after all it is the main reason why people work. This includes both financial and non-financial rewards received as a result of the employment by the organisation. Brown (2003) saw compensation as a return in exchange between the employees and themselves as an entitlement for being employee of an organisation, or as a reward for a job well done. Different factors determine employees' packages and it does not depend solely on the jobs they hold, instead organisation vary the amount paid according to differences in performance of the individual, group or whole organisation as well

differences in employees' qualities such as experience, educational qualifications and skills level (Gehart & Milkovich, 1990).

There is a positive relationship between compensation and motivation, implying that if rewards being offered to employees were to be altered, then there would be a corresponding change in employee output and services. Danish and Usman (2010) have however suggested that the periodic salary increments, allowances, bonuses, fringe benefits and other compensations on regular and specific periods always keep employees' morale high and makes them more motivated and productive. Compensation is a crucial instrument for the attraction, recruitment, training and retention of talented employees that are dedicated to their responsibilities within the organisation. Management aims to promote the achievement of business goals through effective management of employees' compensation packages so as to motivate them to achieve the desired organisational objectives (Shieh 2008 & Petera 2011). Compensation management requires that management takes optimal decisions between employees' welfare and organisational productivity and if not adequately and objectively dealt with, it may hamper organisation's operations. Employees can be compensated in different forms which could be in form of money as well as in non-cash form. Benefits, such as pension, life and health insurance, and retirement plans, and allowances that include company cars or subsidised transportation represent a significant pay element in many organisations.

The American psychologist, Abraham Maslow explained in the need hierarchy that employees do not work only for money but there are other needs too which they want to satisfy from their job, that is, social needs, psychological needs, safety needs, self-actualisation (Octavius & Debbie, 2011). Several research studies have found out that highly competitive compensation systems promote employee commitment and thus results in the attraction and retention of a superior workforce. The studies noted that employees will most likely remain with an organisation as long as it serves their self-interest to do so better than the alternatives available to them elsewhere. DeCenzo and Robbins (2007) and Khan (2011) stressed further that adequate employee compensation programmes play other important roles in organisations administration including attracting potential job incumbents and identifying employees with huge future management potentials.

Empirical findings by Bhatti and Qureshi (2007) on compensation management have stressed the importance of employees' contributions towards organisational productivity. The importance of employees' commitment towards organisations objectives and how to ensure that compensation policies and processes helps to build to a healthy and conducive work environment that will guarantee consistent productivity. According to Yamoah (2013) compensation packages could be extrinsic rewards, usually financial and are tangible like pay raises bonuses, incentives and benefits while intrinsic rewards are non-financial or psychological rewards which could be recognition of a high level of accomplishment and participation in decision-making. The study by Osibanjo, Adeniji., Falola and Thelma (2014) advanced that compensation packages as a strategic tool for employees' performance and retention has the capacity to increase and sustain productivity. It shows that managers must ensure that rewards distributed to employees are dynamic and constantly re-evaluated to ensure their transparency and fairness to all employees so as to continue to have their dedication, commitment and loyalty, which is the major driver for keeping contented and satisfied employees.

Likewise, the study by Ayesha (2015) concluded that compensation factors are vital to organisational growth and development. The study by Premalatha (2013) corroborated earlier held views that compensation management has a direct impact on employees' performance. The preferences of employees on compensation may change from position to position in the organisation irrespective of its size and nature. Monetary rewards have to be supported with non-monetary benefits to retain the talents in the end.

Armstrong (2003) stressed the willingness of employees to stay and be happy on their jobs largely depend on their remunerations. When employees are satisfied with their compensation packages, they would be in positions to increase their productivity to help an organisation grow. Fadugba, Osibanjo and Abiodun (2012) affirmed that the degree to which employees are satisfied with their jobs and their readiness to remain in an organisation is a function of compensation packages and reward system of the organisation. Werner (2001) and (Martineau, Lehman, Matwa, Kathyola, & Storey, 2006) confirmed that adequate compensation packages, in form of monetary and non-monetary incentives, goes a long way to motivate employees and enhance commitment at work. Anyebe (2003), Armstrong (2005) and Bob (2011) agreed that a major reason why some organisations fail is the poor remunerations being given to their employees who will not be committed to put in their best performance. As summarised by Park (2010), monetary incentive acts as a stimulus for greater action and inculcates zeal and enthusiasm toward work, it helps an employee in recognition of achievement.

However, the ability of an organisation to compensate, adequately, its employees well depends on factors like its corporate performance, management and organisational policies and labour unions, which help, shape the type of remunerations to be given to the employees.

The compensation of employees in any organisation is strategic to the organisational goals and objectives and thus should ensure that they are adequately satisfied which would guarantee better organisational growth and performance. An effective compensation packages will result in retaining and motivating employees, as well as allow an organisation to compete at a much higher level than it currently does. As it has been proved, a conscious process or set up for organisational reward and compensation can highly enhance the profitability and effectiveness of an organisation in carrying out its tasks and responsibilities.

3. THEORETICAL FRAMEWORK

The theoretical framework provides an understanding of theories on compensation and reward system in an organisation. The study is anchored on three theories of expectancy, equity and agency. These theories explained employees' behaviour, attitudes and perceptions arising out of their compensation packages in an organisation.

3.1 EXPECTANCY THEORY

Expectancy theory as propounded by Vroom (1964) explained the mental and psychological process of an employee in interpretation and perception of organisational compensation leading to behaviours change of commitment, motivation and resentment. According to the theory, commitment policy is futuristic and it influences expectancy behaviours and attitude towards a job. Under this scenario, employees are hopeful that their effort will result in achievement of outcomes that will be of value to them. Essentially, expectancy theory enables individual employees to make choices about what to do if certain expectations are met. This they will do by aligning their goals can be motivated to achieve higher productivity if these expectations are met.

According to Vroom (1964) motivation ultimately leads to taking decision of how much effort would be applied in a specific task situation to achieve the desired objectives. Vroom concluded that the choice is based on a two-stage sequence of expectations – (effort leads to performance and performance leads to a specific outcome or reward).

It should be noted that motivation is affected by an individual's expectation that a certain level of effort will produce the intended performance threshold leading to a reward being awarded by an appropriate authority. The theory is based on effort, performance, expectations and outcomes. The interplay of the expectation leads to interpretation of fulfilment or non-fulfilment of expectations by the organisation after efforts and performance have taken place. Employees behaviour to work will be positively influenced when the rewards are predicted with a higher degree of continuity and such rewards are of presumed value to the employee. The rewards provide intrinsic and extrinsic motivation. The intrinsic motivation is derived from the job while extrinsic motivation is derived from the organisation.

Vroom integrated his analysis into a predictive model of motivational force or strength that explain the three key concepts within Vroom's model of expectancy, instrumentality, and valence. Some of the expectations embedded in the theory are that:

- ❖ There is a positive correlation between efforts and performance
- ❖ Favourable performance will result in a desirable reward,
- ❖ The reward will satisfy an important need and the desire to satisfy the need is strong enough to make the effort worthwhile.

Expectancy Theory Beliefs:

- ❖ **Valence:** This refers the emotional orientations which employees hold with respect to outcomes or rewards as a result of having performed or meeting set targets. It is imperative that organisation management must appreciate employees' effort and reward them as appropriate to drive higher productivity.
- ❖ **Expectancy:** Different employees have different expectations depending on their level, experience and qualifications. Management should ensure that the required resources in whatever form are made available to enable them excel in their various functions.

❖ **Instrumentality:** The perception of employees whether the organisation management will fulfil their promises to them will always be a subject of debate. Management must ensure that promises of rewards are fulfilled timely to prevent despondency within the employees' rank.

In the final analysis, the theory was of the opinion that if a person is rewarded for a particular behaviour, he or she is more likely to perform those actions again and again.

3.2 Equity Theory

Equity theory was propounded by Adams (1963) and its main objective was to compare job inputs and outcomes with those of others and then respond to eliminate any inequalities. The higher an individual's perception of equity, the more motivated they will be. If someone perceives an unfair environment, they will be demotivated. The theory focussed on a comparative analysis by an employee of the rewards he receives in relation to those of others who are in a similar position, with equal qualifications and carrying similar tasks in form of effort, time and skills requirement. Through evaluation of efforts, the employee develops a perception towards the rewards which in turn influence his behaviour towards work and the organisation. Any inequality in amount of efforts and rewards arising from the comparison will be interpreted as inequity leading to high attrition rate, dissatisfaction and low-level commitment to work and the organisation. The perceptions of inequity are expected to cause employees to take actions to restore equity. According to Adams (1963); Adams and Freedman (1976) there were two primary objectives of the Equity theory. First, the theory aimed to explain how people evaluate the degree to which interpersonal relations are fair. The second objective of the theory was to explain the effect of inequitable relations. To realise the objectives, the main elements that people consider when they evaluate equity were conceptualised.

According to Adams (1963) there are five main principles on which the theory was built:

- ❖ Firstly, the relations of people are built on an equity norm that is, the expectation that their contributions will be rewarded equitably. Individuals are profit-driven and expect the outcome to be equal rewards minus costs incurred
- ❖ Secondly, the evaluation of equity results from the assessment of personal inputs/outputs against inputs/outputs of other people in the social exchange relations. Equity is perceived when the ratio of input/output is equal to the input/output of other people. Generalised comparison assumes comparing one's input/output ratio against the commonly accepted standards or predefined social norms (Greenberg, 1987).
- ❖ Thirdly, unequal distribution of rewards against contributions leads to inequity perception. For example, in the organisational context, inequity happens whenever employees' inputs (education, qualification, responsibilities) and outputs (bonuses, salary and job security) are psychologically obverse to what an employee thinks that other people receive (Festinger, 1962; Voußem, Kramer & Schäffer, 2016)
- ❖ Fourthly, inequity results in the psychological discomfort due to the inconsistency between personal outcomes and the referent others. Negative inequity (the perception that an individual received fewer rewards compared to contributions) and positive inequity (which is the perception that rewards are greater than the contributions) triggers distress associated mostly with the feeling of anger and guilt. The greater the inequity, the stronger is the distress that people feel (Walster, Berscheid & Walster, 1973).
- ❖ Fifthly, if any of the forms of inequity are perceived, the person aims to restore inequity either psychologically or physically in pursuit of eliminating the emotional tensions associated with inequity perception. Psychological and physical mechanisms to cope with distress are directed at either redistributing personal or others' input/output to eliminate discrepancy, cognitively change the perception or attitude to the input/output (Scholl, Cooper & McKenna, 1987).

Employees who see themselves as being under-rewarded will experience distress and disappointment. The focus of the theory is primarily to ensure that the distribution of compensation and benefits is fair to all members within the organisation. Employees feel satisfied or dissatisfied with their pay – not so much by the total amount received, but by comparing their benefits with those enjoyed by others in the same field. Employees' actions will be changed based on their perception of how they are paid in comparison to their co-workers. Armstrong (2001) pointed out the consequences of perceived inequalities results in discontent behaviours, reduced commitment, psychological stress, reduced quality of out-put or reduction of effort in an attempt to rationalise the inequality. Armstrong (2001) stated further that organisations need to exercise equity in compensation through carrying out salary market survey, adopting pay-skill-performance system, openly communicating compensation policy of the organisation and promptly dealing with salary grievances.

3.3 Agency Theory

Agency theory was put forward in the late twentieth century by Jensen and Meckling (1976). According to them, an agent is a person who acts on behalf of another person, the principal, in dealing with other people. For example, a selling agent acts on behalf of a principal, a manufacturer of goods, to sell goods on the manufacturer's behalf. Similarly, a stock broker is an agent who acts on behalf of a client (the principal) to buy or sell shares on the client's behalf. The agent acts in the name of the principal and commits the principal to agreements and transactions. Similarly, the board of directors of an organisation have the authority to bind the company to contractual agreements with other parties. At corporate or conglomerate level, the principal-agent model explained why organisation executive management are adequately compensated with a variety of benefits like stocks, options and bonuses instead of a flat salary. This model as explained by Gayle and Miller (2015) captures the economic interactions of an uninformed party (the principal) who delegates tasks to the informed party (the agent) whose private action can affect both party's benefits and whose interest is not perfectly aligned with the uninformed party. Most modern firms and conglomerates are usually characterised by a dispersed ownership structure especially if the company is quoted at the exchange; thus, the shareholders (principal) of a firm delegate the business operation to professional managers (agents) to run it professionally and render profitable returns.

Broadly, the agency theory attempts to use pay in order to get the different interests of people involved with the company to become one in the same. There are many categories of people within a company and each has their own set of priorities, thus the theory focuses on the divergent interests and goals of the organisation's stakeholders, and the ways that employee compensation can be used to align these interests and goals (Eisenhardt, 1989; Fama & Jensen, 1983). Employees wish to have a safe workplace, to be paid fairly based on their level of effort and maybe even share in company profits if the company is successful. Management seeks to increase the productivity of employees and to be paid fairly based on their level of expertise within the organisation. Shareholders want the company to maximise profits by reducing costs (including labour expenses) while increasing the value and reputation of the company. The priorities of each group can be in direct conflict. The agency theory of compensation management can make it a priority to maximise productivity, performance and the reputation of the company so that employees, management and shareholders ultimately have the same goals.

Agency Conflicts and Problems

There are perennial conflicts that usually exists between principals and their agents. Each party has their narrow interests to protect and in the course of protecting these interests often results in disagreement and conflicts, some which could be fundamental and seemingly intractable which ultimately jeopardises the fortunes of the organisation. These conflicts could be as a result of the following:

- ❖ **Moral hazard:** Mitnick (1992) concluded that the prospect that a party that is insulated from risk may behave differently from the way it would behave if it were fully exposed to the risk, hence an agent/manager has an interest in receiving benefits from his or her position as a manager and can thus afford to take careless risks that may dangerously expose the company to risks or loss that may not directly affect him.
- ❖ **Effort level:** In most instances, the remunerations of the agents are guaranteed, hence they could afford not to be alive to their responsibilities and may still be adequately remunerated. Thus, managers may work less hard than they would if they were the owners of the company. The effect of this insufficient effort could be lower profits and a lower share price for their principals who are the owners of the business (McKnight, & Weir, 2009).
- ❖ **Earnings retention:** Florackis and Ozkan (2009) stressed that since the remuneration of directors and senior managers is often related to the size of the company, rather than its profits. This scenario now gives managers incentives to grow the company and increase its sales turnover and assets so as to benefits directly, rather than to increase the returns to the company's shareholders that will benefit their principal and company owners.
- ❖ **Risk aversion:** Miller (2009) stated that executive directors and senior managers usually earn most of their income from the company they work for. They are therefore interested in the stability of the company, because this will protect their job and their future income. This means that management might be risk averse, and reluctant to invest in higher-risk projects. In contrast, shareholders might want the company to take bigger risks, so as to earn bigger returns from the investments.
- ❖ **Time horizon:** Shareholders are concerned about the long-term financial prospects of their company, because the value of their shares depends on expectations for the long-term future. In contrast, managers might only be interested in the short-term. This is partly because they might receive annual bonuses based on short-term performance, and partly because they might not expect to be with the company for more than a few years (Zajac & Westphal, 1994).

4. CONCLUSION

In conclusion, organisations should formulate, administer and implement good compensation policies that would allow them locate, recruit, train and retain their talented employees. Organisations management should ensure that their compensation packages are competitive with what is obtainable from their peers and should also be dynamic through periodic reviews. This will ensure they retain the dedication, commitment and loyalty of their employees which is the major drive for keeping employees contented and satisfied, thus preventing staff attrition.

When employees are satisfied with their current job, they tend to stay longer with the organisation. The rate of physical branch expansion has slowed down considerably, especially with the technological advancement and the use of internet and online channels to consummate transactions, many employees are willing or are compelled to wait at their current locations because there are few chances out there for other organisations that would offer above the market compensation packages. It therefore implies that when their current employers offer attractive packages, there are higher chances that they will stay. Organisations should ensure the provision of good welfare packages that will encourage and promote employees' performance.

4.1 RECOMMENDATIONS

Based on the literatures above, the following recommendations are being made to help create, sustain and promote organisational growth and productivity:

- Organisations should conduct research and implement their findings on reward and remuneration levels so as to increase and sustain productivity.
- Organisations should promote adequate job security in order to reduce absenteeism, staff attrition and moonlighting among employees.
- Organisations should design and implement career development programmes, including training, conferences and seminars as a reward for committed and dedicated staff.
- Organisations should endeavour to provide conducive, adequate and good work place environment to make their work more interesting.
- The compensation structure should include new and enticing ways to retain and motivate employees with a wide range of benefits designed to encourage individual efforts. For instance, organisations may use various methods to support education of its employees.
- Employees should be aware of the rewards attached to each performance targets so that each employee will know what he/she should expect in exchange for his/her efforts at every level of performance, especially if they meet the required performance thresholds.
- Effective communication between employers and their employees is vital to the growth and development of the organisation. There should be smooth vertical and horizontal communications among all the stakeholders so as to reduce the incidence misconstruing management or employees' intentions and thus prevent avoidable clarification of issues which might slow down work efforts.

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