

Effect of Compensation on Job Performance: The Case of Hawassa Industrial Park, Hawassa, Ethiopia

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ABSTRACT

The purpose of this study is to assess the compensation policy and examine its effect on employees' job performance in Hawassa industrial park, Ethiopia. To achieve this goal, the researcher adopted an explanatory research design and a quantitative research approach. The primary data was collected through a questionnaire. The data were analyzed using multiple linear regression. The result indicated that the compensation system in Hawassa industrial park is not adequate, and most employees are dissatisfied with the payment system. The regression analysis results also revealed that salary, bonus, incentive, allowance, and fringe benefit could affect employees' performance. Therefore, it is recommended that the industry park improve its current compensation package to suit internal and external conditions. Similarly, top management bodies at the industry park should update the employees' compensation package to maintain and attract a competent workforce.

Keywords: *Benefits; Compensation; Employee's attitude; Industry park; Performance.*

1.0 Introduction

It is important for organizations to meet and introduce new motivational tools of employees since the change has been observed in the workplace realities in today's organizations Roberts (2003). Beer *et al.*, (1984) strongly asserts in their research of changing work environments, the reality that organizations today have totally changed. Therefore, it is more important for the top management to carry out new methodologies of developing strong and durable relationships between the organization and employees for meeting the organizational goals and fulfilling the continually changing needs of both parties.

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Employee compensations refer to all forms of pay or reward going to employees and arising from their employment. Developing an effective and appropriate compensation system is an important part of the human resource process. An effective and appropriate compensation system can help, attract and retain competent and talented individuals who can help the organization accomplish its mission and goals Dessler (2002). According to Ivencevich (1998), compensation has been recognized as a major motivator of employees. As the issue of motivation is concerned, employee compensation systems have been found to be the most commonly adopted technique among the organizations. Employee compensation offers a diversity of rewards that may be monetary or non-monetary Calista (2009).

According to Robins (2003), organization compensation can include many different types of rewards and benefits such as salaries, incentive payments and other benefits and services. If an employee believes he/she is underpaid, that employee will likely reduce expended effort by working more slowly and being absent Byars & Rue (1997). A well designed and functional compensation system is an efficient way to increase employee work performance Clalista (2009). Compensation leads to better performance and keeps workers focused on their jobs.

It is important to know that employee compensation includes all forms of pay and reward received by employees for the performance of their job Stewart *et al.*, (2001). Failure to design an appropriate compensation system will have an unfavorable impact on the productivity and job satisfaction of employees and the overall effectiveness of the organization Neo *et al.*, (2006).

2.0 Review of Related Literature

2.1 Compensation

Compensation, like any other human resource management concept, has different meanings. Of course, this is due to the diverse conceptualizations often ascribed to the concept. Understanding the meaning and usage of the concept also indicates its components. Armstrong and brown (2001), in defining compensation, conceptualized it as an adequate and equitable remuneration for employees due to their contributions to achieving organizational objectives. The definition by Naukrihub (2007) that compensation is an integral part of human resource management which helps in motivating the employees and improving organizational effectiveness, was quite similar. These arguments suggest that there is a link between compensation and job performance. Others argue that compensation must be holistic packages beneficial

to both employees and employers. Monday (2008) also argues that compensation is a total of all rewards given to employees in return for their services rendered.

Compensation implies having organizational policies and procedures in which the employees who perform better are paid more than the average performing employees Hewitt (2009), Pearce (2010). This suggests that compensation is often concerned with human resource management strategies that compensate employees fairly, equitably and consistently in accordance with their value to the organization Armstrong (1999). Parallel to the above body of knowledge, researchers have also understood employee performance quite differently. McConnell (2003) argues that job performance is an employee's task and behavioral accomplishments could be pragmatic and yet measurable. Therefore, it is expected that a job should not only consist of task and behavior requirements but definitely be quantifiable. Campbell *et al.* (1993) opine that job performance should not be the consequence of behaviors but rather the behaviors themselves. Behavior-centered approaches to performance evaluation seems to be the new norm in performance management as much empirical evidence suggests that job performance consists of the measurable and observable behaviors that employees actually engage in. Rewarding employee job performance requires organizations to take into consideration employees' perception of fair and equitable compensation.

2.2 Salary

Base- salary is the annual and monthly salary rates of an employee which are established under current personnel policy for each position. Besides, base-salary is to represent the employee's straight-time pay for a standard 40-hour work week Anonymous (2007). Base-salary is a form of periodic payment from an employer to an employee, which may be specified in an employment contract. It is contrasted with piece wages, where each job, hour or other unit is paid separately, rather than on a periodic basis. In other view of running a business, base-salary can also be viewed as the cost of acquiring human resources for running operations, and is then termed personnel expense or salary expense. Besides, Henderson (2006) and Young (1999) stated that base-salary is a base pay that is given to employees on a weekly, monthly or yearly basis based on the job structure.

2.3 Bonus

Bonus refers to a cash payment provided to employees based on their performance. For example, monetary incentives for achieving job targets Bloom & Milkovich (1998), Gupta & Shaw (1998), Lowery *et al.*, (2002). Steven and Loring

(1996) stated that bonus is a single, one-off, lump-sum payment which can be in the form of cash or other creative monetary scheme, such as stock options. Bonus is defined as all payments to employees which are not paid regularly at each pay period, for example, bonuses paid at fixed periods. Besides, bonus payments are generally linked to individual or collective performance. Bonus can be distributed randomly as the company can afford to pay a bonus, or the amount of the bonus pay can be specified by contract (Anonymous, no date).

2.4 Incentives

Incentive pay, on the other hand, relates compensation more to performance criteria, such as return on investment, volume of goods produced or sold, earning or share. While essentially one type of merit pay exists, there are a wide variety of incentive pay plans. Well & Holden (2005) have broadly categorized incentive pay systems into three: individual bonus schemes; collective bonus schemes; and collective bonus schemes based on profit generated. A bonus is a gratuitous payment by the employer that is not directly earned by the employee. The employee has no entitlement to the payment as a result of a contract of employment and cannot be assured of receiving it in return for a specific performance. The point is that the level of the benefit cannot be directly linked to the performance of the individual rather to the performance of the business Hall (2008). Bonus schemes are based on the balance score card which is a strategic planning and management system that is used extensively in business and industry, government, and non-profit organizations worldwide to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals Gomez (2007).

2.5 Fringe Benefits

Fringe benefits are provided by the employer, even if the actual provider is a third party. This is because the employer is the party that pays for the benefit that is provided to the employee. Similarly, the employee is usually the recipient of the benefit, even if its use is extended to other family members. The objectives of fringe benefit are to create and improve sound industrial relations, to boost up employee morale, to motivate the employees by identifying and satisfying their unsatisfied needs, to provide a qualitative work environment and work life, to provide security to the employees against social risk like old age benefit and maternity benefits, to protect the health of the employees and to provide safety to the employees against accidents to

promote employees' welfare by providing welfare measures like recreation facilities, to create sense of belongingness among employees, and to meet the requirements of various legislations relating to fringe benefits.

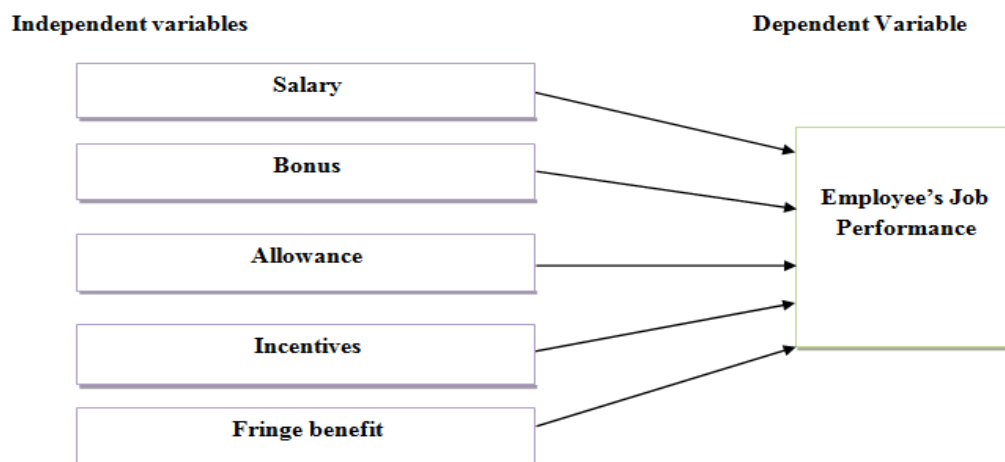
2.6 Job performance

According to Motowidlo (2003), job performance is defined as the total expected value to the organization of the discrete behavioural episodes that an individual carries out over a specified time period. Those researchers emphasize two key issues in this definition. First, performance is an aggregated property of multiple, discrete behaviours that occur over time. Second, the property of behaviour to which performance refers is its expected value to the organization.

2.7 Conceptual Framework

This conceptual framework integrates and shows the impact of the compensation on the employees' performance. Therefore, compensation is the independent variable, and employees' performance is the dependent variable, and this has been represented graphically as follows in Figure 2.1.

Figure 2.1: Conceptual Framework of the Study



Source: Adapted from Osibanjo et al. (2014)

Research Hypothesis

Ho1: Salary has a significant effect on employees' job performance.

Ho2: Bonus has a significant effect on employees' job performance.

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- Ho3:** Incentive compensation has a significant effect on employees' job performance.
Ho4: Allowance compensation has a significant effect on employees' job performance.
Ho5: Fringe benefit compensation has a significant effect on employees' job performance.

3.0 Research Methodology

3.1 Research design and approach

The study employed explanatory research design. Since explanatory research design is the best if the research question is to identify factors associated or to understand the effect of the independent variable on the dependent variable Oleary (2004). Moreover, quantitative research approached is used.

3.2 Data sources

The study employed both primary sources of data. The primary data was collected from the Hawassa industrial park employees.

3.3 Target population

The target population of the study was all the employees working in Hawassa Industrial Park (HIP) whose industries had two and above years of experience. Accordingly, twelve companies were qualified for this study and all the employees working in these industries were the target population of the study.

3.4 Sample size and sampling techniques

In order to determine the sample size, the number of employees who were working in twelve companies was considered. Therefore, the total numbers of employees in selected companies were 17,623 (IPDC, 2019). Accordingly, sample size was determined by using the formula developed by Yamane (1967) as follows:

$$n = \frac{N}{1 + N(e)^2}$$

$$n = \frac{17623}{1 + 17623(0.07)^2}$$

$$n \approx 202$$

Where: n = Sample size
 N = Total Population
 e = Sampling Error

After determining the sample size, the researcher used proportional stratified random sampling technique to get the ultimate respondents (See Table 3.1).

Table 3.1: Total Population Size and Distribution of Sample in Sampling Units

No.	Name of Companies	Ni	ni = n .Ni/N
1	PVH Arvind	1804	21
2	Isabella manufacturing	406	5
3	TAL garments plc	1026	12
4	Everest textile S.c	2024	23
5	JP textile	632	7
6	Silver spark Apparel (RAYMOND)	2469	28
7	EPIC Apparel	1355	15
8	Hyderamani garments plc	1617	19
9	Hela Indochin Apparel plc	1959	22
10	Indochin Apparel plc	3570	41
11	Century garments plc	635	7
12	Quadrant Apparel	126	2
Total N= 17623			n=202

Source: IPDC, 2019

3.5 Data collection tools

The data was collected using a questionnaire. In order to realize the objective of the study, the researcher used a closed ended questionnaire as the best instrument for the collection of primary data.

3.6 Method of data analysis

The data that was collected through questionnaire was edited, coded and entered into the computer using Statistical Package for Social Science (SPSS) Software Version 26. The analysis techniques were performed using multiple linear regressions.

4.0 Results and Discussion

The results of the regression analysis were presented after checking the assumption such as normality, Multicollinearity, linearity, and Heteroskedasticity.

Table 4.1: Results of Regression Analysis Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.834	0.696	0.688	0.18666

As per Table 4.1 the R-value of the model was 0.834 which shows the highest degree of relationship between independent and dependent variables. The R^2 value of

the regression model was 0.696, indicating that 69.6% of variance in job performance was accounted by salary, bonus, allowance, incentives and fringe benefit.

Table 4.2: Results of ANOVA Output

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	15.311	5	3.062	87.890	.000
	Residual	6.690	192	.035		
	Total	22.001	197			

According to the ANOVA table (Table 4.2) indicated that the multiple regression model itself is statistically significant or not significant. Because R^2 only measures explained variation in dependent from the predictors), the f-ratio is used to test whether or not R^2 could have occurred by chance alone. In short, the f-ratio found in the ANOVA table measures the probability of chance departure from a straight line. On results of the output found in the ANOVA table, the model is statistically significant when salary, bonus, allowance, incentives and fringe benefit were included ($F=87.890$, $p<0.001$). Therefore, the overall equation was found to be statistically significant.

Table 4.3: Results of Multiple Linear Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	SE	Beta		
1	(Constant)	.732	.138		5.295	.000
	Salary	.162	.030	.242	5.422	.000
	Bonus	.193	.026	.314	7.383	.000
	Incentive	.161	.036	.203	4.465	.000
	Allowance	.229	.033	.319	6.851	.000
	Fringe benefit	.190	.032	.261	5.957	.000

Note: B= Regression coefficient (Estimate), SE = Standard Error, Dependent variable = Job performance

Based on Table 4.3, using “B” (unstandardized) coefficients, the regression equation of the research model becomes in the form indicated as follows.

$$JP(Y) = \beta_0 + \beta_1(S) + \beta_2(B) + \beta_3(I) + \beta_4(A) + \beta_5(FB) + \varepsilon$$

$$JP = 0.732 + 0.162*S + 0.193*B + 0.161*I + 0.229*A + 0.19*FB + 0.138$$

The regression equation is interpreted in the following few paragraphs. Five

variables were included in the model and all the predictors were found to have a significant effect on the employee job performance. These are salary, bonus, incentives, allowance and fringe benefit.

According to the results of Table 4.3, salary has positive and significant effect on the employee job performance. Therefore, the result of the regression coefficient ($B = 0.162$, $p = 0.001$) indicates that a one unit increase in the salary brings a 0.162 unit increase in job performance. In supporting this finding, Kinicki and Kreitner (2016) found that financial money has the dominancy to magnetize, retain, and motivate individuals towards higher performance. Similarly, Stanley (2012) argued that people do not work for free; they need to be compensated for the work that they do in terms of salary to be motivated and improve their job performance.

Bonus was found to be a determinant factor for employ job performance. The result of beta coefficient for bonus was found to be positive and statistically significant at the 0.1% level of significance ($B = 0.193$, $p = 0.001$). Furthermore, the values of the beta coefficient indicated that for every unit increase in bonus, a 0.193 unit increase in employ job performance is predicted. Therefore, the result implied that bonus positively affect employ job performance. In corresponding to this finding, Ndichu (2017) found that employees who receive a large bonus will likely want to get it the following year too and keep their performance. On the other hand, employees who receive a miserly bonus and it reflects how the company assessed their performance, might consider improving the following year.

As the result of Table 4.3 presents allowance has a positive and significant effect on the employee job performance. Additionally, the result of the beta coefficient indicates that a one unit increase in the allowance, leads a 0.161 unit increase in the employee job performance ($B = 0.161$, $p = 0.001$). In connection to this finding, Stephen et al. (2018) argued that allowance improves not only the performance of employees but also their satisfaction level because, it is a means of protecting the real wages of workers during inflation.

Incentive has positive and significant effect on employee job performance. The results of the beta coefficient and p-value ($B = 0.229$, $p = 0.001$) indicates that WODA employees job performance increases by 0.229 as a result of a one unit increase in the WODA incentive. This is similar with the finding of Chepkemai (2018) who found that incentives have a significant impact on employee performance.

As the result of Table 4.3 shows fringe benefit has positive and significant effect on the employ job performance. The results of the beta coefficient ($B = 0.19$, $p = 0.001$) indicates that a one unit increase in the fringe benefit, leads a 0.19 unit increase in employ job performance. In connection to this finding, Saleem (2011) stated that

fringe benefits are often desirable pieces of compensation packages and so increase job satisfaction and their job performance.

5.0 Conclusion and Recommendations

Employees in the Hawassa industrial park were not satisfied with their salary and it is found that salary had an effect on the performance of employees in the study area. Therefore, the associations should try to check their strategies and take appropriate corrective steps for their employees' wage and salary administration.

Bonus is another factor that influences the performance of employees. As the organization satisfies employees with a bonus, pay justifies over time payment, rewards them for their better performance of work and meet their needs, it increases their job performance. Therefore, employers in Hawassa industrial park should consider employees who are giving high contribution and have an excellent evaluation for the organization productiveness by giving bonus.

Incentive had an effect on the performance of employees in the Hawassa industrial park. The availability of the chance for promotion on job, access to reward for individuals contribution, give recognition, availability of commission, fair incentive system and employees satisfied with the incentive system of the company have a statistically significant effect on employee job performance. Thus, the Hawassa industrial park should give promotions, rewards, and recognition based on the performance of employees.

Allowance had an effect on the performance of employees. Therefore, the Hawassa industrial park should give allowance apart from their basic salary such as vacation pay, clothing/uniform payment etc.

Fringe benefit was found to be a significant factor that influences the performance of employees. Satisfying employees with the other allowances given to them apart from base salary, giving extra payment for clothing/uniform, accommodation and accommodation vacation pay also increases employee job performance. Equally, availability of lunch, transport, and medical benefit policy comparable to those offered by other such organizations also has a statistically significant effect on employee job performance. Therefore, employers in the Hawassa industrial park should encourage their employees by giving lunch, transport, and medical benefits.

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