

Compensation Management and Employee Job Satisfaction: A Case of Nigeria

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ABSTRACT Human resources are the pivot of organisational effectiveness and the greatest asset that an organisation can possess. The retention of skilful and well equipped workforce in an organisation is pertinent to the growth and overall performance of an organisation. The satisfied employees' surely contribute to the organisation to achieve its competitive advantage over its competitors. The present study is an attempt to investigate the relationship between compensation management and employees' job satisfaction in Nigeria's Insurance Sector. The instrument used in information gathering was questionnaire. In all, 250 questionnaires were administered to the employees' of an insurance company, 213 were retrieved and 212 were found usable for response rate of 84.4%. The statistical analysis revealed that compensation management and employees' job satisfaction are significantly correlated though weak and that compensation management have an impact on motivation and job satisfaction of employees'. Implications of the study for managers in the perspective of HR practices have been highlighted and recommendations are offered.

INTRODUCTION

Nigeria is the most populous African country and has tremendous economic potential due to its rich endowment of both natural and human resources. While a country might have abundant physical resources, it will not achieve rapid economic and social progress unless its citizens are enterprising and have the required skills and attitude. Developing nations, in particular, require versatile human resources.

Nigeria's insurance sector is part of the broader financial sector. This sector is an important financial institution that covers individual policy holders in the event of death, accidents or damage to property through fire or environmental disasters. It also offers investment vehicles for savings. The Nigerian insurance sector has not been able to measure up to the international standards because it is confronted by a number of challenges, one of which is a lack of skilled employees. This has prevented the industry from growing. The sector has been unable to attract qualified and efficient employees due to poor remuneration and low levels of job satisfaction. Insurance companies therefore need to adopt effective recruitment, selection and placement processes in order to attract and retain efficient employees.

Compensation management is a useful instrument in the hand of management to contrib-

ute to the organisational effectiveness and can impact positively on the behaviour and productivity of employees (Bustamam et al. 2014; Greene 2014). Compensation management determines the hiring retention of employees to attain the objectives of an organisation, and is the basis of involvement of individuals to reinforce the performance of employees (Bustamam et al. 2014; Shaw 2014; Terera and Ngirande 2014; Xavier 2014).

Compensation management is, therefore, a major factor in attracting and retaining staff. A skilled and stable workforce enables organisations to successfully implement their strategies to gain competitive advantage over competing organisations (Heneman et al. 2000; Ivancevich 2004). While substantial financial resources are invested in designing, organising and managing compensation systems and despite their prominent role in determining the success and development of the firm, scholars and practitioners have lamented the slow pace of research on compensation management specifically (Heneman et al. 2004; Kersley and Forth 2005). The design, delivery and use of compensation management have undergone major shifts to accommodate the motivational aspect of employee performance that promotes improved organisational performance (Heneman et al. 2000; Purcell et al. 2003).

Khan et al.'s (2011) study on 450 Habib Bank Limited employees in Pakistan noted that com-

compensation management aims to encourage and retain employees to enhance the overall effectiveness and efficiency of an organisation. Similarly, Idemobi et al. (2011) viewed compensation management as a tool to improve organisational performance. Employees that experience high levels of job satisfaction are more committed and dedicated to their responsibilities and, through training and development, are able to take decisions independently. This is achieved by allowing an employee a measure of control over what s/he wants to do and how to do it (Mathis and Jackson 2011; Chaudhary 2012; Inayatullah and Jehangir 2012; Brevis and Vrba 2014).

Employee compensation refers to all the returns that accrue to employees arising from their employment (Dessler 2008; van der Merwe et al. 2009; Nazim-ud-Din 2013). Compensation management requires accuracy and precision as, if not adequately and objectively dealt with, it may hamper or organisation's operations. An ideal compensation strategy should encourage employees to work harder with more determination and dedication to their duties (Khan et al. 2011).

Job satisfaction is expressed as the "pleasurable emotional state resulting from the appraisal of one's job as achieving or facilitating one's job values" (Locke 1969: 317). This is also corroborated by Callaghan and Coldwell (2014) and Yadav and Aspal (2014). Job satisfaction is viewed as a function of diverse specific satisfactions and dissatisfactions that emerges as a result of different dimensions of work that the employee experienced (Rehman et al. 2010; Bustamam et al. 2014).

Objectives

- ♦ To determine the extent of compensation management in Nigeria's insurance sector, and
- ♦ To determine the relationship between compensation management and employee job satisfaction at A and G Insurance Plc.

Literature Review

Compensation is a crucial instrument for the attraction and retention of talented employees that are dedicated to their responsibilities within the firm. Compensation management aims to promote the achievement of business goals

through attracting, motivating and retaining hard working employees (Shieh 2008; Petera 2011).

Compensation Management

Compensation management is a crucial component of the overall management of an organisation. It refers to the process by which employees are remunerated for their input at the workplace (Khan et al. 2011).

Types of Compensation

For the purpose of this study, compensation is classified into the following categories:

- ♦ Financial compensation
- ♦ Non-financial compensation
- ♦ Compensation and the individual

Financial Compensation

Financial compensation is concerned with financial rewards and incentives. Armstrong (2003: 687) accepted that "financial rewards provide financial recognition to people for their achievements in the shape of attaining or exceeding their performance targets or reaching certain levels of competence or skill while financial incentives aim at motivating people in achieving their objectives, improve their performance or enhance their competence or skills by focusing on specific targets and priorities".

Non-financial Compensation

This type of compensation does not directly involve money and is usually related to the work itself. It includes achievement, autonomy, recognition and the scope of the work. Other forms of non-financial compensation include skills development, training and career development opportunities (Armstrong 2003: 626; Herzberg 1966). This category of rewards aims to boost employee morale (Danish and Usman 2010; Resurreccion 2012).

Compensation and the Individual

Researchers are of the view that firms that seek to improve employees' productivity should link remuneration and personal effort (Encinosa III et al. 2007; Kaplan and Norton 2007; Bartlett and Ghosal 2013). Heneman (1992) argued that rewards and bonuses for personal effort are the

most visible ways of acknowledging an employee's efforts. However, programs that reward effort cannot be compared with new administrative procedures based on uninterrupted progress, joint effort and support (Demming 1986; Snell and Dean 1994; Lepak and Snell 2002).

Firms are beginning to give greater recognition to individual pay and performance not only to encourage increased productivity and efficiency, but also to retain highly valued to achieve the firm's objectives (Kuvaas 2006). Lee and Bruvold (2003) note, that the more encouragement employees receive, the higher their level of commitment to the firm. Gardner et al. (2004) concur with this point of view. Similarly, Lawler (2003) argues that when remuneration is linked to effort, both individual and organisational performance is enhanced. Lawler (2003) added that tying remuneration to performance improves employee motivation, as workers become more results-oriented. Employees will make more effort to achieve results when they are aware that their remuneration package is determined by their contribution to the firm's performance (Lawler 2003).

Low job satisfaction, a high rate of absenteeism and staff turnover, and moonlighting are some of the consequences of insufficient and inadequate compensation (DeCenzo and Robbins 2006; Khan et al. 2011; Majumder 2012; Alam 2012). Among the 5 Ms, that is, Men, Money, Machines, Material and Market, men are an organisation's most valuable asset. Employees are the architects of a firm. To maintain job satisfaction and retain their services, compensation in the form of wages should be fair and adequate. Effective managers compare their firm's compensation strategies with similar firms in the sector or with the established benchmark.

Job Satisfaction

Job satisfaction is a key to improving both organisational and individual performance. Employees with high levels of job satisfaction are more motivated to achieve the firm's objectives (Feinstein and Vondrasek 2000; Ahmed et al. 2010; Aelik et al. 2011). Job satisfaction refers to employees' attitude towards their jobs which are the result of their perceptions of the job or task that they do. It is an emotional or evaluative response that can be positive, neutral or negative (Ivancevich and Matteson 1990; Greenberg and Baron 2000; Aydogdu and Asikgil 2011).

Similarly, Eren (1993) and Aelik et al. (2011) emphasise that job satisfaction is a worker's attitude towards his/her job, based on the different characteristics of the job in question. The level of job satisfaction is determined by the social status attained through their job and their experience in the working environment (Aelik et al. 2011). Rashid et al. (2013) argued that job satisfaction and motivation are inseparable tangible principles when it comes to the success of any firm and its workers. Thus, if workers are encouraged in their job, they experience higher levels of job satisfaction and are inclined to use their skills to put more effort into their work.

Benita and Anghelache's (2012) study on teachers' motivation and job satisfaction found no difference between male and female teachers in terms of overall job satisfaction and its scope. They posited that job satisfaction derives from adequate and continuous learning motivated by a strong desire for achievement and affiliation. Likewise, Azash et al. (2012) study on job characteristics as determinants of work motivation and job satisfaction revealed that skills, task identity, task significance and feedback serve as either positive or negative predictors of employee job satisfaction. Latif et al. (2011) examined job satisfaction among public and private college teachers in Pakistan, focussing on the factors that contribute to job satisfaction and dissatisfaction. College teachers in the public sector reported higher levels of job satisfaction than their private sector counterparts.

Balachandan et al.'s (2010) study on job satisfaction among officers employed by insurance companies concluded that employees in the private sector and government insurance companies are not affected by motivational factors to the same degree as employees in other institutions. Arshadi's (2010) study on basic needs satisfaction, work motivation, and job performance in an industrial company in Iran revealed that a high level of autonomy satisfies three psychological needs and therefore enhances motivation as well as job performance. Ayeni and Popoola (2007) viewed that the work motivation, job satisfaction and organisational commitment of library personnel in Nigeria concluded that there is a correlational relationship between perceived motivation, job satisfaction and commitment. It established a negative correlation between the motivation and commitment of library personnel.

METHODOLOGY

The data for this paper were collected from employees of an insurance company operating in south-west Nigeria. Questionnaires were hand delivered to the HR section from where they were distributed to employees. Participation in the study was boosted by management's commitment to the exercise. Confidentiality was ensured as the employees did not state their names on the completed questionnaire. Two hundred and fifty copies of the questionnaire were distributed; to the participants and out of them 213 questionnaire were returned, 212 were usable, yielding a response rate of 84.4%.

In terms of gender, 122 (57.5%) of the respondents are male and 90 (42.5%) are female. A hundred and twenty (56.6%) are married. The average age is 31-40 years. Turning to educational qualifications, 63.7% of the respondents had a first degree, while 23.6% and 8.9% had a post-graduate degree and professional qualification, respectively. Table 1 displayed that 76.4% of the respondents had 1-9 years work experience.

Measures

There are two measures for this study. One was self developed and the other was adapted from a published scale.

Compensation Management

Compensation management was measured using a self-developed scale called the Compensation Management Questionnaire Scale (CMQS) on a six-item measure requesting the participants to respond to a seven-point response scale. The items include "my salary is commensurate to the work I do", "my salary is above those paid by similar companies in the industry" etc. Responses to this item were measured on a 7-point scale, where 7 = strongly agree and to 1 = strongly disagree. The cronbach's α of this scale was 0.87 which shows internal consistency reliability.

Job Satisfaction

Job satisfaction was measured using the Minnesota Job Satisfaction Questionnaire (MSQ) on a six-item measure, also asking the participants to respond to a seven-point response scale. The items are "being able to keep

busy all the time", "there are opportunities for advancement in this job", etc. The responses to this item were measured on a 7-point scale where 7 = strongly agree and 1 = strongly disagree. Cronbach's α coefficient of the adapted scale was 0.74 which shows internal consistency reliability.

Data Collection

Two hundred and fifty questionnaires were distributed to the employees of an insurance firm in Nigeria through the Human Resources Department to all the company's branches, including the headquarters. Two hundred and thirteen were returned, of which 212 were useable, representing a return rate of 84.8%. The questionnaire was divided into two sections: a section on demographic information set out in Table 1 and a second section covering CMQS and MSQ adapted from the work of Weiss et al. (1967) with modification.

Data Analysis

The data collected were analysed using the Statistical Package for the Social Sciences (SPSS)

Table 1: Demographic information

	<i>Frequency</i>	<i>Percentage</i>
<i>Gender</i>		
Male	122	57.5
Female	90	42.5
<i>Marital Status</i>		
Single	75	35.4
Married	120	56.6
Divorced	7	3.3
Widow	5	2.4
Separated	3	1.4
Missing Item	1	0.9
<i>Age</i>		
20-40	151	71.2
40-51	45	21.2
51-above	15	7.1
Missing Item		
<i>Education</i>		
School certificate	8	3.8
Undergraduate Degree	135	63.7
Post-graduate degree	50	23.6
Professional and other qualifications		
<i>Experience</i>		
1-5years	110	51.9
6-9years	52	24.5
10years-above	49	23.1
Missing Item	1	0.5

Source: Field Survey

version 21. Descriptive statistics were employed to describe the participants' demographic profiles and Pearson Product Moment Correlation was engaged to test the research proposition.

RESULTS AND DISCUSSION

The descriptive statistics for the measures of compensation management are reported in Table 2, and the descriptive statistics for the measures of job satisfaction are reported in Table 3. Table 4 reports the results of Pearson correlation testing the association between compensation management and job satisfaction.

Compensation Management

Compensation management is a crucial component of managing employees to achieve effectiveness and efficiency. It is used to motivate and retain employees and ultimately enhances the overall effectiveness of an organisation. An organisation designs its compensation structure in line with its vision, mission and strategies. Compensation management is beneficial to both parties in the employment relationship. Employers benefit from a reduced absenteeism rate. If an employee finds his/her work rewarding and is satisfied with his/her current pay and bene-

fits, there is far less need to absent him/ her from the job. Secondly, compensation motivates employees to work harder because they are aware that when they achieve a certain goal, they will be rewarded or receive an increment. Thirdly, it promotes job satisfaction, reducing employees' intention to quit. Compensation benefits employees by building self-confidence and self-esteem/self-efficacy. Reward schemes, etc. are a way of recognising employees' efforts and they feel that they are valued by the organisation. When an organisation gives different assurances to employees, it put their fears to rest.

Table 2 presented that the majority of the respondents are not satisfied with the compensation offered by the insurance company. The finding of the study supports the outcome of the impact of rewards on job satisfaction and employee retention (Terera and Ngirande 2014).

Job Satisfaction

Today's world is dynamic and ever-changing. In this environment, job satisfaction is an integral factor in motivating employees to accomplish organisational goals and objectives. Job satisfaction has been recognised as one of the key issues in the service sector of the economy, including insurance. To cope up with cur-

Table 2: Compensation management

Statement	SDA	DA	DAS	N	AS	A	SA	MEAN	SD
My salary is commensurate to the work I do	28	41	24	21	35	35	26	3.97	2.02
My salary is above those paid by similar companies	42	53	28	36	30	17	4	3.12	1.68
My salary is enough to compensate me for my job	32	48	30	26	37	30	7	3.50	1.80
I received other payments apart from the salary	83	45	20	13	20	16	12	2.80	2.35
My salary is competitive, reasonable and is reviewed	36	54	28	42	18	24	9	3.28	1.77
My company pays salary and emoluments that are sufficient to motivate employees	43	50	30	38	25	15	10	3.18	1.76

Source: Field Survey.

Table 3: Job Satisfaction

Statement	SDA	DA	DAS	N	AS	A	SA	MEAN	SD
Being able to keep busy all the time.	7	9	8	26	47	61	49	5.30	1.54
The opportunity for advancement on the job.	8	18	27	42	48	48	17	4.51	1.57
The chance to be responsible to determine and plan my work.	7	22	31	43	47	43	13	4.38	1.55
The policy and practices towards employees of the company.	15	27	33	78	25	18	11	3.82	1.50
My pay and the duties I carry out are commensurate.	17	45	53	37	28	18	9	3.50	1.58
The security of my job is guaranteed.	16	45	35	48	33	12	18	3.70	1.68

Source: Field Survey

rent changes and future challenges, organisations need to identify the factors that significantly influence organisational outcomes, including job satisfaction.

The statements in Table 3 were designed to establish whether or not the respondents are able to grow and feel secure in their jobs. Most of the respondents indicated that they are satisfied with the opportunities provided to grow in the industry but were neutral on whether or not they are offered the chance to be responsible to determine and plan their work and did not agree that their pay is commensurate with their duties or that their job security is guaranteed. The result of the research is in consonant with the findings of reward management and job satisfaction among frontline employees in hotel industry in Malaysia (Bustamam et al. 2014).

Correlation is significant at the 0.05 level, that is $p < 0.05$; therefore there is a significant relationship between compensation management and employees' job satisfaction.

Table 4 indicates that the correlation between compensation management and employees' job satisfaction is .445 which is significant at 0.05 level ($r = .445$, $p < 0.05$). This implies that there is a significant positive relationship between compensation management and employees' job satisfaction at insurance companies in Nigeria. The value of p which is 0.027, is lower than 0.05 and the correlation coefficient is 0.445 or 44.5%. There is a relationship between compensation management and employees' job satisfaction. Besides, the null hypothesis that states that, there is no significant relationship between compensation management and employees' job satisfaction is rejected and the alternative hypothesis that states that, there is a significant relationship between compensation management and employees' job satisfaction at insurance companies in Nigeria is accepted. The outcome of this research is in track with the impact of rewards on job satisfaction and employee retention that there is no significant relationship be-

tween rewards and job satisfaction amidst employees (Terera and Ngirande 2014).

CONCLUSION

The objective of the present study was to investigate the relationship between compensation management and job satisfaction in the insurance industry in Nigeria, as well as its consequences for this industry's performance. The findings indicate that the respondents are not satisfied with the compensation they receive in the insurance industry; they regard it as inadequate and insufficient. This supports the views expressed in the literature that if workers are not satisfied with their compensation, the organisation will suffer low levels of job satisfaction, high rates of absenteeism and labour turnover, and moonlighting. The study's findings also reveal that insurance employees' level of job satisfaction is negatively affected by the fact that their remuneration is not commensurate with the tasks they perform and job security is not guaranteed. This finding concurs that employees in the private sector and government insurance companies are not affected by motivational factors to the same degree as employees in other institutions. The Pearson product moment correlation coefficient shows that there is a relationship between compensation management and the job satisfaction of employees in the insurance industry in Nigeria; however, this is not very significant. The cumulative effect of these findings is that, the retention rate of employees in the insurance industry will be very low, and that these companies will suffer high absenteeism rates and increased intention to quit. All these factors have a negative impact on organisational productivity.

RECOMMENDATIONS

Arising from the outcomes of this study, the following recommendations are offered:

Table 4: Pearson correlation between compensation management and employees' job satisfaction

	<i>N</i>	<i>Mean</i>	<i>Std D</i>	<i>R</i>	<i>P</i>
Compensation management	207	5.7536	5.09542		
Employees' job satisfaction	207	5.2995	1.54139	.445	.027

Source: Field Survey

Firstly, Insurance companies should improve their compensation strategy and remuneration to boost employees' dedication and commitment to efficiently deliver good customer service. This will improve the sector's image. Secondly, Insurance companies should conduct research on remuneration levels in other sectors, particular service-related sectors like the banking industry. Thirdly, Insurance companies should promote adequate job security in order to reduce absenteeism, labour turnover and moonlighting among employees. Finally, Insurance companies should design and implement career development programs, including conferences, seminars and other training exercises as a reward for committed and dedicated staff members.

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