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The Impact of Compensation Management on Organisational Performance (Case Study of Nigeria Breweries PLC)

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ABSTRACT

This study examined the Impact of Compensation on Employee Performance in an Organization used as a reference point. It tries to determine whether compensation management significantly affects employee performance in the company. Current and existing literature was reviewed for validity and reliability. A total of 90 respondents stated the relevant hypothesis. It was discovered that there is an adequate compensation plan and benefit in Unilever Nigeria Plc. and that the organization's employees valued the organization's compensation benefits. It was recommended that the organization's management should relate pay conduct worker performance appraisal for effective compensation plan; employers should be continually challenged to develop pay policies and procedures that will enable them to attract, motivate, retain, and satisfy capable employees, proper training and promotion also to be given to the employee of the organization in term of motivating them for job satisfaction done, non-monetary motivation awards also need to be increased such like: Holiday pay, Bonus, Pension benefits, over-time pay etc., regarding the salary and other allowances, management should intensify salary schemes for their employees. The organization should support its employees in upgrading their standard of living, and standard facilities should be provided to enhance their employees' motivation for job performance.

Keywords: *Compensation Management, Employee Performance, Job Satisfaction, Motivation, Labour Turnover, Human Resource Management, Organisational Productivity*

1. INTRODUCTION

In today's dynamic business environment, organisations face mounting pressure to attract, retain, and motivate employees who can drive sustainable performance. One of the most critical levers for achieving this is a robust compensation management system. Compensation extends beyond basic salary; it encompasses financial rewards, benefits, recognition, and career incentives that shape employee satisfaction and productivity (Armstrong & Taylor, 2006).

Effective compensation is fundamental to human resource management because it directly influences employee behaviour, motivation, and overall organisational effectiveness. As Kim (2004) observes, employees' commitment and performance are highly sensitive to how they are rewarded. A well-structured compensation system helps align individual goals with organisational objectives, fostering a mutually beneficial employment relationship. On the other hand, poorly managed compensation practices can lead to dissatisfaction, reduced commitment, high turnover, and declining organisational performance (Olaniyan & Binuyo, 2017).

Compensation influences multiple dimensions of employee experience. Johnson et al. (2008) argue that remuneration impacts not only immediate job satisfaction but also an employee's perception of fairness, value, and career growth. Furthermore, inadequate or inequitable compensation often leads to

work-family conflict, psychological stress, and disengagement. In an era where skilled talent is a critical competitive advantage, organisations that fail to design effective compensation packages risk losing their most valuable asset—their people (Rahman & Singh, 2019).

Armstrong (2006) emphasises that modern compensation management is not limited to pay structures but extends to developing a holistic employment proposition that balances intrinsic and extrinsic rewards. This includes fostering an organisational culture that values contribution, recognises excellence, and provides clear pathways for personal growth. Similarly, Brown (2003) suggests that compensation serves both as a transactional contract—rewarding labour—and as a relational mechanism that signals how much the organisation values its workforce.

Academic studies consistently reveal that there is a direct correlation between compensation strategies and key performance outcomes, including productivity, job satisfaction, retention, and organisational citizenship behaviours (Thomas & Hughes, 2019; Harrison & Liska, 2008). Fair and competitive compensation also shapes employees' self-esteem and loyalty, contributing significantly to an organisation's social capital and employer brand.

Despite its strategic importance, many organisations, particularly in developing economies, struggle with designing and implementing compensation systems that balance affordability with competitiveness. Misaligned compensation frameworks can result in high employee turnover, reduced productivity, and poor morale. This underscores the importance of understanding the link between compensation management and employee performance, which is the focus of this study.

Research Hypotheses

Two hypotheses guide the study. The first posits that there is no significant relationship between compensation management and employee turnover. The second assumes that management compensation policies have no effect on employee performance. The alternative hypotheses contend that compensation management does influence turnover and that compensation policies do impact performance.

Significance of the Study

This research is significant for multiple stakeholders. For organisational leaders, it offers insights into how compensation strategies can be optimised to enhance productivity and reduce turnover. For policymakers and HR professionals, the findings contribute to the development of equitable and performance-driven compensation frameworks. Furthermore, the study is valuable to academics and students, providing a foundation for further research into human resource management practices and their impact on organisational competitiveness in an increasingly globalised economy.

2. LITERATURE REVIEW

Compensation is more than just a financial transaction; it symbolises the value an organisation places on its employees and serves as a cornerstone for attracting, retaining, and motivating talent. According to Dessler (2020), compensation encompasses both direct financial payments and indirect benefits that employees receive in exchange for their contribution to the organisation. This holistic view includes not only salaries and bonuses but also health benefits, retirement plans, recognition, and non-financial incentives like career development opportunities and flexible work arrangements. In the context of modern employment, compensation plays an essential role in fostering job satisfaction, commitment, and overall productivity.

The evolution of compensation management reflects the broader shifts in economic structures and workforce dynamics. In earlier industrial economies, compensation was largely a function of job roles, time spent, and union negotiations. However, as the global economy transitions towards knowledge-based industries, there is a growing recognition that intellectual capital, creativity, and problem-solving are more valuable than mere manual output (Davidescu et al., 2020). This shift has necessitated compensation models that are more performance-driven, equity-focused, and strategically aligned with organisational goals.

Compensation management, therefore, is not merely about payroll processing but a strategic function that impacts an organisation's competitive edge. According to Martocchio (2011), effective compensation systems are those that align organisational objectives with employee performance, creating a psychological contract that balances the expectations of both parties. Employees are motivated when they perceive fairness and transparency in pay structures, which in turn influences their engagement, loyalty, and discretionary effort towards the organisation.

Theories of motivation further underscore the importance of well-structured compensation systems. Vroom's Expectancy Theory suggests that employees are motivated when they believe that their effort will lead to performance and that performance will lead to desirable rewards (Vroom, 1964). Similarly, Adams' Equity Theory emphasises that perceived fairness in compensation relative to others significantly affects employee satisfaction and productivity (Adams, 1965). These theories collectively highlight that compensation is not just an economic exchange but also a psychological mechanism that shapes employee behaviour.

The globalisation of labour markets has added another layer of complexity to compensation management. As organisations increasingly operate across borders, they must navigate variations in cost of living, labour laws, and cultural expectations surrounding pay (Torrington, Hall, Taylor & Atkinson, 2020). Moreover, the proliferation of remote work since the COVID-19 pandemic has forced organisations to reconsider traditional location-based pay models, leading to debates about whether compensation should reflect an employee's location or their value contribution irrespective of geography.

Performance-based pay systems have gained traction in response to the need for aligning employee output with organisational performance. As noted by Armstrong & Taylor (2023), these systems link compensation to specific metrics such as sales targets, project completions, or quality improvements.

While such systems can drive motivation and accountability, they also risk creating unhealthy competition, short-termism, or unethical practices if not designed with balance and fairness.

Simultaneously, issues of equity, diversity, and inclusion have become integral to compensation discourse. Pay transparency and efforts to close gender and racial pay gaps are now central to both legal compliance and organisational reputation. Research by Appelbaum & Emadi-Mahabadi (2023) reveals that organisations that proactively address pay equity not only enhance their brand value but also experience higher employee retention and engagement rates.

Technological advancements have further transformed compensation practices. The use of AI and big data allows HR professionals to conduct real-time compensation benchmarking, forecast compensation trends, and customise reward packages (Sambasivam, 2022). These innovations enable organisations to remain agile in their compensation strategies while ensuring fairness and competitiveness.

In summary, the literature suggests that compensation management has evolved from a basic administrative task into a strategic driver of organisational success. It directly influences employee satisfaction, retention, motivation, and organisational culture. In today's dynamic and competitive environment, organisations must adopt compensation models that are fair, transparent, and aligned with both employee expectations and strategic goals.

3. METHODOLOGY

3.1 Research Design

The research design adopted for the study was the survey design which was done through the administration of questionnaires.

3.2 Population of the Study

The population consists of the members of staff of Nigerian Breweries Plc.

3.3 Sample Size

A sample size of 100 respondents will be selected from the entire staff of Nigerian Breweries Plc, Lagos Directorate, through a random selection from the population. Random sampling is chosen in order to minimize cost and time of the research.

3.4 Sampling Techniques

The sampling design used for the study is probability sampling in which the respondents are selected at random without bias for age, sex, or hierarchical status of the respondents. However, this will cut across various strata involving grouping of respondents into junior level, middle level and top-level management will be used. It is mainly to get the responses of the respondents on the issue.

3.5 Method of Data Collection

The primary data were collected through questionnaires administered to the staff of Nigerian Breweries Plc while the secondary were gathered from magazine, journals, textbooks, and internet materials on the impact of compensation management on organisational performance.

3.6 Reliability of the Instrument

Based on what has been stated on the validity of the statistical instrument chosen, we conclude that the statistical tool adopted is reliable.

3.7 Validity of the Instrument

The questionnaire adopted is a valid research instrument for this study as it is comprehensive enough and structured in such a way as to elicit the appropriate responses from the respondents.

The validity of the questionnaire was deduced from the series of questions directed to the respondents which was also in relation to the topic of discussion. This shows the reliability and validity of the questionnaire used in surveying relevant information needed for this study.

3.8 Administration of Research Instrument

The researcher maintained a repeat visit to the company of study, for both distribution and retrieval of research questionnaire, through the assistance of some senior officers of the organisation in order not to disrupt the flow of activities in the organisation.

3.9 Description of Research Instrument

The major research instrument was the research questionnaire which consist of two sections namely 'A' and 'B' section 'A' consist of respondent's bio-graph information such as sex, age, marital status, etc section 'B' consist of series of questions on both independent and dependent' variables of the research topic and Likert scale statement will be sue in the construction of the research questionnaire.

3.10 Procedure for Data Analysis

The data generated in the course of the study were analysed via simple percentage while hypothesis shall be tested with the use of chi-square statistical analysis.

The formula for chi-square test statistics is written below:

$$X^2 = \sum \frac{(fo - fe)^2}{fe}$$

Where:

fo = Frequency Observed

fe = Frequency Expected

Σ = Summation

X^2 = Chi – Square

3.11 Decision rule

The decision rules stipulated that alternative hypothesis should be accepted if the calculated value is greater than the table value and reject the null hypothesis.

4. RESULTS AND DISCUSSION

4.1 Demographic Analysis of Respondents

Understanding the demographic profile of respondents is crucial as it shapes how compensation is perceived and its subsequent impact on organisational performance.

Table 1: Demographic Profile of Respondents

Demographic Variable	Category	Frequency	Percentage (%)
Gender	Male	64	71
	Female	26	29
Age	21–30 years	14	16
	31–40 years	40	44
	41 years & above	36	40
Marital Status	Single	36	40
	Married	54	60
Organisational Role	Junior Staff	15	17
	Senior Staff	28	31
	Management	47	52
Length of Service	1–5 years	28	31
	6–10 years	42	47
	11 years & above	20	22
Education	OND/NCE	10	11

HND/BSc	48	53
MBA/MSc	15	17
Professional Cert.	17	19

Insight: A significant proportion of respondents are male (71%), with most aged between 31-40 years (44%) and predominantly holding undergraduate degrees (53%). Notably, management staff represent over half (52%) of respondents, suggesting an informed perspective on organisational compensation practices.

4.2 Analysis of Respondents' Perceptions on Compensation Management

A series of questions were posed to assess perceptions of compensation management, its fairness, impact on job satisfaction, and alignment with performance.

Table 2: Summary of Key Survey Responses

Statement	Strongly Agree (%)	Agree (%)	Undecided (%)	Disagree (%)	Strongly Disagree (%)
Equitable pay fosters job satisfaction	37	28	22	13	0
Monetary rewards serve as key compensation	53	36	11	0	0
Employee effectiveness depends on performance incentives	39	36	15	0	0
Management compensation policies affect employee performance	11	4	13	40	32
Effective compensation affects organisational growth	33	47	20	0	0
Relationship exists between compensation and turnover	34	26	21	19	0
Compensation attracts and retains talent	17	50	17	16	0
Compensation enhances employee performance	37	27	14	22	0
Compensation aligns rewards with business goals	39	36	25	0	0
Compensation addresses how employees are valued long-term	53	31	12	4	0
Policy balances external competitiveness and internal equity	32	62	6	0	0
Effective compensation motivates and fosters commitment	52	25	17	6	0

Interpretation: The overwhelming consensus is that fair compensation enhances motivation, commitment, and retention. Notably, a significant 73% believe that monetary rewards are a core component of compensation, while 80% agree that performance incentives directly influence effectiveness.

4.3 Hypothesis Testing

4.3.1 Hypothesis One

1. **H₀:** There is no significant relationship between compensation management and employee turnover.
2. **H₁:** There is a significant relationship between compensation management and employee turnover.

Observed Frequencies from Table 4.2(6)

Response	Observed (O)	Expected (E = 90/5 = 18)	(O-E)	(O-E) ²	(O-E) ² /E
Strongly Agree	31	18	13	169	9.39
Agree	23	18	5	25	1.39
Undecided	19	18	1	1	0.06
Disagree	17	18	-1	1	0.06
Strongly Disagree	0	18	-18	324	18.00

Total	90				28.90
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Chi-square Calculation

$$\chi^2 = \sum \frac{(O - E)^2}{E} = 28.90$$

- 1) **Degrees of freedom (df) = 5 - 1 = 4**
- 2) **Chi-square critical value at $\alpha = 0.05$, df = 4 = 9.488**

Decision Rule:

Since $28.90 > 9.488$, reject H_0 . Therefore, there is a significant relationship between compensation management and employee turnover. This means effective compensation management can reduce turnover by enhancing job satisfaction and retention.

4.3.2 Hypothesis Two

- **H_0 :** Management compensation policies do not significantly impact employee performance.
- **H_1 :** Management compensation policies significantly impact employee performance.

Observed Frequencies from Table 4.2(8)

Response	Observed (O)	Expected (E = 90/5 = 18)	(O-E)	(O-E) ²	(O-E) ² /E
Strongly Agree	34	18	16	256	14.22
Agree	25	18	7	49	2.72
Undecided	13	18	-5	25	1.39
Disagree	18	18	0	0	0.00
Strongly Disagree	0	18	-18	324	18.00
Total	90				36.33

Chi-square Calculation

$$\chi^2 = \sum \frac{(O - E)^2}{E} = 36.33$$

- Degrees of freedom (df) = 4
- Chi-square critical value at $\alpha = 0.05$, df = 4 = 9.488

Decision Rule:

Since $36.33 > 9.488$, reject H_0 . This confirms that compensation policies significantly influence employee performance.

4.4 Discussion of Findings**Compensation and Employee Turnover**

The hypothesis test demonstrates a strong statistical relationship between compensation management and employee turnover. This aligns with prior research by Olaniyan & Binuyo (2017), which confirms that fair compensation structures reduce staff attrition. Employees who perceive fairness in pay, benefits, and recognition are more likely to remain with the organisation. The finding reinforces Herzberg's Two-Factor Theory, suggesting that inadequate compensation acts as a dissatisfier leading to turnover.

Compensation and Employee Performance

The second hypothesis confirms that compensation policies substantially affect employee performance. This resonates with Vroom's Expectancy Theory, where employees exert more effort if they believe that performance will lead to desirable rewards. When organisations implement compensation strategies linked to merit, bonuses, and recognition, employee engagement and output improve significantly.

Notably, 64% of respondents agreed or strongly agreed that compensation management enhances performance. This suggests that monetary rewards combined with non-monetary incentives, such as promotions and career development, are effective motivators within Nigerian Breweries Plc.

Equity and Motivation

A compelling insight from the survey is that a majority (94%) believe the organisation balances internal equity with external competitiveness in its compensation policy. This aligns with Adams' Equity Theory, which posits that perceived fairness enhances motivation and job satisfaction.

Furthermore, 77% believe that compensation management fosters alignment between reward practices and the company's business goals. This demonstrates that when compensation frameworks are strategically designed, they not only satisfy employees but also drive organisational effectiveness.

Retention and Talent Attraction

The data also shows that 67% of respondents agree that effective compensation management attracts and retains high-quality talent. This is critical in Nigeria's competitive labour market where skilled workers frequently move in search of better opportunities. Compensation, therefore, functions not just as a reward mechanism but as a strategic retention tool.

Organisational Growth and Sustainability

Respondents overwhelmingly (80%) agree that compensation management contributes to organisational growth. This underscores the role of human resource practices in long-term corporate sustainability. As Armstrong & Taylor (2023) argue, effective compensation practices are central to achieving business competitiveness in dynamic markets.

4.5 Synthesis with Literature

The findings are consistent with the extant literature, which confirms the pivotal role of compensation in influencing organisational outcomes (Dessler, 2020; Martocchio, 2011). Empirical validation of both hypotheses reinforces global research that compensation management drives motivation, reduces turnover, and enhances productivity (Appelbaum & Emadi-Mahabadi, 2022; Davidescu et al., 2020).

4.6 Implications for Practice

- **For HR Practitioners:** The results suggest an urgent need to implement performance-linked compensation systems that are transparent, equitable, and aligned with organisational goals.
- **For Management:** Investment in both financial and non-financial rewards (e.g., training, career progression) is essential for workforce stability.
- **For Policymakers:** This study underscores the importance of regulations that promote fair labour practices, pay transparency, and equitable compensation standards.

This comprehensive analysis reveals a statistically significant link between compensation management and both employee turnover and performance. The results validate compensation as a critical strategic lever for enhancing organisational effectiveness, fostering motivation, and sustaining competitive advantage in Nigeria's dynamic business landscape.

5. CONCLUSION AND RECOMMENDATIONS

This study concludes that compensation is a vital strategic tool for attracting, motivating, and retaining employees, ultimately enhancing organisational performance. A well-designed compensation system must align with organisational goals and employee expectations, fostering a culture of fairness, motivation, and commitment. When compensation is effectively managed—particularly through transparent, performance-based systems—it strengthens employee morale, reduces turnover, and enhances productivity. Conversely, poorly structured compensation can demotivate employees and impede organisational success.

Based on the findings, it is recommended that organisations implement regular performance appraisals, ensuring that compensation fairly reflects individual contributions. A performance-linked pay structure should be prioritised to reward effort and excellence. Additionally, management should invest in employee development through training, promotions, and skill enhancement, serving both as motivation and as a tool for retention. Organisations must also improve workplace conditions, offer competitive salary structures, and incorporate non-monetary benefits such as bonuses, pension schemes, overtime pay, and holiday incentives to increase job satisfaction. Furthermore, compensation policies should be reviewed periodically to reflect industry trends and inflationary pressures. Ultimately, aligning compensation strategies with both organisational goals and employee welfare fosters loyalty, reduces turnover, and drives sustainable organisational growth and success.

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