



THE IMPACT OF COMPENSATION STRATEGY ON FIRMS PERFORMANCE: EVIDENCE FROM IRAQ COMPANY

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Article history:	Abstract:
Received: 6 th August 2022 Accepted: 6 th September 2022 Published: 8 th October 2022	This study investigates the impact of compensation strategy on firms' performance: evidence from Iraq Company. The study adopted a descriptive survey research design; hence, two research hypotheses guided the study. The sample size selected were one hundred and fifty (150) among the staff and management of the Iraq manufacturing company. Two instruments were formulated to gather necessary information. The study findings showed that compensation strategy had significant and positive effect on workers' productivity where the t-statistic with the slope value of 0.783. The study further revealed that significant compensation strategy had significant effect on organizational performance where the slope value is 0.415. Based on the findings, the study recommendations were made to top management selected business units in Iraq to use compensation strategy to improve the employees' productivity and organizational performance. Also, training and re-training of top management should be improved and organize so that they can accumulate knowledge of attracting, retaining, and encouraging employees for better-quality organizational productivity.

Keywords: Compensation; Job Evaluation; Workers' Productivity; Competitive Advantage; Organizational Performance.

INTRODUCTION

In any typical organization, employment relationship has been described as exchange process where an employee's create inputs in area of skills, knowledge and expertise in return for numerous compensation from so called employer. From the point of view of employee or the workers, pay has huge impact on the cost of living, security, esteem, status, physiological needs of employee. implementing compensation packages like security, health care and security packages are determinant of employees' standard they from the organization. Sincerely, compensation is the primary element of doing business, carry out task related and investment which must be provided indirectly translated to employee good behavior, knowledge increase and goals accomplishment (Bana & Kessy, 2017). Researchers have carry out thorough research on the role play by compensation and performance in an organizational setting. Apart from this, the paper also provides holistic review on the measurement, determinant of it as well as consequence of compensation decisions. The concept of employment relationship and contract are noted as long-term reinforces of main issues. (Ali & Raza, 2015).

In addition, Compensation has been popularly regarded as strategy that translated to workers' reward with people contribution towards the goals attainment. Therefore, this particular benefits or rewards must meet up by the organization with the provision of legal framework that will make it to workable in the long run. According to Khudhair et al, (2020) opined that a contented employee is more productive employee in the job. There are multiple journals written on the primary role play by compensation. Some of the journals include: The Brookings Institution (Bibi et al,

2017); The Economics of Human Resource Management", (Industrial Relations, Spring 1998) among other. Hameed et al, (2014). emphasized a good deal of emphasis on the importance of organization differences in studying pay. Hartmann, Ali & Raza, (2015). basic research agenda emphasized the "need to understand better how wages are set within enterprises.

Similarly, scholars in the field of economics, finance and business management have so much interest in the organizational compensation and its theory. The efforts made by scholars of compensation strategy on it can improve the productivity of the workers. The scholars pointed that compensation must structure and restructure for employees so that they can fulfil the objectives of the organization. The important part of compensation aspect is the factors affecting organizational behavior which include internal incentive structure and compensation policies as well. But some studies looking into the concept of incentives on how it improves workers' performance and theory related to compensation since they are determinant on how employee behave in organizations. This has serve the gap to be fill in the study.

A lot of abundant studies have done in social science on compensation but some areas have not been not cater for and proffer slight direction in comprehension of actual compensation organization mainly in big organizations. Most importantly, there are numerous common and significant characteristics of organizational enticement packages in which modern scholars have not studied widely. The pay structures that are serve as significant of performance, promotion-based incentive systems, excellent reward, promotion based, welfare package among other things needed for the promotion of employee productivity (Salisu et al, 2015).

THE OBJECTIVES OF THE RESEARCH

The comprehensive objective of this study is to know the role play by compensation strategy on worker's productivity using selected manufacturing company in Iraq. The objectives are as follow:

RO1: To determine significant effect of Compensation on Employees' Productivity.

RO2: To determine significant effect of Compensation on Organizational Performance.

The Hypotheses of the Research

Based on the foregoing objectives, these following hypotheses were raised.

H1: Compensation strategy will have significant effects on Employees' Productivity.

H2: Compensation strategy will have significant effects on Organizational Performance.

Conceptual Framework

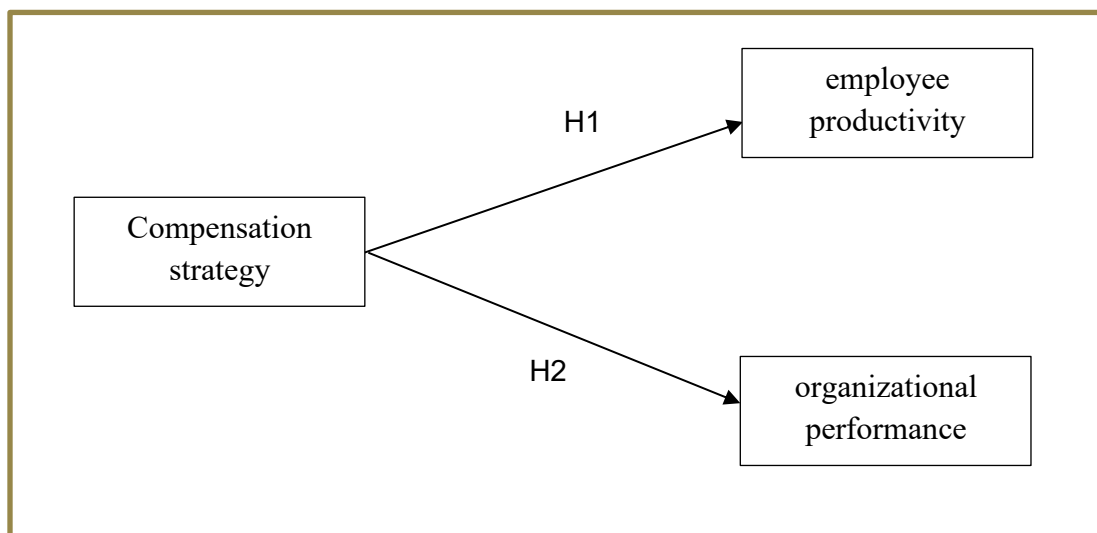


Figure1: Conceptual framework designed for the study

LITERATURE REVIEW

Compensation management is regarded as impetus that lead to higher performance and productivity in the job. Some of the compensation theories held the believed that incentives and reward always determine the employees' productivity if adequately structure and organized in the system. Compensation often mean many things in the organization which include praise from superiors and co-workers, pledges promises of future promotion opportunities, feelings of self-esteem that come from superior achievement and recognition, and current and future cash rewards related to productivity. Top management can use all these techniques to improve employee performance level. The proponents of compensation pointed that the motives of including compensation in day to day run of organization is for the purpose organizational goals. findings from study of compensation plans shows that explicit financial rewards

in the area of transitory performance-based bonuses seldom added to the life of employee compensation (Okeke & Ikechukwu, 2019). who looked into the role pay play by the managerial employees in manufacturing organization found that compensation strategy significantly related to employees' performance.

Das, (2018). conducted studies on the association between pay and performance he pointed that pay is closely related to performance in many organizations that claim to have merit increase salary systems. numerous business organizations out there do not do not attach effective task with pay to increase performance. He noted that some organization believe that their pay structure is lie on the merit given by the employees in the organization. It is believing that pay is connected to productivity at the top management. Therefore, the Adeoye, (2019). concluded that general performance measurement and compensation systems require a well consideration of the forces responsible for organizational practices. Compensations is a package that connected to work performance in the organization. Indeed, employee promotion is sometimes connected a full compensation packages prepare for employees. Medoff and Abraham (2018), for example, find that between-job-level earnings differentials are more important than within-job-level differentials.

Penultimate, the core advantages of tying pay to performance are noticeable. it is astonishing to scholars that organizations apparently resist introducing bonus-based compensation plans with sufficient financial plan so that major motivational effect could takes place. Scholars noted that poor pay for employee is the one that lead to poor and low productivity of workers in most of organization. (Onwuka & Onwuchekwa, 2018). argued that poor by the employers are reducing the motivation of employees which in turn lead low performance. For employee to perform excellent job motivation package must be institutionalized.

Concept of Promotion

Promotions in any typical organizations setting aimed two main purposes. The first is the employee differ in their knowledge, capabilities and skills. The jobs differ in the area of demands they emphasized on individuals' employee(Barringer & Stevens,2018). Thus, promotions are a way to match individuals to the jobs for which they are best useful. This so call matching process happen over particular time with the promotion as workers tend to attain human capital and more information is generated and collected about the employee's talents and capabilities. The second aspect of promotion is to create good incentives for subordinate who value the pay and esteem associated with a higher rank in the organization. Promotions are used as the primary incentive device in most organizations which including health, the army, corporations, agricultural sector partnerships, commerce and universities (Pembi et al, 2017).

The empirical importance of promotion-based incentives, combined with the virtual absence of pay-for-performance compensation policies, suggests that providing incentives through promotion opportunities must be less costly or more effective than providing incentives through transitory financial benefits. This expectation is puzzling to us because promotion-based incentive system seems to have many weaknesses and little benefits related to bonus-based incentive systems. The incentives produced by promotion advantages relied on the decisions of the management of the organization. it is management who look at what they can pay to employees and how their standard of living could be improved. If the incentives could be promoted and provided by the management, the employees will not the leave the organization for another job. In some organizational setting, promotions, compensation and incentives are provided for employees and some may even be denied. When all these are denied, it would affect the process of the organization which in turn lead to turnover retention (German Altman, 2014)

Meaning of bonus based incentives

Bonus-based incentives often used by top management in the organization to increase employee productivity. Some organization provided incentives and bonus to employees based on the performance render to the organization. promotion and incentives must provide at regular time not until the performance of the employees are recorded by the end of the year. This could discourage employee to leave the organization. sometimes some organization look into performance, skills and ability discharge when perform task before it can be provided for them. Indeed, a good structure and package compensation is requiring all level to upgrading the ability of the employees (Azasu, 2017) . This would give the management more edge over the other in the competitive market. Bonus based incentives are more significant at higher level of an organization because there is tendency that promotion may be reduce in the future. Sometimes, when encourage promotion-based packages in a big and small organization, it would yield them more profits in the long run. This is because, the employees are fully prepare to work for the organization since motivation is provided.

More so, promotion-based reward systems are more predominant in matured organization simply because they value the role reward system play in life of employees. On the Other hand, the bonus-based package is more predominant in an undeveloped organization. some other example of compensation systems may entail Gain Sharing and Profit Sharing. When talk of compensation benefits, payment is depending on the profit of the organization. The arrangement has two possible benefits. First, it is likely to create an incentive for employees to act in the best manner to the organization instead of following little goals. Second, by changing the area of compensation so as to be vary with organization earnings. Another important problem with promotion-based reward systems is that they require organizational growth to feed the reward system. This means such systems can work well in rapidly growing firms, but are likely to generate problems in slowly growing or shrinking firms. (Armstrong, 2016), argues that, in slowly

growing firms with free cash flow, promotion-based reward systems encourage managers to spend resources on unprofitable growth rather than paying out excess cash to shareholders. (Chen & Popovich, 2014).

Financial incentives scheme

Researchers have argued that financial incentive packages increase efficiency among the employee in any organization. According to Ali & Raza, (2015), published article title "how to ruin motivation with pay" where he explained that lack of merit in the organization always reduce motivation among the employees. Pay must not be mismanage in the any organizational settings. The management of an organization should be in a position to play equality and balance when it comes to pay. Lack of disparity in payment of workers of lead to turnover intention among the employee and they find another job somewhere (Campbell, 2017). It is useful for formal organization to have a well package for pay system because employee value more than anything. Pay system encourage self-confidence, productivity, and transformation of the organization. The idea of this is that an employee will be sad if an employee's earn bigger bonus which in turn lead to low productivity in the organization and hinder the attainment of goals. It is fundamental to financial incentives programmed which employee would enjoy without any favoritism (Andrews,2016).

Traditional economic experts have indicated the variables under study are essential for workers' productivity and improve the quality of workers in the job. A salary that is structure and organized tend to reduce workers' turnover. Turnover intention in the organization is not good for such organization in the sense that it would their image in the front of public. By looking at pay for service, one can see that it is effective for transformational system. Pay system is a stimulus that reduce employee absenteeism and more commitment to the growth of the organization. Aktar, and Sachu,(2017), opined that pay scales throughout much of corporate America are determined by job evaluation systems which stem from the need to establish internal pay equity. It is fundamental for top management to know the welfare and problems facing employee. By knowing their problems, the employee feel that they are part of the decision making process for that organization.

RESEARCH METHODOLOGY

in this place, the research approach, research techniques and data presentation and regression results are discussed.

RESEARCH APPROACH

The study merely makes use of the primary data for the data collection process. This study makes use of questionnaires to get information from the respondents. The questionnaire used in the study is to get relevant information relating to compensation strategy and performance of the organization. some of the questionnaire items were so understandable and easy to comprehend. there are two styles used for the questionnaire that is open-ended and close ended questions. For the close-ended questions, it indicated Yes or No. the second type of questions asked respondents was based on five Likert-scale starting from strongly disagree to strongly agree while the open ended questions was on the questions on issues relating to two constructs. All these methods would allow researcher to better clue of the tow constructs under study.

RESEARCH TECHNIQUE

This study was carried out in Iraq metropolis. The using of manufacturing company is not because of huge number of employees but it has a well plan department that can easy for researcher to get some of the vital information needed for the research. The study used 150 respondents from manufacturing company with the use of simple random technique. This particular questionnaire was distributed among the senior staff in each of the department in manufacturing company. The study used simple random method is to allow everyone to have equal chance of being selected in the exercise. SPSS was used in the study and the data was coded accordingly with five Likert scale from m strongly disagree to strongly agree

DATA PRESENTATION AND REGRESSION RESULTS

H1: Effect of compensation strategy on workers' productivity

As shown in Table 1 of this study showed the result of regression on the effect of compensation strategy on workers' productivity. The result of the regression explained that compensation strategy has effect on workers' productivity where t-statistics has slope value of 0.783. this simply indicated that as change in compensation strategy lead to change in workers' productivity. It is concluded that compensation strategy determines the level of workers' productivity in manufacturing company of Iraq. See table 1.

Table 1: *Effect of compensation strategy on workers' productivity*

Dependent variable:		
Variable	Coefficient	t-stat
compensation strategy	0.261	1.015
workers' productivity	0.783	2.98*

*→Significant at 5 percent level. *Source:* from authors' computation, 2011

H1: Effect of compensation strategy on organizational performance

The Table 1 of this study showed the result of regression on the effect of compensation strategy on organizational performance. The result of the regression explained that compensation strategy has effect on organizational performance where t-statistics has slope value of 0.412. This simply indicated that as change in compensation strategy lead to change in organizational performance. It is concluded that compensation strategy determines the level of organizational performance in manufacturing company of Iraq. See table 2.

Table 2: *Effect of compensation strategy on organizational performance*

Dependent variable:		
Variable	Coefficient	T-Stat.
Compensation strategy	-0.354	-1.369
organizational performance	0.415	3.721*

*→Significant at 1 percent level. *Source:* from authors' computation, 2011

Implications of Research Findings

The findings found in this study is the estimation process to validate the association between compensation strategy and performance. Based on the result of regression revealed, a well compensation strategy plans and develop have the ability to increase employee performance. It is not only employee performance, it will also increase the growth and development of that organization.

RECOMMENDATIONS

1. From the findings of the study, the study recommended that a good compensation strategy should be created for employees so that they can perform better for the attainment of organizational objectives. This is a challenge for human resource department to devise means of compensating employees adequately.
2. The study further recommended that the management should ensure that they put compensation strategy into their day to day planning. This is to say that without a good planning for compensation. The productivity of employee will be reducing.
3. Lastly, the study also recommended that the employees as well as the management should have better knowledge of aims and objectives to which organization was set up. By knowing this, it will be very easy to attained formulated goals

CONCLUSIONS

Compensation strategy has been regarded as essential method in the human resource management department at improving the development of such organizational settings. The modern corporate organization today have yet to incorporate better and effective compensation techniques for employees as part of the objectives. This is idea would shape a work force focused on strategic performance objectives and ability of attaining them in short period of time.

Individual differences exist among the employee working in the organization. employees want more things from employers but the role of compensation play in the mind of employee cannot be overemphasized because it uses to attract, motivate and retaining a competent employee. Compensation also noted as important mechanism to allow employees to attain objectives if the organization at a possible time. It is imperative for human resources department to have holistic planning for the growth of employee. The design and restructure of compensation strategy is a tool that can increase employee performance.

Lastly, the complete compensation remedy is one of the cardinal element for employees driven system. The researchers of compensation in all over the globe have pointed adequate compensation of workers will allow the organization to have better advantage over the organization in a competitive market. good payment for employees is the one that make employee to be happy and develop the zeal to do more job for the organization.

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