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Applied Comparatio; A Tool for Fairness in Compensation Management

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Abstract: Loath or like it, compensation is a sensitive management decision mandate in every organisation and often evokes a lot of tension and requires further insights to understand its link to other organizational outcomes such as employee engagement, happiness and performance. Compensation management is multi dimensional and encompasses key variables such as equity, justice, competencies and performance management. This study compares the compensation approach for three global companies based in Ghana, Senegal and Kenya. The study proposes a framework for fair compensation and introduces the concept of "applied comparatio" that brings "an art and a science" perspective to facilitate fair compensation decisions in any organisation. That art and science includes a coherent compensation philosophy, solid quantitative and qualitative comparatio principles in design and practice to ensure fair processes and outcomes. It concludes that there is a relationship between compensation and employee engagement outcomes on performance, retention and satisfaction.

Keywords: compensation, philosophy, comparatio, employee engagement, equity.

BACKGROUND

Compensation is an enabler in organisations to deliver efficiency, effectiveness and impact. (Bustamam, Teng & Abdullah;Greene, 2014). Brown and Meedorft (2003). Compensation is a key strategy for talent acquisition, nurture and retention. (Bustamam, Teng & Abdullah, 2014; Shaw 2014; Terera & Ngirande, 2014; Xavier 2014). An ideal compensation strategy should enable staff to meet their performance expectations. (Khan, Aslam & Lodhi, 2011. 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 is a powerful means of enforcing set objectives for staff. Horwitz (2010) argued that compensation management is an essential tool to connect individual efforts to enterprise objectives.

Compensation management refers to the systematic approach a firm takes to determine how best to pay its workers. It plays a crucial role in attracting, retaining, and motivating workers. Several theories guide compensation management, helping firms know the fineness of pay forms and the behaviors they induce. Equity theory was developed by John Stacey Adams (1963) and he argues that staff seek to hold equity between the inputs they bring to a job and the outcomes they receive from it against the perceived inputs and outcomes of others. The implication for compensation decision making is that staff who feel they're under-compensated (compared to colleagues or industry standards) may reduce their effort, become resentful, or seek work elsewhere. Greenberg (1987) in his study on taxonomy of organisational justice theories indicated that questions about justice still arise in many organizational milieus, among them contexts as diverse as pay plans.

Expectancy theory was developed by Victor Vroom(1964), expectancy theory suggests that staff will be motivated to exert a high level of effort when they believe it will lead to a good performance appraisal, that a good appraisal will lead to organizational rewards, and that these rewards will satisfy the worker's personal goals. The implication for compensation decision making is that linking pay clearly and directly to performance can motivate staff. If staff think that better performance leads to better pay, they're more likely to put in the effort. Reinforcement theory was developed by B.F. Skinner and he concluded that behavior is shaped by its consequences. When applied at work it suggests that positive outcomes encourage more of a behavior, and negative outcomes discourage it. Krishnan (2014). The implication for compensation decision making is that if staff perceive a direct correlation between performance and fair rewards, they are likely to repeat the behaviors that lead to positive outcomes. This highlights the importance of consistent rewards for desired behavior.

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. The components of financial compensation direct and indirect payment of cash and cash related rewards. The direct cash related components are salaries, wages and bonuses etc.

For the purposes of this study we focus on financial compensation ie the base salary of an employee. Financial compensation is concerned with financial remunerations in exchange for the services rendered by employees for a specific period of time in an organisation.

DETERMINANTS OF COMPENSATION

There are many variables that affect the determination of an organisation's compensation decisions. These include its compensation philosophy, labour market, the wider macro economic environment, organisational performance and job factors. The foundation for any approach to compensation requires a compensation philosophy which is a formal statement that defines an organisation’s principles and intended outcomes. Apanpa & Farinmade (2017).

Using a labour market lens, Ayesha (2015) argues 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. 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 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 salaries 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 trends that may spiral out of hand. The volatile situation has the potential to cause severe disruptions in the system as a result of desperation to make ends meet.

The performance and health of the organisation also determine its compensation 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 sustainable to increase salaries because such an action could cause organisational 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. This has to be framed by a compensation philosophy. 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.

Every job has key characteristics that define its complexity to establish the rate of the job. There are many job evaluation models to determine the basis for the rate of the job. Some of them include Peromnes, Patterson, Castellian, Hay etc. The Hay job evaluation framework helps to ensure an objective and consistent comparison of roles. This approach ensures that roles are evaluated on their actual responsibilities, eliminating bias introduced by job titles or local naming conventions.(Hajii 2015). Key elements considered in the Hay Job evaluation methodology are know-how, problem solving and accountability. Know-How refers to the level and breadth of knowledge, expertise, and experience required for a role, including technical, managerial, and interpersonal skills. Problem-Solving refers to the complexity of problems to be addressed in the role and the level of analysis, judgment, and creativity required to resolve them. Accountability refers to the degree of responsibility the role holds for outcomes, including the impact on organisational performance and decision-making authority.(Hajii 2015). By standardising roles through this framework, a company can ensure an apples-to-apples comparison of responsibilities, employee qualification and expertise in a fair manner to guide fair compensation decisions at each phase of the employee life cycle.

ORGANISATIONAL PERFORMANCE & EMPLOYEE ENGAGEMENT

Organisational performance as a strategy outcome is triggered by positive employee engagement. Guthrie (2001).Herzberg (1964). A Gallup research conducted in 2012 concluded that employee engagement strongly relates to key organizational outcomes in any economic climate. And even during difficult economic times, employee engagement is an important competitive differentiator for organizations. The key premise is that an engaged employee will positively perform to enable the employer to achieve positive business performance and results, this is facilitated by an alignment of compensation, benefits, work life balance, performance and talent management within an overall employee value proposition total rewards strategy.

The Burke-Litwin Mode (1992) defines twelve factors that help to assess employee engagement to diagnose the case for change. When applied to compensation it has to be framed within the overall change management factors namely external environment, mission & strategy, leadership, organizational culture, structure, systems, management practices, work unit climate, tasks and skills, individual values and needs and individual and overall organizational performance. The Burke-Litwin Model is a tool for gauging employee engagement on many organisational factors.

Systems include all types of policies, procedures and business processes with regards to both the people and the operations of the organization. Management Practices are ways of work that delivers the organization's strategy and ensures management of resources. Work Unit Climate refers to how the employees think, feel, the kind of relationships the employees share with their team members and members of other teams. Tasks and Skills refers to what a specific job position demands and the kind of skills and knowledge that an employee must have in order to fulfill the task responsibilities of that job position. It helps to see how well jobs and employees have been matched. Individual Values and Needs refers to an employee's opinion and perception about their work so as to identify the quality factors that will result in job enrichment and better job satisfaction. Motivation Level refers to the motivation level of the employees, and willingness to put in extra effort to achieve organizational goals. Individual and Overall Performance takes into account the level of performance, on individual and organizational levels, in key areas like productivity, quality, efficiency, budget and customer satisfaction etc. Coleman (2018).

In this study we used the Burke Litwin helps to define employee engagement factors including compensation practices, systems, culture, performance. This enables an analysis of variables that can contribute to better understanding of the relationship between compensation practices and organisational engagement outcomes that lead to improved employee performance, retention and satisfaction.

LINKING COMPENSATION TO EMPLOYEE SATISFACTION

Serregi (2020) in a study measured the relationships of pay satisfaction and its dimensions Eg pay level, benefits, pay raises and administration/structure with job satisfaction. A total of 200 public sector employees, from different companies and non-governmental, independent institutions participated. The results showed that overall pay satisfaction and pay level affected job satisfaction while pay raises, benefits and administration/structure did not. Whereas the literature is replete with motivational aspects of pay, the idea that high compensation leads to high levels of employee satisfaction is more debatable(Mestieri 2021). Work place related studies suggest that the link between compensation, motivation and performance is much more complicated.(Mestieri 2021). The results of a meta-analysis based on 92 quantitative studies (Judge et al 2010 showed a correlation of "r" equal .14 that indicates less than two percent overlap between job satisfaction and salary. Results of the overall meta-analysis indicate that pay level is positively correlated with both overall job satisfaction ($\hat{\rho}$ = .15, p < .05) and with pay satisfaction ($\hat{\rho}$ = .24, p < .05). For both job (.02, .28) and pay satisfaction (.07, .39)

Judge et al (2010) based on their research, which was a very significant meta-analytic evidence on the relationship of pay to job and pay satisfaction concluded that level of pay bears a positive, but quite modest, relationship to job and pay satisfaction. Yamoah (2013) also studied the relationship between compensation and employee productivity.

Hewitt (2009) examined the relationship between managing performance with incentive pay. Bhatti and Qureshi (2007) argue that employee participation has an impact on job satisfaction, employee commitment and productivity. Khan et al (2011) concluded that compensation management is a strategic conduit towards achieving employee retention and job satisfaction.

Our research aims to provide additional contribution to the topic as it connects theory, research and practice of the relationship between compensation and employee engagement which includes performance, satisfaction, happiness and retention.

HYPOTHESIS

1. An organisation compensation architecture has a positive impact on staff engagement scores on performance, satisfaction and retention.
2. When compensation architecture is framed by a compensation philosophy, policy, comparatio tool and processes, it enables fairness, rigour and credibility in Management compensation decisions.

THE DATA

Methodology

This section examines the methodology used to determine the relationship between compensation decisions and staff engagement in the three companies who participated in the research. .A cross-sectional survey methodology was used because it allows for the examination of the relationship between variables (Strati, 2000). Specific information about the study ie sampling, data collection, survey administration, data processing and data analysis is presented below.

Sampling

The study was conducted in Ghana, Senegal and Kenya at the team level of analysis, comparing the data across teams. The study was empirical in nature and combined an inductive and deductive approach as a basis for examining the relationship between compensation decisions and employee engagement in the three organizations. The deductive approach involved reviewing literature and documents available at the three organizations, whereas the inductive approach was based on empirical data obtained from interviews and questionnaire administered to the respondents. For the purposes of this study, a team is defined as a collection of individuals who are interdependent in their tasks, who share responsibility for outcomes, who see themselves and who are seen by others as an intact entity embedded in one or more larger social systems. (Cohen & Bailey 1997). The study was focused on teams in three organizations involved in international development in order to avoid the risk of introducing extraneous variables present when selecting organizations across industries. (Gordon 1991). An industry is defined by shared worldviews and characterized by a common body of knowledge which is shared through media equally available to and used by managers within the industry (Abramson 1994).

Purposive sampling was used. In this sampling method, researchers use their judgement to select a sample based on previous knowledge of the population and the specific purpose of the research (Fraenkel &Wallen 2000). The target population for this study consisted of management teams with in three international development organizations. As in multistage cluster sampling (Babbie 1989), the organizations to which they belong were selected based on a total of 8 organizations. 50 professionals participated from each organization resulting in a total sample size of 150. Each sample comprised the Chief HR Officer, Middle level HR managers, Line Managers, Chief Operating Officer, Chief Executive Officer and in-house legal counsel. All three organizations had staffing levels in excess of 1000.

Participants had worked in their organization an average of 5.36 years (SD = 6.07) with total work experience averaging 7.83 years (SD =6.47). Their ages ranged from 25 to 49 (M =31.07, SD = 6.77). About 39% were male, 51% were female. 65% of respondents in Company 1, 2 and 3 had at least a first degree, while 55% of respondents in Company 1,2 & 3 had an undergraduate or a more advanced degree. In order to conduct the survey 50 questionnaires were distributed out of which 36 questionnaires were returned showing 72% response rate. The questionnaires were rated on a five point Likert scale where 1 refers to strongly disagree and 5 refers to strongly agree. The sample size is considered to be sufficient according to central limit theorem.

BACKGROUND OF RESPONDENT ORGANIZATIONS

Findings - Data and Analysis

We used the likert scale namely 1- strongly disagreed, 2- disagreed, 3 neither agree nor disagree, 4-agree, 5 –strongly agree.

Company 1

Company 1 was established in 1991 and focuses on implementing projects in education with an annual budget of Fifteen million dollars. It has projects in 7 out of the 10 administrative regions in Ghana. It raises funding from donors.It has a staffing strength of 1020 and its corporate headquarters is based in Kenya. It has a local advisory board for its operations in Ghana.

Survey Factor	**Year 2020**	**Year 2021**	**Year 2022**	**Year 2023**
Company 1				
Compensation Architecture Scores For 2023				
Your company has a documented compensation philosophy with a clear approach	1.05	1.07	1.75	1
Your company has a documented compensation policy	1.05	1.04	1.45	1.06
Your company has a process for determining fair compensation	1,05	1.5	1.07	1.02

(process is defined as existence of job evaluation tool, comparatio methodology, cohort analysis and performance management system etc)				
Your company has professional compensation analysts who guide and manage compensation	1.03	1.01	1.2	1.35
Your company conducts compensation benchmarking regularly	1.2	1.1	1.05	1
Your company has a well developed compensation internal communications process to educate staff	1.06	1.04	1.08	1.01
Your company has a well developed Human Resources Strategy with a pillar under compensation	1	1	1	1
Staff Engagement scores				
My good work is recognised and compensated fairly	2,01	2,35	2,54	2,52
Intent to stay - I am planning to stay for the next 18 months	2,16	2,15	2,21	2,02
Overall, I am happy and satisfied	2,3	2,18	2,44	2,28

Company 1 Summary Analysis

The data showed that there is a relationship between compensation architecture and staff engagement scores. Where there is a lack of a clear compensation philosophy and an approach it results in very weak staff engagement scores on performance management, retention and happiness.

Company 2

Company 2 was established in Senegal in 2005 and is an international development organization with experience in facilitating the development of socially sound and profitable supply chains. It focuses on stimulating sustainable supply chains through operational excellence in livelihood projects. It has a staff strength of 1260 and its corporate headquarters is based in the USA. It has an annual budget of fifteen million dollars and operates in 5 out of the 14 administrative regions in Senegal. It raises 65% of its funds from its individual and corporate sponsors and the remaining 35% from donor funds

Survey Factor	**Year 2020**	**Year 2021**	**Year 2022**	**Year 2023**
Company 2				
Compensation Architecture Scores For 2023				
Your company has a documented compensation philosophy with a clear approach	3,2	3.5	3.6	3.3
Your company has a documented compensation policy	3,5	3.1	3,2	3,3
Your company has a process for determining fair compensation	2,85	3.01	3.02	2.9

(process is defined as existence of job evaluation tool, comparatio methodology, cohort analysis and performance management system etc)				
Your company has professional compensation analysts who guide and manage compensation	3,2	3	3	3.1
Your company conducts compensation benchmarking regularly.	3,5	3	3.2	3.5
Your company has a well developed compensation internal communications process to educate staff	3	3	3	3.4
Your company has a well developed Human Resources Strategy with a pillar under compensation	4	4	4	3.5
Staff Engagement Scores				
My good work is recognised and compensated fairly	3,01	3,21	3,05	3,15
Intent to stay -I am planning to stay for the next 18 months	3,16	3,15	3,21	3,02
Overall, I am happy and satisfied	2,9	3	2,98	3,03

Company 2 Summary Analysis

The data showed that there is a relationship between compensation architecture and staff engagement scores. Where there is a clear compensation policy but inconsistent application of the compensation architecture it results in moderate impact on staff engagement scores on performance management, retention and happiness.

Company 3

Company 3 started operating in Kenya in 1995 and focuses on partnering with community based organizations to build their capacities in governance, citizen voice and action and social mobilization. It has an annual budget of three million dollars and operates in the 3 of the 8 provinces in Kenya. It raises funds from donors.

Survey Factor	**Year 2020**	**Year 2021**	**Year 2022**	**Year 2023**
Company 3				
Compensation Architecture Scores For 2023				
Your company has a documented compensation philosophy with a clear approach	4,5	4.4	4.8	4.2
Your company has a documented compensation policy	4,88	4.5	4.7	4.3
Your company has a process for determining fair compensation	4,6	4.7	5	4.5
(process is defined as existence of job evaluation tool, comparatio methodology, cohort analysis and performance management system etc)				

Your company has professional compensation analysts who guide and manage compensation	4,7	4.6	4.5	4.4
Your company conducts regular compensation benchmarking	4,2	4.3	4,1	3.95
Your company has a well developed compensation internal communications process to educate staff	4,4	4.3	4.4	4.2
Your company has a well developed Human Resources Strategy with a pillar under compensation	4,8	4.5	4.6	4.08
Staff Engagement scores				
My good work is recognised and compensated fairly	4,01	4,31	4,55	4,75
I am planning to stay for the next 18 months	4,26	4,35	4,08	4,22
Overall, I am happy and satisfied	3,9	4	4,15	4,12

Company 3 Summary Analysis

The data showed that there is a strong relationship between compensation architecture and staff engagement scores. In addition there is a clear compensation philosophy backed by consistency in the application of the compensation policy and practice that is integrated into the performance management system with rigour, it results in a positive impact on staff engagement scores on performance management, retention and happiness.

We also requested for and did a content analysis of relevant company policies and documents to validate the survey results for all three organisations.. These included Employee manuals, HR policies, staff handbooks, new staff onboarding documents, HR internal control checklists where they existed etc. For the purposes of our study, we paid extra focus on the approach of Company 3 and provide an overview below.

Company 3's Compensation Approach

The philosophy, policy, principles and methodology of company 3's compensation approach design and operation is driven by a quantitative approach by purposive sampling methods to determine the 80th percentile of the comparator data of companies in the same sector with flexibility to consider organisations where it critically loses staff or hires from within a defined period. Its pay design is anchored on determining the 80% of the data which becomes 100% or midpoint of the pay scale and is the starting point to design the structure. In order to ensure equity quantitatively, company 3 applies 20% below and 30% above the 100% to design the pay scale. From an equity perspective these are framed as compa-ratios from 80%CR to 130%CR. A compa-ratio (CR) is the quantitative equity value you get when you divide base pay by the midpoint of the pay scale of the applicable job grade. In order to ensure qualitative equity in determining pay for new staff or to support growth of existing staff in pay scales, company 3's job evaluation framework also defines levels of competencies, skills and experiences. This provides a qualitative definition to reinforce the quantitative value which is derived when the base pay is divided by the midpoint of the pay scale and job grade. In each job grade there are three levels namely entry point or foundational level, fully functional or competent level and authority level. This is to facilitate hiring and growth within the job grade and pay scale. Entry Point level - holder comes into role and will require handholding/ tutoring and guidance before they can start contributing. Company 3 typically manages such skills around the range of 85%CR-95%CR. Culturally new starters begin at the 85%CR with flexibility for adjustment depending on the quantum, breath and depth of prior relevant experience of the holder. This is in line with the approach to pay for the person, position and performance potential or actual performance when staff begins to contribute after a period of probation. The next level is the Fully Functional or competent starter level where the holder comes into the role, does not require any handholding and can start contributing from day one. Company 3 typically manages such skills around the 95%CR-110%CR using the same principles above. The final level is authority level where holder comes into the role as a subject matter referent recognized in their field internally and externally and in relevant communities of practice and thought leaders. Company 3 typically manages such skills around the 105%CR-130%CR. Further analysis of company 3's approach shows compensation decisions for new joiners and existing staff are guided by a combination of many factors. These include equity distance between the lowest and highest peers in a reference group, mean compa-ratio of the reference group in the job grade, diversity and inclusivity gaps eg age, gender, race, professions etc.

Company 3 has a well developed performance management culture where staff are assessed based on set objectives at the beginning of the business year. Their performance management season is made up of the objective setting, mid term and annual performance review. Company 3 has five performance ratings. Unsatisfactory(U), Needs Improvement(NI), Meets Expectations(ME), commendable (C) and outstanding(O). These ratings are also integrated with performance benchmarks to determine if an employee is performing at entry level, advanced or authority level in the business cycle under review.

Putting The Philosophy Into Practice Via Applied Comparatio Adjustment Formula (ACAF)

We also studied the application of the **"art"** ie the quantitative and the **"science"** ie the qualitative principles of comparatios and summarise the formula below.

- A = current base salary
- B = midpoint of the pay scale
- CR = compa-ratio = A / B
- PR = performance rating
- i = inflation percentage increase = 75% of national inflation
- m = merit percentage from the matrix (depends on CR and PR)

Compensation decision following the performance management process is then calculated as follows:

- Inflation amount: D = A * i
- Merit amount F = m * (A + D) → The merit increase is applied on the base salary after inflation.
- Total increase in amount H = D + F

- Total increase as a % of current base salary: $I = H / A$

If we plug the formulas into each other, we get a compact expression as follows:

- $D = A * i$
- $F = m * (A + D) = m * A * (1 + i)$
- $H = D + F = A*i + m*A*(1 + i)$
- $I = H / A = i + m*(1 + i)$

So, in words:

Total increase % = inflation % + merit % applied on (1 + inflation %).

And below is the formula explained for merit (=m):

Definition of Variables:

- CR = Compa-ratio
- PR = Performance Rating
- A = Salary adjustment percentage

1. If PR = "Outstanding (O)" A =
    - 0.05 if CR < 0.95
    - 0.04 if 0.95 ≤ CR < 1.00
    - 0.03 if 1.00 ≤ CR < 1.05
    - 0.02 if CR ≥ 1.05
2. If PR = “Commendable (C)" A =
    - 0.04 if CR < 0.95
    - 0.03 if 0.95 ≤ CR < 1.00
    - 0.02 if 1.00 ≤ CR < 1.05
    - if CR ≥ 1.05
3. If PR = "Meets Expectations (ME)" A =
    - 0.03 if CR < 0.95
    - 0.02 if 0.95 ≤ CR < 1.00
    - if 1.00 ≤ CR < 1.05
    - if CR ≥ 1.05

If none of the above conditions apply:

$$A = 0$$

From the analysis of the equation and its application, key principles can be derived based on data analysis of the approach of company 3;

- Principle 1: Fairness in compensation has to be anchored on a clear compensation philosophy that is used to derive comparatio principles based on qualitative and quantitative dimensions.
- Principles 2: Using a comparatio approach, merit based compensation system can be integrated with an inflation index formula to arrive at a fair compensation that recognises pay positioning based on the compensation philosophy and comparatio positioning and referent or peer analysis.

Content Analysis of Random Sampling of Compensation Decisions

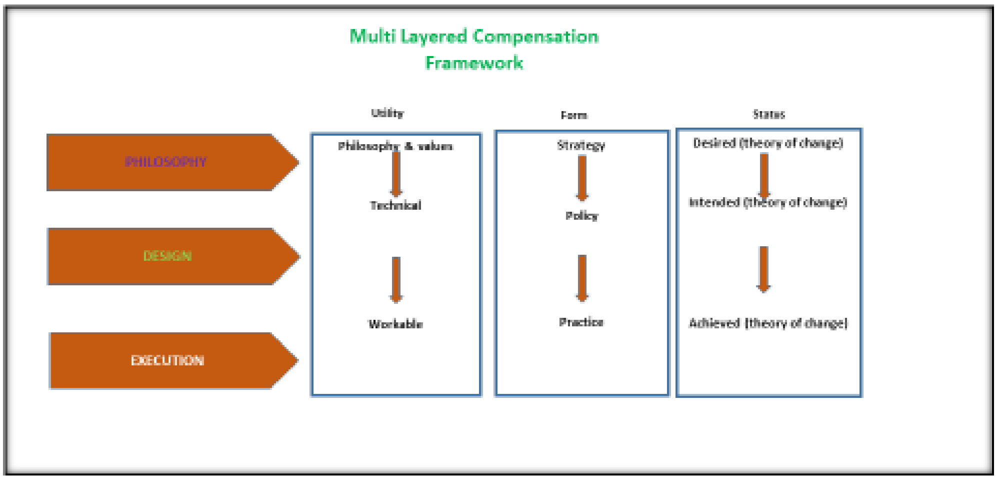
In view of the above formula we did a random sampling of a few compensation decisions for both existing and new staff. Company 3 uses the Hay Job evaluation tool.

1. **Existing Employees in Administration Hay Points Range 439-518; Hay Units 479; Reward Levels 17 – total of eight employees**. Mean comparatio before performance ratings was 97%CR. Mean comparatio after performance ratings, inflation and equity adjustment was 102%CR.
2. **Newly hired employees in Skilled & Junior specialists Hay Points Range 192-227; Hay Points 208;Reward levels 12.** Four new hires were compensated at 85%CR at foundational competency level and 2 new hires were compensated at 96.5%CR reflecting advanced level of competencies and expertise. There were 2 existing staff who were already performing at exceed expectations level and were at 99%CR. The equity distance between the new hires at foundational level and existing staff at advanced level was 9% and the equity distance between the new hires at advanced level and existing staff already performing at advanced level was 3.5%. These examples reflect a very disciplined approach to managing compensation for new hires and existing staff.
3. **Existing employees in Programmes Hay Points Range 880-1050; Hay Units 954; Reward levels 21. Number of employees is 12** . Mean comparatio before performance ratings was 95%CR. Mean comparatio after performance ratings, inflation and equity adjustment was 101%CR.

In the examples above, it is clear that Company 3's compensation philosophy was framed by its 80% percentile positioning of its labour market. That 80 percentile of the market, became the midpoint of the pay structure which was denoted as the 100% comparatio to construct its pay scale. The data showed that existing employees in the 2 groups were paid around the compensation philosophy. Employees in programmes and administration were paid 2% and 1% above the compensation philosophy. New employees were also compensated in line with the comparatio principles of foundation and advanced levels eg 85%CR and 96.5%CR.

A FRAMEWORK FOR COMPENSATION ARCHITECTURE

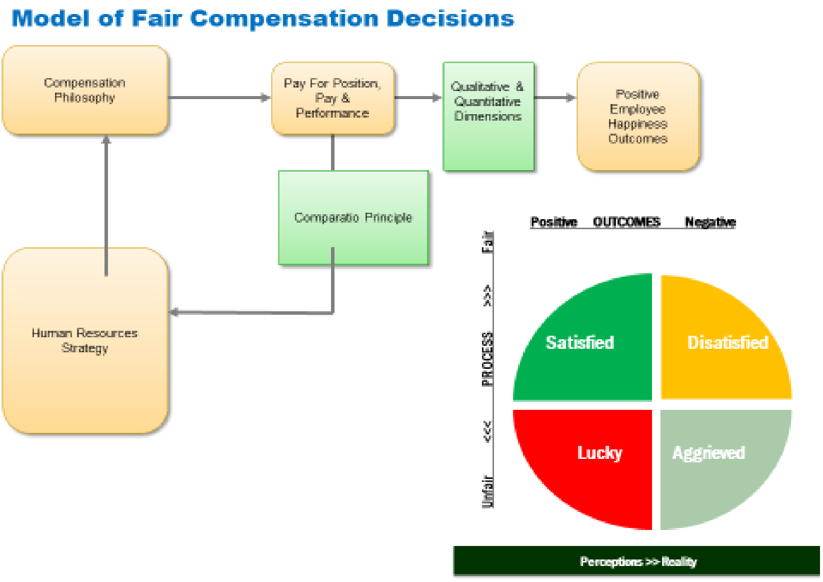
Based on our data analysis, we propose argue that compensation architecture requires three main elements namely approach, design and operation. See Figure 1.



We aver that translating the intent of fair compensation requires an integrated linkage of approach, through design to operation. The compensation practices of company 3 provides evidence of the three components. The foundation for any approach to compensation requires a compensation philosophy which is a formal statement that defines an organisation's principles and intended outcomes. Company 3 had a clear philosophy and applied it in terms of approach, design and operationalisation. Company 1 didnot have that approach and company 2 had the approach but lacked the rigor in design and operations. From a design perspective it requires having a technical model via a coherent compensation policy anchored on a comparatio model to facilitate the intended fair and procedural justice outcomes. In terms of operations it requires a combination of consistency in job evaluation, performance management and decision choices on how an organisation responds to the external macro economic environment. The overall approach must be supported by consistent monitoring and evaluation of internal and external trends (market positioning) to ensure fairness in compensation decisions. Company 3 applied a clear formula based on comparatio, performance, potential and economic factors. Company 1 and 2 didnot have this approach and design well developed or where they did it was not well conceptualised and executed.

Defining a compensation philosophy is very crucial in achieving sustained improved business performance. In simple terms the employer must have a compensation philosophy that will articulate *"why" "how" "what" and "when"* factors in managing compensation. Company 2 and 3 had a compensation philosophy of 50percentile and 80% percentile.

Based on the multi- layered compensation framework we propose a model for fair compensation decisions. Figure 2



Model For Fair Compensation

Compensation decisions in any organisation must be anchored on a compensation philosophy. A compensation philosophy needs to be designed with comparatio principles which must be built on quantitative and qualitative dimensions to facilitate consistently fair compensation practices. The two dimensions of quantitative and qualitative principles creates a building block to cover potential, performance and impact that has a line of sight to employee skills, expertise and potential at foundation, advanced and authority levels in line with job evaluation and comparatio principles. Comparatios ensure equity and procedural justice to address and monitor compensation disparities. When an employee perceives that the compensation decision process is fair and the outcome is positive, they feel satisfied. In the same vein when the employee perceives that the process is fair and the outcome is negative they feel dissatisfied. When the employee perceives the process as unfair and the outcome is positive they feel lucky and where the employee perceives the process as unfair and the outcome negative they feel aggrieved. These perceptions affect overall employee engagement scores on performance management, satisfaction and retention.

Comparatios translates the intent behind an organisation's compensation philosophy, human resources strategy, and compensation policy into measurable compensation practices that can be validated through qualitative and quantitative measures. Linking comparatios to hiring decisions, performance ratings and changes in the macro economic environment, helps to ensure equity which in turn positively drives employee happiness and engagement. Regular benchmarking of comparator organisations provides the data and insights to update individual and organisation wide comparatios. Comparatios enables more rigour and discipline to mitigate the effect of bias in compensation decisions. Compensation education via a well developed internal communication system is key for ensuring positive staff perception about the transparency and credibility of compensation decisions and outcomes. The cumulative effects of the above factors is an enabler for organisation-wide fairness in compensation decisions and this has positive outcomes for employee happiness, engagement and retention. The staff engagement scores for Company 3 were positively higher than the scores for company 1 and 2.

CONCLUSION

Based on the framework above we propose a concept of *Applied Comparatio*. Applied comparatio is simply defined as the factors that connect quantitative and qualitative factors in determining a fair compensation. Applied comparatio facilitates the "art and science" of compensation management. Applied comparatio is a key tool for a cohesive compensation architecture as it enables payments related to individual performance, contribution, competence or skill, or to team or organizational performance. Applied comparatio provides a tool to enable an organisation to respond to labour market and economic changes. Applied comparatio helps to distinguish between performance – what an employee achieves – and contribution – the impact made by the employee on the performance of the team and organization. The level of contribution will depend on the competence, skill and motivation of the employee, the opportunities they have to demonstrate their potential and competencies and the use they make of the guidance, handholding and leadership they receive. Applied comparatio enables payment for both competence and results and recognizes delivery in a measurably tangible way and helps to reinforce a performance-impact oriented compensation culture. It helps to attract, retain and nurture employees who are confident in their ability to deliver results and expect to be rewarded accordingly. In addition, applied comparatio helps to quantitatively and qualitatively rationalize an employee's position in a pay range. The overall effect is that it positively impacts on employee happiness, performance and satisfaction and ensures equity in a verifiable way. Applied comparatio helps to integrate payment of compensation for what gets done and payment of compensation for how it is done. This helps to link compensation outcomes to employee performance, satisfaction and retention.

Our study shows that in using applied comparatio to drive positive employee engagement in performance, satisfaction and retention, it is key to define employee performance expectations in terms of input, process, through-out, output, outcome and impact. This helps to set , measure and reward expectations that are met. Applied comparatio as a tool in compensation management, helps to unleash greater employee engagement outcomes, organizational capabilities that drive it and the metrics (qualitative and quantitative comparatio definitions) that reinforces it.

Compensation management is multi dimensional and encompasses key variables such as equity, justice, competencies and performance management. The study posits that fair compensation decisions in any organisation must be anchored on a clear compensation architecture which requires a coherent compensation philosophy, applied comparatio principles reinforced with quantitative and qualitative equity definitions to ensure fair processes and outcomes. It concludes that there is a relationship between a well developed compensation architecture and staff engagement outcomes on performance management, retention and happiness. Applied comparatio is the model to translate an organisation's compensation philosophy, policy and practices into actionable fair compensation decisions that drives positive employee engagement outcomes. Finally *Applied Comparatio* enables the following organizational core values and capabilities:

1. Execution Fairness –rigour, discipline, accountability in delivery of results and impact
2. Internal Communication – compensation education in ensuring clarity, transparency in how compensation information is shared

3. Fair Process reliability – effective, efficient and consistent processes
4. Sustainability term focus – viewing compensation decisions and outcomes through short term actions (staff compensation positioning) that accumulate over time to ensure organizational wide comparatio positioning eg diversity and inclusivity compensation metrics including gender, teams, professions as well as overall mean comparatio of the entire organization.
5. Nimbleness – real time adaptation to the changing internal and external labour market

IMPLICATIONS FOR FUTURE RESEARCH

This study focused on only three organisations based in Ghana, Senegal and Kenya and therefore cannot be generalised across board, however it offers data and insights that can be replicated at scale for further analysis to confirm or modify or rebut the conclusions of this work.

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