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THE ROLE OF COMPENSATION SYSTEM ON ENHANCING  
EMPLOYEES' PERFORMANCE AT AREEJ VEGETABLE  
OILS AND DERIVATIVES.

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## ABSTRACT

The Omani company Areej is one of the companies that established the compensation system. It is a human resource practice where this system differs from one company to another. This study aims to know the role of the compensation system in encouraging the performance of employees in Areej Vegetable Oils and Derivatives Company. Specifically, this study will reveal the effect of the compensation system on the performance of workers at work. As the compensation system is a system established by companies to compensate their employees for their performance in several ways, most notably salary increases, promotions, and free courses. This study targets Areej employees who are selected from all departments of the company to determine the extent to which the practice of the compensation system affects their performance. Use the questionnaire as a method of collecting data from 60 employees. The most important results: The reward system contributes to encouraging and motivating employees to work and improving their performance. Areej has various ways to compensate its employees such as salary increase,

promotions, free courses, work environment improvement, and others. The compensation system has a role in encouraging the performance of employees, the better and motivating the compensation system, the better the performance of employees.

### 1.1: Background of the Study:

A compensation system is a process of providing cash and non-monetary rewards to employees for the work they do. This system aims to motivate and retain employees and to attract people with skills and experience to the company (Saranya, 2015). Asem (2016) adds that the compensation system is a simple way to attract market transactions to employees in the company, and helps to gain employee satisfaction, commitment and performance improvement, and improve working relationships. On other hand the compensation system is everything an employee is given in return for his work and the contributions he makes to the organization. It is very important for employees to gain and be satisfied with their work, and compensation has a role in increasing productivity and profits. But without proper compensation,

employees cannot be preserved and they are likely to leave the company (Darma & Supriyanto, 2017). Areej Company is specialized in the manufacture of various vegetable oils, and Areej Company is an Omani company its main location is in the Governorate of Muscat. It was founded in 1980 by Dr. Omar Al-Zawawi. The company has a healthy factory in which oils that are used for cooking, such as Manara oil, olive oil, Muscat butter, and natural ghee, are produced and marketed. The company aims to gain the satisfaction of consumers, customers, stakeholders, and employees. The company's core values are innovation, customer service, integrity, teamwork, responsibility, and others. The company has a system for employee compensation, and the employee is given his reward annually. Examples of the awards offered are the best employee, health insurance, bonuses, and others (Areej, 2022).

## 1.2: Statement of the Research Problem:

The performance of the company depends on the performance of the employees, and this shows the

importance of motivating the employees and attracting them to work, and this is done through the compensation system established by the company to reward its employees for their performance at work. This system represents many aspects that the employee seeks to obtain such as annual bonuses, promotions, and health insurance (Eric, 2020). Human resource management practices affect employees, especially the compensation system that all employees aspire to obtain, and this system can affect the performance of employees from a positive or negative side. Therefore, this study sought to find out the extent of the impact of the compensation system on the performance of employees in Areej Vegetable Oil Company, this is done by knowing the importance of the compensation system for employees, as well as the most important methods used by Areej Company in compensating its employees, in addition to evaluating and clarifying the impact of the compensation system on the performance Areej employees, and in conclusion, to provide some recommendations that will help the company to improve the compensation system.

### 1.3: Aims and Objectives of the Study

1.3.1: Aims: The role of the compensation system in improving the performance of employees of Areej Company (Al-Rusayl). By knowing the most important compensation systems that Areej uses for its employees, determine the applied compensation methods at Areej Company, the impact of the compensation system on the performance of employees, Recommend for Areej to activate the compensation system.

#### 1.3.2 Research Objectives:

- 1- To Examine the Importance of compensation system at Areej company.
- 2- To determine the applied compensation methods at Areej company.
- 3- To evaluate of the impact of the compensation system on performance of employees in Areej Company.
- 4- To recommend for Areej to activate the compensation system.

## 2. Literatures review

### 2.1 IMPORTANCE OF COMPENSATION SYSTEM

According to Tabiu & Abubakar (2013), the importance of the compensation system in organizations is that it has a role in gaining employees and knowing their performance, as well as preventing disputes that arise between the company and its employees in the event that employees are not appreciated and rewarded. Dragana (2013) adds that the compensation system is important in influencing the performance of employees, and also improves the living of employees, maintains work performance, and improves relations between employees and the company. Jesca (2014) says that the compensation system benefits the organization and benefits the employees, as the improvement of the employee's performance will affect the performance of the company, and this is done by giving the employees their compensation needs, whether financial or non-financial. Vijaya & et al (2019) They add that the compensation system has a

role in motivating and increasing the efforts of employees and contributing to reducing problems and disputes in the organization and achieving the organization's goals by motivating employees, meeting employee needs, acquiring highly skilled employees, maintaining good employees and gaining their satisfaction, and thus improving the performance of the organization. This system is very important because it provides appropriate compensation to employees because of the work and good performance towards their organization. It also helps the organization avoid problems and helps it to organize and give each employee his right through the strategies of the compensation system (Adam & Stella, 2015).

## 2.2 THE COMPENSATION METHODS.

There are two types of compensation systems, which include monetary and non-monetary compensation, including monetary compensation, salary, promotions, fringe benefits, and incentives. As for non-monetary rewards, they include independence, psychological support for employees,

feedback, and training (Jesca, 2014). According to Manjenje & Muhanga (2021) the compensation system is divided into two types, namely, financial compensation, which means financial incentives that require the organization to pay money, and these incentives are used in exchange for employee performance, such as, promotions, salary increase, annual compensation, special rewards, profit sharing and commission and others. The second type is non-financial compensation, which means non-material compensation such as training programs, appreciation, offices, organization cars, good and stimulating work environment, development and others. Saira & et al (2014) Monetary compensation is represented in the salary appropriate to the employee's position and capabilities, bonuses, benefits, various services such as meals and payment of labor costs. Non-monetary compensation includes training and development programs for the employee, thanks and appreciation, motivation by managers, good treatment, independence, and comfort. Hanna & Alwine (2020) they side that compensation methods differ from one organization to another, as there are

some companies that use one or both types together. The first type is monetary compensation such as wages, benefits, annual bonuses, and others. The second type is non-cash compensation, developing employees' skills and experience through free training programs, paying work costs, and career development.

### 2.3 THE IMPACT OF THE COMPENSATION SYSTEM ON EMPLOYEE PERFORMANCE.

According to Elizabeth & et al (2015) the compensation system will also contribute to reducing unrest within the organization. The reward system has a positive effect on the performance of employees, the more motivating the reward strategies, the greater the impact on the performance of employees, so that employees increase their activity, increase their performance and strive to get double the wages, promotions and other compensation offered by the organization. The compensation system also contributes to the psychological reinforcement of employees and gain their satisfaction because some of the work they do is difficult and they deserve compensation. According to

Maartje & Jozef (2020) Compensation has a positive impact on employee performance and is one of the factors that contribute to motivating employees to develop their skills and abilities and improve their performance. On the other hand, the organization must provide the most important ways and means that will help employees to develop their skills.

### 2.4 GENARL ROCMANDATION

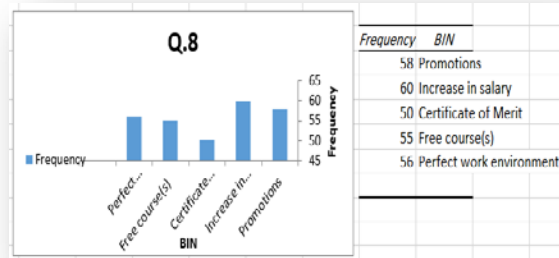
- 1- Manjenje and Muhanga (2021) they recommended that companies value the work of their employees, and allow them to participate in decision-making to provide job satisfaction and feel important to the company, to provide the appropriate job atmosphere, and the employer should enhance and monitor the performance of his employees and enhance them, on the other hand, work to improve Compensation system and benefits adjustment, salaries for retirees, and improving the compensation system for employees.
- 2- Organizing training courses and workshops to motivate employees to improve their performance, as well

as reviewing companies' strategies, taking into account training opportunities for employees. Striving to gain employee satisfaction through salaries and fringe benefits. Providing health insurance facilities for employees to keep them motivated due to high health insurance costs. Employees are compensated in case of injury in the workplace and medical expenses are paid (Saira & et al, 2014).

3- Pamela (2015) Companies and institutions should make a comprehensive planning to motivate employees in all aspects, such as psychological and moral stimulation, because this will contribute to improving the performance of employees.

4- Knowing the most important gaps that reduce employee performance and developing plans and strategies to be avoided in the future (George, 2019).

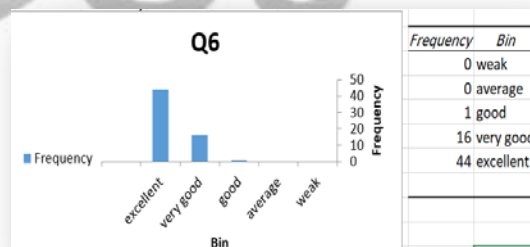
### 3. Data analysis.



1- To which level can your performance improve through the compensation system of your company?

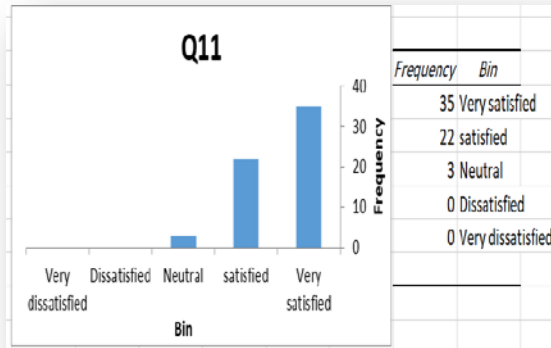
The results of the above graph are summarized in that most of the 43 employees, i.e. 71.7%, agree that the compensation system improves the effectiveness of their performance in an excellent manner, while 26.7% of the employees, i.e. 16 employees, agree that compensation contributes to improving

Figure 3.2: C



their performance very well. , As for 1 of the employees, about 1.7%, his performance improves well due to the compensation system, and there are no answers to the average and weak degree. Therefore, through the results, the researcher concludes that the compensation system has a role in

improving the performance of employees, and this indicates that the



compensation system followed by Areej is excellent for improving the performance of their employees. The compensation system has a positive impact on the performance of the employees, as compensating the employees for their effort on an annual basis motivates them to work more and with higher performance to obtain greater compensation and various advantages (Muhammad & et al, 2014).

2- Rank the following compensation system methods from the most used to the least in your company.

Through the previous results, it is clear to the researcher that most of the employees agreed that increasing salaries is the first method used by Areej for compensation. The second place comes with promotions, the third place is

Figure 3.5: Impact of comensation system on the performance of employees.

an ideal work environment, the fourth place is free courses, and the last place is the discretionary certificates. The researcher notes that the company relied on many compensation methods for its employees and that the arrangement of these methods is very excellent. This also indicates the company's interest in compensating its employees for their fatigue. According to George (2019) the Organizations are interested in offering various compensation methods to gain their employees, keep them, and attract different employees. Among the most important methods that organizations use to compensate their employees, increase salaries, improve the work environment, health insurance, free courses, promotions, and other monetary and non-monetary compensation.

3. How satisfied are you with the compensation offer by the company for your work?

Through the graph, the researcher concludes that 35 employees and 58.3% are very satisfied with the compensation provided by the company to them, while 22 employees and 36.7% are satisfied with the compensation provided by their



company, and 3 employees consider that the compensation provided by the company The Company is normal for them. And there are no answers indicating that the employees are not satisfied. The previous results indicate that Areej Company provides appropriate compensation to its employees and seeks to gain their satisfaction, and takes care of fulfilling their requests and gives each employee the appropriate compensation for his work. Zainal& et al, (2009), It is very natural for employees to be satisfied with their company if it compensates them in an appropriate and fair manner. One of the most important elements to attract employees and gain their satisfaction and improve their performance is the compensation system, so this system is very important for every company that seeks to gain talented employees and gain their satisfaction and maintain them, on the other hand, it will return the many benefits to the company such as gaining many customers and increasing its profits and others.

#### 4. Recommendations

- The researcher suggests developing and improving the compensation

system in a way that attracts employees and increases their motivation, which leads to raising their performance and thus improving the productivity of the company. For example, an increase in the value of the annual compensation received by employees according to their fatigue, also improving some methods of compensation indicated by some employees and improving the retirement system because this will help the company to establish a strong and long-term relationship with its employees.

- Conducting continuous surveys to know the desires of employees periodically, this contributes to helping the company to know what satisfies its employees and increases their effectiveness to work with high performance. On the other hand, gaining the confidence of the employees, and informing them of the company's interest in them. As this suggestion is very effective because the employees need to present their suggestions and give their opinions towards the company,

all the reactions that the employees will feel will contribute to improving their performance and encourage them because the company will implement their various requests.

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