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EFFECT OF COMPENSATION ON EMPLOYEE PERFORMANCE IN NIGERIAN BANKING INDUSTRY

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Abstract

Competition in both the manufacturing and financial sectors of the Nigeria economy has called for various strategies to attract and retain highly skilled work force. Hence, the need for compensation as a useful strategy for employee performance motivation arises. However, the dynamic world has rapidly change compensation programs; organization can no longer continue to increase rates by a certain percentage each year without some corresponding increase in performance. The objective of this paper is to examine employee's reaction to their compensation and to ascertain whether compensation actually influences employee's performance. Primary data were collected using a structured questionnaire, frequency and simple percentage were used to analyse the data, and also hypothesis were formulated and tested using Kolmogorov smirvov one sample test. The result of the study shows that compensation has a significant impact on the performance of the employee in the organization. Conclusively, compensation both in the financial and non-financial form must be a thing of interest to all managers in an organization since it is a major way of bringing out the best in an employee and also retaining them. Thus, dissatisfactions of employees occur more often which is reflected in high labour turnover, frequent complaints, strikes and deterioration in job performance. In order to avoid dissatisfaction, management should identify

the causes and develop a package program to cater for the maintenance and motivational needs of the employee.

Keywords: Compensation, Employee, Personnel, Banks, Motivate.

Introduction

Today, both manufacturing and service sectors, competition is daily increasing as operators explore various strategies to attract and retain highly skilled and competent hands so as to increase the general organizational performance which leads to high productivity and profitability in the organization. Unhappy and less motivated people often times gives less than optimal result in terms of quality services and product. Managers should therefore, become more conscious of this and thus, respond positively to the needs of the employee by improving their living conditions through various compensation programs so as to enjoy the benefit of high performance, quality customer service delivery, reduction in the rate of staff turnover, increased creativity and dedication from employees, good public image and the likes.

Abiola (1992), in his paper, said the important factor in any productive enterprise is the human element, the people involved. Without people, there can be no performance upon which anticipation of result can be based. The most critical thing confronting managers today is how to get their people to work in a constructive sense, in such a manner that will achieve desired results and give the worker a sense of fulfillment. Managers must necessarily be concerned about the state of mind of workers, the environment in which they labour and their attitude to work: for without a properly oriented and motivated workforce, even the best of managers may not produce any tangible result.

Cenzo & Robbins (1996) defines motivation as an individual's willingness to exert effort to achieve the organization's goals, conditioned by this effort's ability to satisfy individual needs.

According to Robbins (2002), to maximize motivation, people need to perceive that the effort they exert leads to a favourable performance evaluation and that the favourable evaluation will lead to the rewards that they value. Reward here, can be seen as a kind of compensation, some scholars uses the word interchangeably. Rewards however, being the most sensitive of all the human resource management issues according to Dfer, Daines and Giauque (1990), include promotions and compensation. People at all level in an organization keeps careful track of their financial and non- financial rewards particularly as they compare themselves with others.

Compensation in its various forms for example, wages bonuses, stock options, or profit sharing has two major impacts on people. The first being the actual amount of money received and the lifestyle the individual can achieve as a result of the compensation; secondly, how the employee is valued in an organization, particularly as compared with others. Employee reacts in different ways when they observed that the other employee was evaluated more positively. Therefore, the method of determining wage and salary increases should be open and clearly objective, so that people will not feel the evaluations and the resulting rewards are unfair. However, although compensation is in both financial and non- financial form, but when a special effort of an individual is being asked, offering a cash reward in return may work well.

Rizal and Ali (2010), in his work explains that a highly motivated employee build advantages for their company and leads the organizations of its objective and employees are extremely motivated to monthly rewards as cited by Osterloh and Frey (2012).

Emmanuel E.Y (2013), said it is undeniable fact that productivity of an organization depends upon the satisfaction level of its workforce and even more, on the compensation of employees. As a result there has been a great interest in assessment of compensation variables of employee as they impact on productivity making the concept of compensation to attract a considerable attention over recent years and has become a central objective of human resource management.

Oliver (2002), in his paper, said when workers productivity is to be discussed, it cannot be divorced from the psychogenic needs of the workers, motivation and job design as well as work attitudes. In meeting these psychogenic needs in the organization, compensation plays an important role whether in monetary or non-monetary form. The effect of this motivational source, which is compensation, on the performance of the employee now becomes the major emphasis of this paper.

Statement of the Problem

Rivalry in the banking sector has called for manager's serious attention of attracting, retaining and influencing capable and qualified employee into the organization, so as to increase or maintain a certain level of organizational performance which leads to productivity. Compensation now serves a major instrument that could be used to influence the individual employee to achieve organizational objective.

Again, knowing well that increase in the rate of employee turnover can affect the profitability and even the image of an organization; Therefore managers will want to try as much as possible to make sure the good hands or the highly

skilled or talented ones in the organization are tied down by compensating them greatly in diverse way for great performance apart from the basic pay package, so that the other rivals in the competitive market will not come and entice them away.

However, the dynamic world has rapidly change compensation programs, organization can no longer continue to increase rates by a certain percentage each year (a cost-of-living raise), without some comparable increase in performance accordingly, more organizations are moving to varied themes of the pay-for-performance systems. This paper is therefore, specifically interested in finding out the effect of compensation on employee performance using Guaranteed Trust Bank Plc, Ilorin branches a case study.

Objectives of the study

The main objective of this study is to examine the effect of compensation on employee performance in the Nigerian Banking Industry while the specific objectives are to:

(i) Examine how employees react to compensation,

(ii) Ascertain whether compensation actually influences or affects employee's performance.

Scope of the Study

The study covers some randomly selected staff of Guarantee Trust Bank in Ilorin metropolis.

Literature Review

According to Heller and Hindle (1998), motivation is defined as the will to act. In the work place, managers must seek to influence their staffs to align their own motivations with the needs of the organization. To release the full potentials of employees, organizations are rapidly moving away from " commands and control" and towards "advise and consent" as ways of motivating. This change of attitude began when employers recognized that rewarding good work is more effective than threatening punitive measures for bad work.

Ivancevich, Donelly, Jr and Gibson (1980), defines motivation as "all those inner striving conditions described as wishes, desires, drives etc. it is an inner state that activates or moves" more specially it has often been called an intervening variables; intervening variables are internal psychological process which are not directly observed and account for behavior. This kind of behavior can either be a positive one which increases performance effort or a negative one which discourages employee from exerting greater effort.

According to Ojaide (1998), motivation generally encompasses rewards

shown in cash and kind. It is not an empty promise but a demonstration of reality. The social-economic environment influences the need to motivate employees. Employees are very much interested in their basic needs such as food, shelter, clothing, and safety, up to ultimate needs of self-esteem and actualization. These basic needs are satisfied through monetary and or non-monetary consideration. The prevailing economic situation necessitates that employee's real wages have to be enhanced so that they can exercise effective demands for goods and services.

After employee's recruitment, selection, orientation and training for various positions, some type of process to review their effectiveness is needed so as to compensate them accordingly. This process therefore is known as the performance evaluation.

Mullins (1999) said the underlying objective of performance appraisal is to improve the performance of individuals leading to improvement in the performance of the organization as a whole. Invancevich, Donnelly, Jr and Gibson (1980) defines performance evaluation as a formal managerial activity that determines in the most objective manner possible, the extent to which each employee is making a performance contribution. According to Robbins (2002), a major goal of performance evaluation is to assess accurately an individual's performance contribution as a basis for making reward allocation decisions.

Milind, A.P, Rajashree, G. (2013), Said the organization have realized that enhancing their productivity goes a long way in success of their business operation and thus productivity has become a matter of greater concern amongst them. There is a well-established positive relation between fair employment practices followed by the organizations and the motivation and efficiency of employees. Some other views that recognition in pleasantry in the organization favourable works environment motivate the employee according to Abdul, M, Muhammed R, Hafiz, M.K.Z, Ghazanfar, A and Muhammad A.

Cenzo and Robbins (1996), said the most obvious reward employees get from work is pay, however, rewards also include promotions, desirable work assignments, and a host of other less obvious pay offs. They further explain 3 major types of pay for performance as follows:-

- Incentive compensation plans
- Competency compensation plans
- Team-based compensation plans

Incentive compensation plans

This is used by an organization who typically wants to use performance to develop their compensation system; it is a kind of addition to basic wage rather than

being the basic wage itself. Incentives are done based on individual, group or organization performance. Merit pay plan is the most widely used incentives pay; this is a situation where employee who shows merit has a sum of money added to their base salary which differs among employees because the percentage of the base rate is attributed solely to performance. Merit pay accrues permanently to the base salary and become the new base from which future percentage increase are calculated just like the cost-of-living raise. Its main disadvantages is that pay increase are always expected in situations where company has a bad year or employee didn't meet up with the expected productivity level, problems comes in.

The best known incentive is undoubtedly piece work. Under a straight piecework plan, the employee is typically guaranteed a minimal hourly rate for meeting some pre-established standard output; for output over this standard, the employee earns so much for each piece produced. Individuals could also be based on time saved as well as output generated, not only or up to standard or above.

This individual incentives works best where clear performance objectives can be set and where tasks are independent, if not , it can lead to dysfunctional competition or cutting of corners, co-workers can become enemy, individual can inflate the perceptions of their own job and deflate others, reduced interaction and communication between employees in the work environment. If corners are cut, quality and safety may be compromised.

Group Incentives

It involves a situation whereby two or more employees are paid for their combined performance. This hqwever is more appropriate when employee's task is interdependent and thus requires co-operation.

Organization-Wide-Incentives

The main objective of this plan is to direct the efforts of all employees toward achieving overall organizational effectiveness. In some organizations all employees are being produced rewards based on organization-wide cost reduction or profit sharing; these are added to employee 'salaries inform of bonus. Organization wide incentives seek to bring about compensation between management and employees through sharing of problems, goals and ideas. Here each department has a committee composed of superior and employee representatives, suggestion on how labor saving improvement could be done are made the cost-savings and productivity gains are shared by all employees.

For the IMPROSHARE (improving productivity through sharing), if workers can save labor costs in producing a product, a predetermined portion of the labor savings will go to the employee and this bonus is determined through the use of

mathematical formula, for example, it might be 20% of productivity gains coming from reduced defects and less production time. In profit sharing plans, employees are allowed to share in the success of the firm through part of the company's profit that is being distribution back to them.

This tends to increase employee commitment and loyalty to the organization. Although, here employee often find it difficult to relate their efforts to the profit sharing bonus, their individual impact on the organizations profitability may be minuscule, also factors such as economic conditions and actions of competitors which are outside the control of the employees may have a far greater impact on the company's profitability than any actions of the employees themselves.

Competency-Based Compensation

In this kind of compensation plan, skills, knowledge and behavior are being rewarded. Individual progress here through a four staged model of development, which includes apprentice, doer, mentor and strategic leader, all sometimes called job families. Workers in the first stage are under training and serious direct supervision, also seen as new learner and earn lowest pay; they earn broad banding and are paid according to preset level.

An employee at the second stage (doer) is empowered already and has greater compensation with a sense of independence, also contributes significantly than new learners. The mentor in the third stage now becomes the facilitator or leader of unit, accept more responsibility and even accountable for the achievement of unit goals.

The strategic leader has the organizational responsibilities in all in term of establishing organizations direction, formulating and monitoring the implementation of objective to achieve organizational goals and they have the highest rate of pay.

Team-Based Compensation

Employees are grouped into teams with respects to the job that affect them and empowered to meet their goals. Team reaps the benefit of their productive effort; in other word, team-based rewards are tied to team-based performance, which translate directly into their compensation. Here rewards are shared equally, although, in the truest sense, teams allocate their own rewards.

Teams must understand what is expected of them and their and effort is worthwhile. They must have a clean purpose and goals for them to be effective; they must be provided the necessary resources to complete their tasks, there must be mutual trust among team members.

Executive Compensation Programs

Executive collects a higher salary, bonuses and stock based incentives than other employees especially those in private sector. This is justified by economic and motivation's reason.

ECONOMIC REASON:- Top managers are expected to demonstrate good decision making abilities. The attribute may be widely held by all workers. As a result, the supply of qualified senior executives is scarce; the price of this talent will now be bided by the organization. The salary must be in line with that of the competitor, if not; a potential executive will be loosed to the hands of the competitors. High pay, motivates top level managers to perform well in order to keeps their jobs and it also stimulate lower-level managers to work hard as that they can someday move up the ladder to "the big money"

Supplemental Financial Compensation

Executives also earn bonuses and stock options that shoot up their total compensation, much of these are obtained through deferred bonuses, that is, executive bonus is computed on the basis of some formula, usually taking into account increase in sales and profits. The main purpose of this differed bonus is to increase the cost to the executive leaving the organization because an executive who voluntarily resign its employment, forfeit their deferred bonuses. Executives are also allowed to purchase a specific amount of the company's stock at a fixed price a times; with the assumption that good management will increase company's profitability and therefore, the price of the stock options are viewed as performance based incentives.

Supplement Non Financial Compensation

Good managers are attracted and motivated to work hard in achieving organizational goals by offering them what is called smorgasbord or perquisites, which other employees are not entitled to or not offered. This perks could include an annual physical examination, payment of life insurance premiums, supplemental retirement accounts, mortgage assistance and all the likes.

Research Methodology

This study adopted the descriptive survey; and a structured questionnaire which focused on the objectives of the study was used in collecting data. The data generated were analyzed using frequency and simple percentage, one hypothesis was formulated and tested using Kolmogorov Smirvov one sample test. An alpha of 0.05 was set at a degree of freedom (n-1). The Kolmogorov Smirvov one sample test is compared to the tabulated value at the set alpha- level and when the

computed value is greater than the tabulated value, the decision rule is to reject the null hypothesis and accept the alternative hypothesis.

Hypothesis

H_o: Compensation does not have a significant impact on employees' performance

Table 1; Commensuration of compensation with employee's performance

Responses	Frequency	Percentage
Highly compensated	9	22.5
Fairly compensated	31	77.5
Not compensated	0	0.00
Total	40	100.0

Source: field survey, 2014

Table one above shows that about 22.5% of the respondents are contented with the level of compensation the organization is giving them compared to their level of performance in the organization. While 77.5% although accepted that they are being compensated but not at the same level with their level of performance in the organization, which shows that they are still dissatisfied about their level of compensation in the organization so the organization have to improve on that in order to be able to influence the employees performance better.

Table 2: Effect of compensation on employee's performance.

Responses	Frequency	Percentage
Strongly agree	24	60
Agree	14	35
Disagree	2	5
Strongly disagree	0	0
Total	40	100

Source: field survey, 2014.

It could be inferred from table two above that an overwhelming percentage of 95% of the respondents strongly agree and agree that they will definitely perform better if their compensation in form of increase in salary as a result of promotion, increase in incentives, bonus, stock option etc. is increased while the remaining 5% says it does not make any difference to them. Since the highest percentage agrees that their performance will be better influenced with compensation, the organization must not ignore that fact.

Table 3: Effect of effective performance evaluation on employee's performance

Responses	Frequency	Percentage
Strongly agree	26	65
Agree	12	30
Disagree	2	5
Strongly disagree	0	0
Total	40	100

Source: Researcher's survey, 2014.

Table three above clearly show that 95% of the respondent strongly agree and agree that if performance evaluation is effective and give result inform of compensating them with relation to their performance, that they will be encouraged to put more effort while 5% of the respondent believes that no matter how effective performance evaluation may be, that it cannot influence them to perform better. Here since the majority of the employee is influenced greatly by effective performance evaluation that leads to compensation to perform better in their various duties, then the organization must focus more on the evaluation process to encourage them better.

Table 4: Effect of negative compensation

Responses	Frequency	Percentage
Yes	10	25
No	30	75
Total	40	100

Source: Field Survey, 2014.

It is observed from table four that 75% of the respondent will not be encouraged to perform better in the organization if performance evaluation do not favour them as a result of their low performance which leads to demotion and even decrease in salary for them; while the remaining 25% said it will even encourage them to put more effort so that they can be rated high and compensated positively next time. From this response, it has clearly shown that employee are not usually interested in the negative side of compensation, so the organization must make sure they are very careful in handling the negative part of it so as not to reduce the performance of the employee completely.

Table 5: Preferred compensation system

Responses	Frequency	Percentage
Financial	39	97 5
Non-financial	1	2 5
Total	40	100

Source: Field survey, 2014.

Table five above shows that 97% of the respondents prefers a financial compensation while 2.5% preferred a non -financial compensation. In addition, the finding from the open ended question threw in the questionnaire shows that the bank under study uses the financial and non-financial compensation and even executive compensation in terms of smorgasbord. Since majority of the employee will prefer a financial compensation to perform better, that will make the organization to have clue to the type of compensation to focus on greatly.

Testing of Hypothesis

The responses in table 2 were used to test the hypothesis as follows:

Table 6: Compensation does not have a significant impact on employee performance

Effect of compensation on employee performance	Observed number	Observed proportion	Observed cumulative proportion	Null proportion	Null cumulative proportion	Absolute difference observed and cumulative and non-cumulative proportion
Strongly agree	24	0 60	0 60	0 25	0 25	0 35
Agree	14	0 35	0 95	0 25	0 50	0 45
Disagree	2	0 05	1 00	0 25	0 75	0 25
Strongly disagree	0	0 00	1 00	0 25	1 00	0 00

Source: Field survey, 2014.

From table six above reveals that the largest absolute difference is 0.45, which is known as the Kolmogorov Smirvov D value. The critical value of D at an alpha of 0 05 is 1 36/√n Where n = number of respondents D=1.36/ √40=1 36/6 32=0 215

The calculated D value = 0.45 and the critical value = 0.215 Since the calculated D value is greater than the critical or table value therefore the null hypothesis is rejected and the alternative hypothesis which states that compensation has significant impact on employee s performance is accepted

Conclusion

Compensation in its broadest sense includes the idea of motivating people to work or perform better on their jobs. It is anything that could be done to influence employee to perform better in the organization; it is a way of reducing employee's level of dissatisfaction in the organization.

Compensation involves both the monetary and non- monetary reward that an individual receives as a result of their performance in the organization. It is not just enough to compensate an individual financially or otherwise, the motivational forces of an individual must be studied before thinking of the type of compensation or reward to give for high performance.

It was observed in the study that most employees will prefer a financial reward than a non-financial reward and in most cases be satisfied if their compensation commensurate with their performance. The hypothesis tested also indicates that compensation have a significant impact on the performance of the employee in the organization. Individual employees believe that they must be properly catered for by managers if they really want them to exhibit their full potential in the term of performance which leads to organizational productivity and profitability. Thus, compensation both in the financial and non- financial form must be sought thing by all managers for influencing employee's performance.

Conclusively, dissatisfactions of employees occur more often which is reflected in high labour turnover, frequent complaints, strikes and deterioration in job performance. In order to avoid employee's dissatisfactions, management should identify the causes and develop a package program to cater for the maintenance and motivation needs of the employee.

Recommendations

For the organization to be able to enjoy the maximum benefit of compensation as a motivator for employee performance, the following recommendations are hereby made:

Although most of the respondents in this paper prefers financial compensation, the organization must still try as much as possible to know what motivates each individual employee to release their full potential before concluding at giving them a financial compensation or non- financial compensation.

In compensating employee in an organization, managers must make sure employee's compensation commensurate with their performance in order not to cause situation of chaos in the organization.

Each employee must be evaluated based on the job they perform and not

using the same measure for every employee in the organization, thereby ignoring the various individual employees task.

There should be a kind of feedback on performance evaluation, a room for it to develop and encourage employee compensation.

Each employee must be properly trained on their various job and equipped for good performance before evaluating them for further compensation.

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