

EFFECT OF MONETARY COMPENSATION ON EMPLOYEE PERFORMANCE: A STUDY OF NON-ACADEMIC STAFF OF THE UNIVERSITY OF ILORIN

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Abstract

Generally, employee compensation is one of the largest expenditure for any organization however, the role of monetary compensation in improving organizations' efficiency, business services delivery and innovations cannot be over-emphasized. Thus, this paper examined the impact of monetary compensation on employees' performance. A sample size of 350 respondents was obtained using the Taro Yamany formula with the aid of the simple random sampling technique. A well-structured questionnaire was developed and mailed to the respondents to collect relevant data. Multiple Linear regression was used to test. The study findings revealed that there is significant relationship between monetary compensation and employees' performance. The R^2 which shows the variation gives 0.425 and adjusted R square of 0.420 based on this findings, the study concludes and recommends that monetary compensation provides the bedrock on which employees too can build their business, career and professionalism aimed at improving their income, efficiency and the quality of the skill delivered to satisfy the needs of their employers as well as protect the organization's interest.

Keywords: Compensation, Employees, Performance, Satisfactions and Monetary compensation

Introduction

Employee performance and monetary compensation have been on the spotlight in previous industrial relations contract as various legislations and laws have been formulated in this regards. The first formal social security legislation began with the Workmen Compensation Act of 1942 while still under the colonial rule which covered both public and private establishment employee and in 1957 and 1987 it was further amended as Workmen's Compensation Act and Decree respectively, the immediate past workmen's compensation act 2004, Employee compensation act 2010 which annulled and replaced the workmen's compensation act 1990 in order to address the flaws of the previous legislations which was primarily a product of the agitation by organized labor union against the employer

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in a bid for improved welfare of the Nigerian workers, thereby lead to instituting a comprehensive provision for employee compensation; the act although it was signed into law by the president in 2011.

Francis, (2014) posits that in a situation where a contract exists between two persons there are duties or obligations that each of the parties is expected to perform under contract. Salary secrecy is often considered ostensibly to minimize the incidence of salary comparism among employee as such comparism does lead to salary job dissatisfaction (Fajana, 2002). Human resources is one of the major assets that determines the success and failure of any organization, be it private or public establishment (Arogundade, 2013). To remain motivated for success, effort must be rewarded monetarily and with other non-financial incentives e.g. proper training, conducive work environment, good understanding of individual differences and passion etc. which will at same time also propel and increase performance as what employers expected in return from employee. Odunayo, Temitope and Arogundade (2015) reported that performance management system serves as a tool for measuring or achieving performance expectation.

Compensation philosophy refers to a formal statement documenting the company's position about employee compensation which is typically developed by the human resource department in collaboration with the executive team; Organizations' compensation philosophy may differ but it must however conform to the provision of the law as laid down. However, there is also so much criticism that the standardization of the compensation is not clear as different standard prevail; there is so much inadequacy and inequality everywhere that the implementation of law in various organization is much desired.

Employee compensation means rewarding people fairly, equitably and consistently in accordance to their value and contribution to the organization and thus, a good compensation system makes provision for annual increment, merit increment, bonus for project supervision as in the academics etc. Thus this research will be useful to a wide range of users in making an informed employee compensation decision so as to enhance performance. In a nutshell, duties of employer and employee arise both under the contract of employment and out of the relationship which the contract exist (Francis, 2014).

The issue of pay is critical in the contract of employment which essentially is a double input-output exchange process (Fajana, 2002) and has therefore been observed that monetary compensations is mandatory in Nigeria for getting fruitful results from employee. The main aim of compensating employee is to keep them motivated and maintain good performance which is best improved upon. This research is made in order to understand from the employee's viewpoint their reaction towards monetary compensation and how it enhances their performance level by exposing what employers see to be comprised in a compensable actions or factors.

Public and private establishment have different ways of computing the actions that are termed to be due for or capable of attracting compensation. Performance is the bye product of employee's effort which reflects the extent which employee has displayed the worth of the compensation received. Thus the research will also point out some challenges faced by employees based on pay difference. Hence, the main objective of this study is to examine the

current level of monetary compensation influence the performance of workers in the University of Ilorin.

Literature Review

Concept of Compensation and Motivation

Organizations have been using various forms of reward whether financial and non-financial to motivate their employees (Chiu, Luk, & Tang, 2002). According to Tang's (1990), the study of incentives generally has shown strong positive correlation with employees' job satisfaction. This could therefore suggest that monetary compensations should have positive impact on employees' performance. Baron (1983) defined motivation as a "set of processes concerned with the force that energizes behavior and directs it towards attaining some goal", while Chiu (1999) alternatively defines motivation as a "function of an individual's personality and environment."

Eluhma, Ibrahim and Shobayo (2016) opined that incentives generally irrespective of its form, plays an important role in promoting employees' capacity and moving abilities, motivating them to develop their skills, abilities and balance between organization requirements and the individuals' needs. This intends to improve these organization performance effectively and efficiently. Armstrong (2012) explained that the concept of motivation can be either intrinsic or extrinsic. Extrinsic motivation implies a situation where things are done for people to work e.g. incentives, increased pay, praise, promotion and discipline etc, while intrinsic motivation refers to the motivation provided by the work and money, in the form of pay or some other sort of remuneration, as the most obvious extrinsic reward. Money seems to provide the carrot most people want. Chiu (1999) was cited by Neelkamal Narsee (2012) to further argue that differences in an individual's character may be meaningful in the job role motivation of that individual.

However, it is worthy to note that motivation could be either monetary or non monetary although non financial incentives are cost effective, yet many organizations hesitate to use it due to the traditional managerial wisdom (Ahiabor, 2013). The disadvantages of financial incentives could push the employee for extreme hard work, which may often affect the workers' physical and mental state in the future and affect his social and humanitarian issues which may not take into consideration the employees age or his health condition, Eluhma et al, (2016).

Labor unrest in the form of strike actions in both public and private corporate organizations underscore the importance employees attach to the issue of compensation (Yahome, 1983). As a result, financial incentives and rewards make continuation of the employment relationship because it create the basis for high levels of commitment so, firms must develop strategies that include financial incentives and rewards for example promotion, bonus, profit sharing or gain sharing and employees stock ownership etc (Development and Learning Organization, VOL.25 NO.1, 2011).

Monetary Compensation

Anyebe (2003) mentioned that the task in compensation administration is to develop policies and the terms of attracting, satisfying, retaining and perhaps motivating employees. Generally, monetary compensation can be viewed as the cost of acquiring and retaining

human resources for running operations and then termed as ‘personnel expenses’ which usually varies from each job, hour, level of engagement, type of engagement etc. Thus employees who feel that they are under paid in relation to their skill level do not perform well as those who feel that they are appropriately compensated. Monetary compensation can either be guaranteed pay e.g. salary and could also be variable pay which directly correlates with the job e.g. commission, bonus, tips and are usually contingent on results on work done and performance achieved. Harrison and Liska (2008) in their study posit that reward is the centre piece of the employment contract-after all it is the main reason why people work. This includes all types of rewards, both intrinsic and extrinsic, that are received as a result of employment by the organization. Generally, compensation hopes to achieve the following:

The first is equity, which may take several forms. They include income distribution through narrowing of inequalities, increasing the wages of the lowest paid employees, protecting real wages (purchasing power), the concept of equal pay for work of equal value compensation management strives for internal and external equity. Internal equity requires that, pay be related to the relative worth of a job so that similar jobs get similar pay. External equity means paying workers what comparable workers are paid by other firms in the labor market. Even compensation differentials based on differences in skills or contribution are all related to the concept of equity. Efficiency, which is often closely related to equity because the two concepts are not antithetical, efficiency objectives are reflected in attempts to link a part of wages to productivity or profit, group or individual performance, acquisition and application of skills and so on. Arrangements to achieve efficiency may be seen also as being equitable (if they fairly reward performance) or inequitable (if the reward is viewed as unfair).

Macroeconomic stability through high employment levels and low inflation, of instance, an inordinately high minimum wage would have an adverse impact on levels of employment, though at what level this consequence would occur is a matter of debate. Though compensation and policies are only one of the factors which impinge on macro-economic stability they do contribute to (or impede) balanced and sustainable economic development. Efficient allocation of labor in the labor market, this implies that employees would move to wherever they receive a net gain, such movement may be from one geographical location to another or from one job to another (within or outside an enterprise). The provision or availability of financial incentives causes such movement. For example, workers may move from a labor surplus or low wage area to a high wage area. They may acquire new skills to benefit from the higher wages paid for skills. When an employer’s wages are below market rates employee turnover increases. When it is above market rates the employer attracts job applicants. When employees move from declining to growing industries, an efficient allocation of labor due to structural changes takes place.

Employee Performance

Hameed and Waheed (2011) was cited by Muhammed and Aiman (2015) to have posited that “the most value adding possession (asset) available to any firm, business, or organization are its workforce”. Performance plays an important role for the organization succession and achieving the goals. Langton and Robbins (2007) emphasized the fact that an individual can be motivated only when there is a difference in pay between a good performer and an average performer. Well performed employees should be incentivized with monetary compensation,

which is an easier and the best way to encourage employees so as to be effective and efficient (Pink, 2011).

Hislop (2003) proclaimed that the motivated employees are required in a rapidly growing organization, and Yongsun, Barbara, and Christy (2002) found that for an organization to be more productive the employees need to perform their jobs with full zest.

Theoretical Framework

Equity theory

Equity theory is concerned with the perceptions people have about how they are being treated compared with others. To be dealt with equitably is to be treated fairly in comparison with another group of people (a reference group) or a relevant other person. Equity involves feelings and perceptions and is always a comparative process. It is not synonymous with equality, which means treating everyone the same, since this would be inequitable if they deserve to be treated differently. Equity theory states, in effect, that people will be better motivated if they are treated equitably and demotivated if they are treated inequitably.

This theory is based on the assumptions that individuals are concerned both with their own rewards and also with the reward of others in the same rank, and employees anticipate that an organization will treat them with fairness and equitability in terms of the input they make and the reward they receive. Moreover, Adam (1965) argues that those employees who perceive that their job input does not match the reward they get will seek to address this perception by either low performance or turnover. In the context of this study, equity theory was important for employee retention, as it influenced the perception of employees in small businesses.

Expectancy Theory

This theory assumes that behaviour results from conscious choices among alternatives whose purpose it is to maximize pleasure and minimize pain. He believes that employee's performance is based on individual factors such as personality, skills, knowledge, experience and abilities. The implication of Vroom's expectancy theory is that people change their level of effort according to the value they place on the bonus they receive from the process and on their perception of the strength of the links between effort and outcome. Sometimes increased effort will not increase my performance and also, increased performance will not increase rewards.

For financial bonuses, it implies that people need to feel that their increased effort will be able to attain the level needed to get the bonus. Or, if no additional effort is needed, none will be added. This means a balance must be created, if a financial bonus is to be given, between making it achievable and not making it too easy to achieve. There need to be clear standards of achievement.

However, Victor Vroom expectancy theory will be adopted for the purpose of this research as it is the most applicable theory to explain compensation from an employee perspective and how it induces them to perform.

Empirical Review

Eluhma et al (2016) in their work on the Impact of Financial and Moral Incentives on Organizational Performance; a Study of Nigerian Universities; the study was aimed at identifying the reality and the role of the Nigerian universities in meeting societal needs of the employees, to know the implemented incentives programs in Nigerian universities using Pearson product-moment correlation coefficient. There was a negative correlation between the two variables i.e. financial incentive and organizational performance in the Nigerian universities; Also the second hypothesis states that there is no significant relationship between moral incentives and organizational performance in the Nigerian universities there was also a weak, negative correlation between the two variables. This implies that both moral and financial incentive do not affect organization performance. The study posits that there is a strong negative relationship between financial incentives and organizational performance in the Nigerian universities.

Omotayo, Bunmi & Owolabi (2014) in an investigation on Compensation Management and Organisational Commitment in Developing Economies: Indian Perspective. The essence of their study was to build understandings regarding the impact of employee compensation on their job satisfaction and the consequent effect on their commitment to the organizational goals and objectives among Indian employees (manufacturing workers). In their findings, the regression weight for Job Stability in the prediction of Organizational Commitment is significantly different from zero at the 0.05 level, which implies that when Job Stability goes up by 1 standard deviation, Organizational Commitment goes up by 1.852 standard deviations. The proposed variables emanated from the major constructs of the survey were tested and analyzed with the use of Structural Equation Modeling (SEM). Based on the results obtained, close association exists among tested variables. Expectedly, increase in salary tends to have positive impact on job stability, but on the contrary it has negative impact. This could be as a result of high expectation from the management based on the pay raise. Therefore, decision makers should understand that pay increase may not make employees remain on their jobs.

Tang (1990) carried out a research titled The Meaning of Money Revisited: Workers' View in Middle Tennessee State Univ., Murfreesboro. A total of 249 full-time employees completed a questionnaire which measured their attitudes towards money. Data from the 50 item money questionnaire were subjected to a principal components factor analysis and followed by a varimax rotation. Six factors were identified: Good, Evil, Achievement, respect/Self-Esteem, Budget, and Freedom/Power. The test-retest reliability and inter-item consistency reliability for each subscales of the 30-item Money Ethic Scale (MES) were satisfactory.

Methodology

The target population focus of this study is the non-academic employee of the University of Ilorin. These employees are 3324 non-academic staff working within the campus. Simple random sampling technique was used for this study because of the fact that it is not bias and it gives equal chance to all non-academic staff in the University. Yamane formula was used to arrive at a sample size of 357 for the study. Cross-sectional data was obtained through the use of detailed questionnaire mailed to the respondents. Using a 5-point Likert scale rating. The multiple regression method of data analysis was used for the study.

$$y = a + b_1 x_1 + b_2 x_2 + b_3 x_3$$

a= Workers Are Well Compensated Monetarily (WCM); b₁= Save for Investment (SFI); b₂= Other Source of Income (OSI); b₃= Basic Need for Survival (BNS)

Where: WCM = F(SFI, OSI, BNS)

With a multiple linear relationship: $WCM = \alpha_0 + \beta SFI, OSI, BNS + \varepsilon$

Decision Rule

Regression decisions are based on the strength and otherwise of r (regression coefficient). If r is 0-30%, there exists a slight relationship; if it is 31-49%, there exists a moderate relationship; if it is 50-100%, there exists a strong relationship. This will be considered at both the positive and negative relationship of the situation. Also, p-value of .05 was used for test of significance. Thus, the null hypotheses will be rejected when significance values are less than the p-values indicated above and alternate hypotheses will be rather accepted.

Testing of Hypotheses

This section addresses the objectives of the study through the formulated hypotheses using statistical techniques. The null hypotheses have been formulated H₀₁ will be tested using linear regression.

H₀₁: There is no significant satisfaction derived by Unilorin workers based on the current level of monetary compensation.

Table 1 Model Summary

Model	B	R Square	Adjusted R Square	Std. Error of the Estimate
1	.652 ^a	.425	.420	.86287

Source: Researcher's computation, 2018.

Table 1 revealed that, there is a significant relationship between current level of monetary compensation and Unilorin workers satisfaction. This is shown by 0.652 i.e. 65.2%, the value was also positive indicating that, when the independent variables increase dependent variable also increases and vice versa. The r-square which shows the variation gives 0.425, i.e. 42.5% workers satisfaction can be explained using the independent variables. While the rest 57.5% is influenced by other factors.

Table 2: ANOVA^a

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	190.046	3	63.349	85.083	.000 ^b
Residual	257.614	346	.745		
Total	447.660	349			

Source: Researcher's computation, 2018.

The F- statistics gives 85.083 with P-value of 0.000 which is less than 0.05. The null hypothesis will be rejected while alternative hypothesis should be accepted. This implies that level of monetary compensation has a significant relationship with Unilorin workers satisfaction.

Table 3: Coefficientsa

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.914	.167		5.478	.000
BASIC NEED FOR SURVIVAL	.340	.045	.373	7.540	.000
OTHER SOURCE OF INCOME	.004	.041	.005	.104	.917
SAVE FOR INVESTMENT	.340	.043	.376	7.851	.000

Source: Researcher's computation, 2018.

The coefficient table shows a significant the study revealed that current level of monetary compensation is totally dependent on Unilorin workers. This supports the findings of Al-Belushi et al (2017) where their study said that the employees prefer and expect monetary incentives and therefore recommended that the management needs to recognize the right kind of monetary incentive to their staff so that the employees get highly motivated to put their best effort towards completing their jobs. In the course of interaction with one of the respondents he said; "The pay we receive here is still okay when compared with the cost of living in this part of the country and it is only those who don't want to save for the future that would say one cannot make investment plan out of the pay to serve as an excuse for their attitude". This has strong implications on the dedication the employee will be willing to put on the job. As an academic institution, the technical work is primarily depending on the non-academic staff for smooth running of academic activities this implies that a non-stop progressive performance will be achieved since workers are generally satisfied.

Generally, the test of hypothesis from the interpretation above shows that there is a positive relationship between monetary compensation and employee performance. That is, the more monetary compensation and benefits attached to work the more the performance by employee is increased.

Discussion of findings

This study findings shown a strong agreement with the findings by Omotayo, et al (2014) and Tang (1990) but disagreed with Eluhma et al (2016) whose finding posited that there is a strong negative relationship between financial incentives and organizational performance in the Nigerian universities.

Conclusion

It can be concluded that in the modern business environment with economic needs that requires finance to cater for this and in this globalized world, monetary compensation is

critical to the success of attracting, developing and retaining highly skilled employees. Hence, employee performance is a vehicle to the survival and success of any organization.

Recommendations

The following recommendations are put forward in order to improve the impact of monetary compensation on employee performance and also mitigate the challenges encountered in the implementation of monetary compensation.

From the analysis the co-efficient value, saving for investment is being greatly depended upon by workers to meet workers satisfaction thus, the university should develop schemes that supports savings for investment purpose in order to increase workers satisfaction on the monetary compensation. Also going by the analysis, acquired educational qualification is being greatly depended on by workers to match the quality of service thus the university management should increase the opportunities and financial aid available to support the employee to acquire better academic qualification and skills in order to increase the quality of service they currently render.

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