Compensation, Employee and Organisational performance in Guarantee Trust Bank Plc: A Secondary Data Analysis.

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Abstract: *In this paper, we moved away from the questionnaire and interview data gathering approach to test the fundamental assumption of human resource management (HRM) practices as they impact both employee and organisational performance using financial data. We argued that performance is better appraised "a posteriori". Thus, we extracted financial data from the annual financial reports from the year 2002 to 2017 and the Pearson Correlation method was used for analysis. The analysis reveals that there is a strong positive and statistically significant relationship between, (i) compensation and employee performance (0.815); (ii) compensation and organisational performance (0.666); and (iii) between employee performance and organisational performance (0.903). However, the findings should be treated with caution as these relationships do not imply a causal one. Importantly, the results strengthen the fundamental role of HRM practice of compensation as one of the important drivers of employee performance that culminates into the overall improved organisational performance.*

Keywords: Compensation, organisation performance, employee performance, HRM Practices

Introduction

One of the central practices of high-performing Human Resource Management (HRM) is the ability to design a compensation system that fosters the competitiveness of an organisation. As globalisation and technological changes revolutionise our workspace, there is a corresponding need for organisations around the world to acquire the required manpower to cope with the globally competitive business environment. The capability of an organisation to stay more competitive resides in the ability not only to access, acquire and retain quality and high-performing workforce but also, and more importantly, to reward them adequately than other competitors. Designing an attractive compensation package is an essential responsibility of the Human Resource (HR) unit of a high-performing workforce. This challenge is often dealt with by the HRM practice of compensation management – effective management of the organisation's manpower and setting the appropriate reward system that reinforces effectively organisational objectives as well as the use of workforce.

The conventional assumption is that compensation in an organisation influences the quality of the people who apply, and get hired, the likelihood of job acceptance, the motivation and performance level of the workforce and the quality of those who stay with the organisation (Gupta and Shaw, 2014; Samnani and Singh, 2014). In the long run, this also has a corresponding effect on the economic performance of the organisation (Resurrection, 2012; Yan and Sloan, 2016). The offshoot of this assumption is that the compensation system of an organisation influences employees' effectiveness, efficiency and innovativeness (Onishi, 2013), and consequently, the profitability and competitiveness of an organisation. But in the event of economic crisis and organisational restructuring, the employee compensation is usually the first point of call in order to reduce operational costs and boost profitability. This is because compensation often constitutes a huge operational cost in most organisations, especially in the service industry, and an important HRM practice (Van Jaarsveld and Yanadori, 2011). The need for organisations to be globally competitive through attracting and retaining the most talented high-performing workforce is a critical challenge. This talented high-performing workforce comes at such a cost.

Previous studies such as Chang, Ou and Wu (2004), Huselid (1995), Seip and McNown (2015), Yan and Sloan (2016) examined the relationship between compensation and employee performance and the corresponding effects on organisational performance. This study, however, departs from the previous studies by assuming that performance is best measured "a posteriori" rather than the "a priori" approach that has characterised survey-based research in HRM practices and performance. Often, survey-based research used questionnaires to elicit information about the performance of both the employees and the organisations. Such an approach is inherent with bias as the employee and organisational performance can best be understood after the performance had been carried out (a posteriori). This bias informs the use of organisational financial information as recommended by Huselid (1995) for the study of HRM practice research.

Theoretical Underpinning

Fundamental theories have evolved over time to explain the influence of compensation on employee performance and the corresponding effects on the overall organisational performance. These fundamental theories include such theories as the expectancy theory, agency theory and the economic model of efficiency wages. The expectancy theory, for example, posits that there are three essential factors that must be met for compensation to be motivational. The first is that the reward must be attractive; secondly, the requested tasks must be within the expectation of the employee; and thirdly, the perceived probability that on successful completion of the required tasks, the employee will get the rewards (Samnani and Singh, 2014). Consequently, the anticipation that there is an attractive reward for successfully completing a task as expected influences employees to give their best performance to the task. Thus, it is expected that there will be a corresponding effect on both employees' and the organisation's performance. Where this expected reward is missing, employee may not give their best in performing the assigned tasks and correspondingly, the organisation's goals and objectives are affected negatively.

The agency theory on the other hand, moved away from the anticipation of an attractive reward to recognise the differences in the objectives of both the organisation and the employee (Akdere and Azevedo, 2005). The premise upon which the theory is built is that the major aim of the organisation is to maximise profit for the owners while the employee seeks to maximise utility. The implication is that since the employee is an agent of the owner of the organisation, the organisation must pay the employee a premium for taking on any risk in pay uncertainty because the employees are risk averse. The fundamental trade-off in the assumption is that employees' effort is good for the organisation and bad for the employee while pay (compensation) is bad for the organisation but good for the employee (Larkin, Pierce and Gino, 2012). However, in the long run, ceteris paribus, both the organisation and employee are expected to benefit. Importantly, the organisation and its owners must compensate the employees adequately to bring out the best out of them and to avert an unproductive attitude that is dangerous for the growth of the organisation.

The efficiency wage theory however moved away from the industrial relations understanding that informed both the expectancy and the agency theory of the relationship between compensation and employee performance on one hand, and compensation and organisation performance on the other. The theory reckons that an organisation may find it profitable to pay greater than competitive wages to unionised employees and to maintain industrial peace (Lawrence, 1986). The implication of this theory is that a non-unionised organisation often pays higher wages than necessary to attract top-talents for the purpose of avoiding unionisation. Thus, the organisation gets healthier and more productive workers if they pay higher wages (Lawrence, 1986). The theory advocates for the payment of wages in excess of market clearing levels since premium wages can help reduce turnover, prevent employee's malfeasance and collective actions, attracts high-quality workforce and facilitate the elicitation of effort by creating a feeling of equitable treatment among employees.

The general assumption upon which these theories are built is the link between compensation and how employees respond to tasks in an organisation and the corresponding implication on organisational performance (profitability). Where compensation is relatively higher than the marketing clearing levels, both the employees' and the organisation's performance are improved. However, these assumptions have their shortcomings. For example, the assumption that attractive compensation or bonding mechanism can solve effort elicitation, turnover and adverse selection problems in an efficient manner is flawed. This is because employees are not only motivated by the attractiveness of compensation. There are some intrinsic elements in the job that motivates the employees to give their best in the performance of the job (Sing, 2016; Turner, 2017). Such intrinsic elements include, among others, the work environment and supervisory approach. It becomes critical to examine variables beyond compensation. This certainly has given credence to practices inherent in HRM as an embodiment of a complex managerial process that elicit the best from employees. Of such practices is compensation, often describes as the reward system. There are copious evidence linking organisational performance as well as employee performance to the organisation compensation system. The following section presents prior empirical studies in the same area.

Prior Empirical Studies

Studies have examined, empirically, the nature of the relationship between compensation and employee performance, compensation and organisation performance and between employee performance and organisation performance. For example, Onishi (2013) examines how monetary compensation plans for employee inventions affect their research and development productivity. Based on the revelation of an increase in revenue-based compensation plans that pay according to contribution to organisation's sales, profits and royalties, the panel data analysis of 360 Japanese indicated that the monetary incentives based on patent performance were effective in enhancing the motivation of employee inventions. Basically, monetary incentive enhances employee desire to evolve patentable inventions that improve organisation competitiveness. In a similar undertaking, Resurrection (2012) examined the extent of the implementation of selected performance management and compensation practices in Filipino-owned SMEs and the underlying relationships with organisational competitiveness. The study found that HRM practices of performance management and compensation, particularly, employee benefits were significant predictors of organisational competitiveness.

Seip and McNown (2015) raised the question of whether employees' compensation varies with corporate profit and connect with the potential factors that can help explain the recent decline in compensation relative to profit - i.e. whether compensation increases are followed by increases in employees' performance. The study showed that there is a varying relationship between employee compensation and corporate profitability. For example, between 1963-1983, the increase in compensation with rising profit had been greater than the decrease following the decrease in profit in the USA. But between 1983 -2013, the decrease in compensation has been less than the increase in compensation. By implication, the study suggests that compensation increases have a corresponding influence on corporate profitability.

In the educational sector, Nawab and Bhatti (2011) examined the influence of employee compensation on job satisfaction and their organisational commitment among teachers in Pakistani universities. The findings from the study revealed that, firstly, there is a positive and significant relationship between employee compensation and job satisfaction, and secondly, there is a positive and significant relationship between employee compensation and organisational commitment. These findings basically imply that compensation influences employees' perception of satisfaction with their job and it also makes them be committed to the organisation. Like Nawab and Bhatti (2011), Osibanjo, Adeniji, Falola and Heirsmac (2014) examined the effect of compensation packages on employees' job performance and retention in selected private universities in Ogun state, Nigeria. They found that, apart from incentives offering in addition to wages or salaries and are being directly related to performance, there is a strong correlation between salary, bonus, incentives, allowance and fringe benefits and the employees' performance.

Subsequent studies like Nzyoka and Orwa (2016) examined the relationship between total compensation and employee performance in an insurance organisation in Kenya, namely Mayfair Insurance Company Limited. Specifically, the study focused on various components of compensation, e.g. basic pay, incentives, benefits, non-financial rewards including career development. Using descriptive statistics, the study found that there is a positive and significant relationship between total compensation and employee performance. Like Nzyoka and Orwa (2016), Yan and Sloan's (2016) examined the impact of employee compensation on financial performance on non-profit organisation and found a positive relationship between them.

Contradicting this evidence of positive and significant relationship between compensation and employee's performance, Gunawan and Amalia (2015) found a significantly negative effect of wages on employees' performance. Using a sample size of 100 employees of a manufacturing company, they further revealed that the significant negative relationship is a result of the presence of a moderator - quality work life, that weakens the wage effect (compensation). This simply means compensation is not the only factor that influences employee performance. Rather there are other intrinsic factors such as quality of work life and type of supervision, to mention but a few. In a close call, Samnani and Singh (2014) examined performance-enhancing compensation practices and employee productivity. They contend that compensation may breed counter-productive behaviours in a desperate attempt to meet the set performance benchmark.

There are situations where employers set employee pay and benefits based on a level of employee productivity. Though these compensation practices typically produce high performance, the means through which the performance increases or is achieved may be associated with unintended and undesirable consequences. For example, there were events in the Nigerian Banking industry where banks set unrealistic deposit targets for their marketing officers (Fadare, 2016). These targets lead these officers into various unscrupulous acts in order to attract large deposits to the Bank so as not only to keep their jobs but also to meet the set targets (Fadare, 2016; Nzeshi, 2016). The reality is that performance-related pay may have a greater effect at lower organisational levels, where job responsibilities are less ambiguous, contradicting the assumptions that contingent pay plan will be more effective at the higher-level organisation (Perry, Engbers and Jun, 2009).

The challenge however with these empirical researches is often found in the methodology. This is because they build largely on primary data. Huselid (1995) raised the need for a different approach to data gathering. Huselid (1995) reckons that employee performance is best measured 'a posteriori' rather than 'a priori' approach that has characterised HRM practices research. This study takes a clue from the previous studies' limitations and used the financial information of GT Bank Plc published annual reports as sources of the secondary data. The use of secondary data extends the methodological frontier for the HRM practices research that has been dominated by the use of primary data.

Methodology

In order to examine the real influence of compensation on both employee performance and organizational performance, a secondary data gathering method is used as recommended by Huselid (1995). The data for this study were extracted from the Guarantee Trust (GT) Bank Plc's published annual financial reports from 2003 to 2016 (GT Bank Plc, 2003; 2005; 2006; 2008; 2009; 2011; 2013; 2014; 2016 and 2017). Using the published annual financial reports, the study is able to move away from the over-reliance on primary data sources (use of questionnaire and interviews) that has characterised HRM practices research. The challenge with such research (use of questionnaire and interviews) as identified by Huselid (1995) is that employee performance measured via the questionnaire gives room to respondent bias.

Thus, a performance analysis using published annual financial reports is adopted, the information in the financial reports is often relied upon as vital data for market participants. Yet, this does not mean that there are no problems with the secondary data. Often, the bias in the original data may question the credibility of the findings from the secondary data. The reliability and validity of secondary data is based on similar approaches by Huselid (1995) and Tsai (2005). They employed financial information (secondary data) to examine the relationship between HRM practices and employee performance on one hand, and HRM practices and organisational performance, on the other. The extracted data are contained in Table. 1.

The analysis consists of bivariate correlation analysis (Pearson's Product Moment correlation). This analytical method allowed us to measure, firstly, the linearity of the relationship between compensation and employee performance, and secondly, compensation and organizational performance of GT Bank Plc. The fundamental assumption from the study is that compensation influence employee performance in GT Bank Plc. Compensation, as an encompassing concept, captures the financial and non-financial rewards employees receive for rendering their services for the organisational goal and objective. Where these employees are adequately compensated, it is assumed that their performance level should increase (Seip and McNown, 2015; Resurrection, 2014; Onishi, 2013). For the purpose of this study, our study variables - compensation, Employee performance and organizational performance, are operationalised as follows:

Table 1: Data from the published annual financial reports of GT Bank Plc from 2002 – 2017

S/N	Year	No. of Employees	Salaries and Benefits (₦'000)	Gross Earnings (₦'000)	Earnings Per Share (₦)
1	2002	413	893,418	11,168,687	1.3
2	2003	615	1,308,206	16,522,413	1.8
3	2004	760	2,010,078	18,917,299	1.38
4	2005	1103	2,536,261	25,459,000	1.12
5	2006	1269	3,448,453	33,615,000	1.42
6	2007	1871	5,180,751	49,051,000	1.62
7	2008	3154	15,220,149	151,689,107	1.85
8	2009	3711	18,414,598	162,550,418	1.27
9	2010	3746	16,932,927	112,396,831	1.36
10	2011	3565	20,484,007	126,471,509	1.69
11	2012	3747	23,660,091	223,064,885	3.05
12	2013	4651	23,761,448	242,665,011	3.17
13	2014	4929	29,442,101	278,520,814	3.32
14	2015	5144	27,721,723	301,850,111	3.51
15	2016	5206	29,453,465	414,616,000	4.67
16	2017	5237	32,832,341	419,226,000	6.03

Compensation was operationalized as "salaries and benefits" of the employees. Though Huselid (1995) further reckon that the challenge with this operationalisation and measurement is that it includes a number of items not directly related to wage and salary expenses and excludes some wages that were directly linked to production in an organisation. In this study, compensation is conceptualised as "Salaries and benefits" as stated in the GT Bank Plc annual financial report. This "salaries and benefits" excludes selling, general and administrative expenses, something mentioned by Huselid (1995) as a critical challenge in the measurement of High-Performance Work Practices. From the GT Bank Plc annual financial reports, the salaries and benefits encompass the salaries, allowance and pensions paid annually to the employees who are made up of the executive directors, management and non-management employees. This study extracts annual figure (in million naira - ₦) for "salaries and benefits" for fifteen (16) years period (2002 – 2017). The figures are standardised through the natural logarithm for further analysis.

Employee Performance was operationalised as the average contribution of each employee to the annual net profit of GT Bank Plc, that is, net profit per employee (dividing GT Bank Plc annual net profit by the annual number of the employee). This approach is rarely adopted in HRM practice research as these studies are significantly primary data reliance. However, this measurement is similar to Koch and McGrath's (1996) measurement of labour productivity in which net sales are divided by the number of employees.

Organizational Performance was operationalised as the annual net profit. Beyond the recommendation by Huselid (1995), financial measurement of organisational performance has been hinged on profitability – often, the net profit. Studies by Yan and Sloan (2016) and Chang, Ou and Wu (2004) have employed a similar measure to examine organisational performance.

There are other economic/financial measures such as net sales, return on investment (ROI), return on capital and earning per share. But because of the behavioural nature of HRM practices research, these measurements are rarely used. Thus, this study adopted the “net profit” as a measure of organizational performance for the GT Bank Plc.

Table 2: Variable Conceptualisation

Year	Compensation (₦'000)	Employee Performance ((₦'000)	Organisational Performance (₦)
2002	6,893,418	27,042.83	1.3
2003	1,308,206	26,865.71	1.8
2004	2,010,078	24,891.18	1.38
2005	2,536,261	23,081.60	1.12
2006	3,448,453	26,489.36	1.42
2007	5,180,751	26,216.46	1.62
2008	15,220,149	48,094.20	1.85
2009	18,414,598	43,802.32	1.27
2010	16,932,927	30,004.49	1.36
2011	20,484,007	35,475.88	1.69
2012	23,660,091	59,531.59	3.05
2013	23,761,448	52,174.80	3.17
2014	29,442,101	56,506.56	3.32
2015	27,721,723	58,680.04	3.51
2016	29,453,465	79,641.95	4.67
2017	32,832,341	80,050.79	6.03

Data Standardisation

For the data standardisation, the data from the variable conceptualisation (Table 2) were Log-transformed (Log10). Each data set, Compensation (Log_Comp), Employee Performance (Log_EmpPerf) and Organisational Performance (Log_OrgPerf) was subjected to normality test to check for skewness (Table 3).

Analysis and Results

Table 4 presents the means and standard deviations of the study variables (compensation, employee performance and organisational performance). This is followed by the statistical analysis (Pearson Correlation analysis) to determine the relationship between, firstly, compensation and employee performance, secondly, the relationship between compensation and organisational performance, and lastly, the relationship between employee performance and organisational performance (Table 5).

Table 3: Data Standardisation

Year	Log_Comp	Log_EmpPerf	Log_OrgPerf
2002	6.838435	4.432052	0.113943
2003	6.116676	4.429198	0.255273
2004	6.303213	4.396046	0.139879
2005	6.404194	4.363266	0.049218
2006	6.537624	4.423071	0.152288
2007	6.714393	4.418574	0.209515
2008	7.182419	4.682093	0.267172
2009	7.265162	4.641497	0.103804
2010	7.228732	4.477186	0.133539
2011	7.311415	4.549933	0.227887
2012	7.374016	4.774748	0.4843
2013	7.375873	4.717461	0.501059
2014	7.468969	4.752099	0.521138
2015	7.44282	4.76849	0.545307
2016	7.469136	4.901142	0.669317
2017	7.516302	4.903366	0.780317

Mean compensation is 7.03 and a standard deviation of 0.47. Mean employee performance is 4.60 while the corresponding standard deviation is 0.19. For organisational performance, the mean is 0.78 with a standard deviation of 0.23.

Table 4: Descriptive and Inferential Statistics

	N	Minimum	Maximum	Mean	Std. Dev.
Compensation	16	6.12	7.52	7.0343	.47329
Employee Performance	16	4.36	4.90	4.6019	.18687
Organisational Performance	16	.05	.78	.3221	.22662

From Table 5, the relationship between compensation and employee performance is examined using Pearson's correlation (R) method. There is a significant relationship between compensation and employee performance (r = .851, p < .001). Based on this (coefficient of correlation of 0.851 – 85.1%), it implies that compensation has a strong positive and statistically significant relationship with employee performance in GT Bank Plc.

Table 5: Correlation Analysis of The Relationship Between Compensation and Employee Performance

Variable	1	2	3
1. Compensation	1.		
2. Employee performance	.851**	1	

3. Organisational performance	.666**	.903**	1

N = 16; **. Correlation is significant at the .001 level (2-tailed)

There is a strong positive and significant relationship between compensation and organisational performance (r = 0.666, $p < .001$). Based on this (coefficient of correlation of 0.666 – 66.6%), it implies that compensation has a strong positive and statistically significant relationship with organisation performance (financial performance) in GT Bank Plc.

The results also show that there is a significant relationship between employee performance and organisational performance (r = .903, $p < .001$). Based on this (coefficient of correlation of 0.903– 90.3%), it implies that employee performance has a strong positive and a statistically significant relationship with the organisational performance (financial performance) in GT Bank Plc. Both variables are measure of performance and the high correlation coefficient between them confirms it.

Discussion and Conclusion

Previous research work on HRM practices from both the academics and HR practitioners has given credence to it as a critical organisational practice that ensures better performance of both the organisation and the employees, that is, the impact of the HRM practice of compensation on organisation performance is due to the influence on employee performance. This study provides supportive evidence of this assertion in the Nigerian Banking Industry. Though, the results from the analysis are in consistence with other works on HRM practices and employee performance; HRM practices and organisational performance; and employee performance and organisational performance. However, the methodological approach is obviously different as data for the study were extracted from the financial information of GT Bank Plc.

Firstly, the study examines the relationship between compensation and employee performance using the correlation analysis; It tested whether compensation, measured by "Salaries and benefits" paid by GT Bank Plc from 2002 to 2017, was correlated with employees' performance, measured by the "gross earnings per employee". Based on the Pearson Correlation analysis of 85.1% (Table 5), the study concludes that compensation has a strong positive and significant correlation with employee performance at GT Bank Plc. This means that as compensation is increased, employees' performance in terms of grossing earnings contribution per employee in GT Bank Plc also increase significantly. This is also in agreement with previous studies (Osibanjo *et al* 2014; Ressurection, 2012) that have found a positive and significant relationship between compensation and employee performance.

Secondly, like previous studies that argued for the strong and positive relationship between compensation and organisation performance, this study also examined such relationship. Compensation is measured as "salaries and benefits" while the organisational performance is measured using the GT Bank Plc annual "earnings per share". From the analysis, the Pearson Correlation is 66.6% (Table 5). Thus, the study concludes that there is a positive relationship between compensation and organisational performance. Importantly, this simply means that as compensation is increased (salaries and benefits paid to employees of GT Bank Plc), organisational performance (Earning Per Share) also increases. The finding is similar to Yan and Sloan (2016), Seip and McNown (2015), Tsai (2005) and Chang *et al* (2004) who have all found a positive and a significant relationship between compensation and financial performance of organisations.

Lastly, the relationship between employee performance and organisational performance is examined. The fundamental assumption, ceteris paribus, is that improved employee performance should culminate into increased organisational performance. The Pearson correlational method used for the analysis reveals a relationship level of 90.3% (Table 5). This very high correlation implies that employee performance and organizational performance could be used interchangeably in measuring performance responses to changes in employees' compensation. This finding is in agreement with findings from Seip and McNown (2015) and Resurrection (2014) who had earlier found a similar relationship between employee performance and organisational performance.

From this summary, the study concludes that there is a strong positive relationship among compensation, employee performance and financial performance of GT Bank Plc. However, these results must be accepted with caution. Firstly, the relationship found is not necessarily a causal one. This is because there may be some inherent elements within GT Bank Plc that are not captured in the annual financial reports. For example, Gunawan and Amalia (2015) reckon that factors such as work-life balance, leadership style, office structure, team formation, and other social factors do have a significant influence on the level of employee productivity beyond those economic indicators of salaries and benefits. There are obviously real-life situations where an employee abandons a high paying job for one that offers a more socially enduring one, that give work-life balance. Sometimes, due to leadership and management style, an employee may opt out of a highly paid job for a lower one.

Also, the economic theory of 'diminishing returns' must be weighed in the analysis and implementation of the compensation strategy. Though the study findings suggest a strong link between improved or increased employee performance and organisational performance to increases or improvements in compensation, this does not imply that organisations should continuously increase employee compensation (Salaries and Benefits) in order to get the best out of the employee for the growth of the organisation. Salaries and benefits are among the largest operational costs in most organisations, and when the law of diminishing returns takes its course, compensation (increased) may not necessarily translate into an improved performance but a greater economic burden to the organisation. It becomes imperative that, though important, compensation as an HRM practice must be treated with extreme caution.

Notwithstanding the compelling evidence from this study, the use of an individual organisation to generalize on an industry is obviously weak. This certainly has necessitated the need for future study to employ a broader data gathering and analysis technique, for example, the use of industry data and cross-sectional analysis as used by Huselid (1995). Such broader methodological approach can give a more robust generalisation about the industry. There is obviously few, if any, cross-sectional study (using the secondary data) of the relationship between HRM Practice of compensation and employee performance and organisation performance on one hand, and the relationship between employee performance and organisational performance on the other hand, especially from the developing economies. More importantly, these limitations do not mean that the result findings are flawed. Rather, it further strengthens the fundamental role of HRM practice of compensation as one of the important drivers of employee performance that culminates into the overall improved organisational performance.

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