Financial Compensation and Employee Performance of Bayelsa State Civil Service

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Abstract
This study examines the extent to which financial compensation management can be used as a tool for improving organizational performance in Bayelsa State Civil Service. To achieve the objective of this paper, primary and secondary sources of data were used. The primary data was collected from a well structured questionnaire tested for validity and reliability. The study used a sample size of four hundred and fifty (450) persons drawn from selected MDAs in Bayelsa State Civil Service. Pearson's Product Moment Correlation was used for data analysis and Z – test was also used to test the significance of the coefficient of correlation at 10% level of significance. The findings reveal that financial compensation received by Bayelsa State Civil Servants do have significant impact on their performance, the financial compensation received are commensurate with their efforts and the reform programmes of the government do have significant effect on the financial compensation policies and practices. Based on the findings, the study recommended that for the Bayelsa State Civil Service Commission to improve performance of employees, they should offer financial compensation that will be specifically designed to link performance.
Keywords: Compensation, Financial, Employee, Performance, Bayelsa State

Introduction

Human resource plays a very significant role in the growth and development of organizations all over the world. This is because no organisation can achieve short, medium and long term corporate goals and objectives without the contribution of the employees; hence it is important that employees are well compensated financially for the success of such organizations. According to Tella, Adeyemi and Popoola (2007), the management of people at work is an integral part of the management process, put differently; managers need to understand the critical importance of people in their organizations so as to recognize that the human element and the organization are synonymous. Therefore, it is imperative to compensate an employee with benefits if he merits it. Cascio (2003) opines that because of the importance that compensation holds for people's lifestyle and self esteem, individuals are very concerned about what they are paid – a fair and competitive wage, while organizations are also concerned about what they pay because it motivates important decisions of employees about taking a job, leaving a job and on the job performance.

Compensation as a concept according to (Bernadin, 2007) refers to all forms of financial returns and tangible benefits that employee receives as part of employment relationship. Compensation as it were is divided into two parts and these are cash compensation which is the direct pay provided by employer for work performed by the employee and fringe compensation which refers to employee benefit programs. Cash compensation has two elements which include base pay and pay contingent. Base pay has to do with hourly or weekly wages plus overtime pay, shift differential and uniform allowance while pay contingent is concerned with performance allowances such as merit increases, incentive pay bonuses and gain sharing. Fringe compensation on the other hand refers to employee benefits programs. Fringe compensation also has two parts to it which are legally required benefit programs and discretional benefits.

Compensation management is an integral part of human resource management approach to managing people (Armstrong, 2005). It deals with the design, implementation and maintenance of compensation systems that are geared to the improvement of organizational, team and individual performance. Compensation implies having a reward structure in which the employees who perform better are paid more than the average performing employee (Pearce, 2010). Compensation management is concerned with the formulation and implementation of strategies and policies that aim to compensate people fairly, equitably and consistently in accordance with their value to the organisation (Armstrong, 2005). The task in compensation management is to develop policies and procedures that will attain maximum return on naira spent in the terms of attracting, satisfying and perhaps motivating employees (Anyebe, 2003).

It has been observed by researchers that there is positive relationship between HR practices and employee performance (Gould-Williams, 2003; Park et al., 2003; Wright et al., 2003; Tessema and Soeters, 2006) and organizational performance (Quresh et al., 2010). HR plays its role as a plus which may be a source of competitive advantage (Schuler and MacMillan, 1984; Pfeffer, 1994). Delaney and Huselid (1996) found HR practices impact on the perception of organizational performance. Past studies have acknowledged that HRM practices play a significant role in influencing the performance of employees (Shahzad et al., 2008; Tessema and Soeters, 2006). But in the case of developing countries there are some challenges specific to these countries which restrict and affect the role that HR practices can play in influencing employee and organizational performance.

The civil service in Bayelsa State has suffered setbacks which are attributed to ineffective and inefficient management of human resources and material resources to facilitate the achievement of its predetermined goals and objectives. Although, the material resources are of paramount importance, an efficient utilization of resourceful human resources is the key to improving organizational performance. Thus it is imperative that organizations provide an enabling and conducive environment for their employees so as to adequately tap their talents, creativity, experience and their intellectualities. To be successful in this regard, managers are required to assume further responsibility to enhance the quality of their compensation system. A good compensation system can help managers do a better job in empowering and maintaining a superior work force which will take extensive organizational resources to achieve.

Available records have shown that since the creation of Bayelsa State, only few government administrations have made efforts to compensate workers in the state. This has greatly reduced the performance of various ministries, departments and agencies (MDA) and even made some of the MDAs go moribund. Problems often arise either because insufficient time is devoted to compensation management, or because they are out without consideration of their effects on the organizational performance. Bayelsa State Civil Service seems to have a myopic perspective of what should constitute appropriate or fair compensation. In addition, most managers have not received adequate training in this important area. It is in view of these problems that the study attempts to investigate the impact of compensation management on the performance of Bayelsa State Civil Service.

Therefore, this study examines the financial compensation and employee performance in the Bayelsa State Civil Service. To achieve this objective, the paper is divided into five interconnected sections. The next section presents the review of relevant literature on financial compensation and employees' performance. Section three examines the materials and methods used in the study. Section four presents the results and discussion and the final section examines the conclusion and recommendations.

Literature Review

Theoretical Framework: There are several theories that support compensation of employees in the work place. One of such is the Reinforcement theory which is propounded by B.F. Skinner. This theory holds that individuals can actually be motivated by their work environment when it is properly developed. Hence, rather than considering internal factors such as attitudes, feelings, impressions and other cognitive behaviour, employers should keep on making positive changes in the external environment of the organization. It emphasizes the importance of a person's actual experience of a reward, and the implication of this for compensation management is that high employee performance followed by a monetary reward will make future high performance more likely.

Another theory that is relevant to the study is the Expectancy theory propounded by Victor Vroom. This theory though focuses on the link between rewards and behaviour too emphasizes expected rewards rather than experienced rewards. In other words, it is mainly concerned with effects of incentives. It stresses that behaviours (job performance) can be described as a function of ability and motivation while motivation is a function of expectancy, instrumentality, and valence perceptions. Expectancy perceptions often have more to do with job design and training than pay systems. Although this theory implies that linking an increasing amount of rewards to performance will increase motivation and performance, some authors have questioned this assumption, arguing that monetary rewards may increase intrinsic motivation.

Extrinsic motivation depends on rewards – such as pay and benefits – which are controlled by an external source whereas intrinsic motivation depends on rewards that flow naturally from work itself. Therefore, while it is important to keep in mind that money is not the only effective way to motivate behaviour, and that money rewards will not always be the answer to motivation problems, it does not appear that monetary rewards run much risk of compromising intrinsic motivation in most work settings.

Another theory relevant to the study is the Equity Theory and Fairness, propounded by John Stacey Adams as Equity Theory but was later on advanced by Elaine Hatfield and her colleagues, which is now known as Equity Theory and Fairness. This theory which probably came as a result of continuous agitation for fair and equitable wages for all workers is the bedrock on which this study hinges. The theory which is divided into two suggests that people evaluate the fairness of their situations by comparing them with those of other people. According to this theory, a person (P) compares his/her own ratio of perceived outcomes (O = pay benefits, working conditions) to perceived inputs (I = effort, ability, experience) to the ratio of a comparison other (O) – external inequity pay.

Compensation: Compensation as it were is a complex topic that has significant impact on organizational success (Dessler, 2005), and for any organization to succeed, it must not look up to capital investment but to its employees as the fundamental source of improvement with the understanding that the human element and the organization are synonymous (Tella. Ayeni, and Popoola, 2007). According to Cascio (2003), the objective of the design of compensation program is divided into two, which are, direct and indirect forms of compensation. Direct compensation has to do with wage and / or salary aspect while indirect compensation is the fringe benefits a worker enjoys as a result of working in an organization. Integrating the two into a package that will encourage the achievement of an organizations goal is what compensation is all about.

In the words of McNamara (2006), compensation includes issues regarding wage and/ or salary programs and structures accruing from job descriptions, merit-based programs, bonus-based programs, commission based programs and so on, while benefits typically refers to retirement plans, health life insurance, disability insurance, vacation, employee stock ownership plan and so on. Gomez – Mejia, Balkin and Cardy (2006) view employee compensation as comprising of base pay and fringe benefits. Base pay or cash pay is the direct pay provided by employers for work performed and these include salary, overtime pay, shift allowance, uniform allowances and pay contingent on performance like merit awards, incentive pay, bonuses and gain sharing while fringe compensating include required programs such as social security, health benefits, pension plans, paid time off, tuition reimbursement, foreign service premiums and so on.

However, skill based pay also pose some risks in the area of employee paying higher compensation that are not offset by organizations productivity. Also, employee may become "rusty" unless there is opportunity to use all the skills acquired; and thirdly, when employee hits the top of the pay structure, he may become frustrated and leave the firm just because there is no further opportunity to receive pay raise. Employee benefits, though a part of total compensation embraces non monetary form of compensation ranging from health care plans, to pension or retirement plans, social security, insurance, family and medical leave (Bernadin, 2007), severance pay, payments for time not worked (vacations, sabbatical, holidays), workers compensation, that is, those injured on the job (Cascio, 2003), foreign service premiums, child care, tuition reimbursement and on campus accommodation (Noe et al 2006).

Other emerging trends in employee benefits embrace flexibility or what is known as cafeteria approach to benefits. This allows an employee to choose from array of benefits in lieu of pay. An employee who is a bachelor may choose money in lieu of child care (Miner and Crane, 2005). This is a welcoming idea though it could be more expensive for employers. By and large, employee compensation and benefits is the ultimate in an organization whether monetary or non-monetary and it matters a lot to individual workers.

Employee Performance:

The relationship between human resource and performance is based on two theoretical strands. The first is the resource based perspective of the firm and the second is the expectancy theory of motivation which is composed of three elements: the valence or value attached to rewards; the instrumentality, or the belief that the employees will receive the reward upon reaching a certain level of performance; and the expectancy, the belief that the employee can actually achieve the performance level required (Stiles and Kulvisaechana, 2005).

Productivity is a performance measure encompassing both efficiency and effectiveness. It is important, therefore, to know who the productive workers are. Productivity is a performance measure encompassing both efficiency and effectiveness (Bhatti and Qureshi, 2007). According to Rahimi and Vazifeh (2011), productivity is a measure of output from a production process, per unit of output. High performing, effective organizations have a culture that encourages employee involvement. Therefore, employees are more willing to get involved in decision-making, goal setting or problem solving activities, which subsequently result in higher employee performance. Encourage a more modern style of participatory management, raise employee and satisfaction, and even lower workers' compensation rates (Madison and Wisconson, 2000). Noe, Hollen, Gerhart and Wright (2000) contended that human resource development shapes behaviour, attitudes, and performance of employees. Ramsey, Scholario and Harley (2000) study found that human resource and productivity are related. This is further supported by Horgan and Mohalu (2006), Bashir and Khattak (2008) that some selected human resource development strategies are associated with better employee performance.

Empirical Review

The following empirical studies on financial compensation provided the basis for this study:

Fein (2010), postulates that firms with formal bonus plans had an average pre-tax return on investment of 15.8 percent, compared to 11.7 percent for firms without a formal plan. Their after-tax profits were 8.6 percent versus 5 percent. Redling (2008) carried out a research where performance was measured by a 5 year performance ranking that combined earnings growth and return on shareholders' equity. Using a randomly selected sample of 25 companies, he correlated each organisation's ranked performance with its base salary growth with its salary years. He found a correlation of 0.16 between base salary increase and firm performance and a correlation of 0.09 between salary plus bonus increase and performance from which he concluded that there was little indication of the existence of performance contingent pay plans in current top executive compensation. Loomis (2008) plotted the 2007 compensation (salaries, bonuses, profit-sharing, stock purchase contribution) against

Journal of Resources Development and Management www.iiste.org
ISSN 2422-8397 An International Peer-reviewed Journal
Vol.22, 2016

return on share holders' equity. He found a less than perfect correspondence, and highlighted extreme cases of executives receiving relatively large increases in compensation during a period of deteriorating profitability for their firms. Loomis argued that executive compensation in these prominent publicly held firms should be more directly tied to firm performance. Onyeizugbe (2012) studied the effect of compensation management on the performance of the Anambra State Civil Service using sample size of 309 respondents and pearson product correlation with Z – test found that financial compensation received by Anambra State Civil Servants do not have significant impact on their performance, the financial compensation received are not commensurate with their efforts and the reform programmes of the government do not have significant effect on the financial compensation policies and practices.

Materials and Methods

The descriptive survey involving questionnaire was the research design adopted for the study. The population of the study was a finite one consisting of the entire staff of the selected organizations. The population of the study was all the ministries in the state made of two thousand, one hundred and thirty (2,130). Random sampling method was adopted for the selection of ministries. The research worked on 95% confidence level and Taro Yamane model was used to get four hundred and seventy – eight (478). The research employed the spearman rank order correlation coefficient rho for the degree of relationship. The reliability test conducted among a group of 250 employees to ascertain if the correlation between compensation management application and performance in Bayelsa State Civil Service. The rank correlation was 0.76, signifying that the instrument is reliable.

Results and Discussion

Ho1: There is no significant relationship between the financial compensation of Bayelsa State Civil Service and employee performance

Table 1: Correlation Analysis SPSS

		Financial Compensation	**Employee Performance**
Financial compensation	Pearson Corre	1	**0.944
	Sig. (2-tailed)		0.000
	N	478	478
Employee Perf. Y	Pearson Correlation	**** 0.944**	1
	Sig. (2-tailed)	**0.000**	
	N	**478**	478

** Correlation is significant at the 0.01 level (2-tailed)

Table 1 shows a coefficient of correlation r of 0.944 that reveals a positive relationship between financial compensation and employee performance. The computed t value of 10.35 is greater than the critical t* value of 2.14, that there is a positive and significant relationship between financial compensation and employee performance in the Bayelsa State Civil Service.

H02: There is no significant relationship between the efforts employees and financial compensation of Bayelsa State Civil Service.

Table 2: Correlation Analysis Using SPSS

		Employees in BSCS (X)	Financial compensation (Y)
Employee of BSCS	Pearson Correlation(X)	1	**0.837
Sig. (2-tailed)			0.000
	N	478	478
Financial compen. (Y)	Pearson Correlation	**0.837	1
	Sig. (2-tailed)	0.000	
	N	478	478

** Correlation is significant at the 0.01 level (2-tailed)

Table 2 shows a coefficient of correlation of 0.837 that reveals a positive relationship between segregation of duties and performance of firms. The computed t value of 7.72 is greater than the critical t* value of 2.14, then the study's hypothesis that there is a positive and significant relationship between efforts of the employees and financial compensation in Bayelsa State Civil Service.

Ho3: The reform programmes of Bayelsa State Government have not had significant effect on financial compensation policies and practices of the Civil Service.

Table 3: Correlation Analysis Using SPSS

		Reforms in BSCS (X)	Financial Compensation (Y)
Reforms in BSCS	Pearson Correlation (X)	1	**0.946
	Sig. (2-tailed)		0.000
	N	478	478
Financial Compensation (Y)	Pearson Correlation	**0.946	1
	Sig. (2-tailed)	0.000	
	N	478	478

**** Correlation is significant at the 0.01 level (2-tailed)**

Table 3 shows a coefficient of correlation of 0.946 that reveals a significant relationship between reforms in Bayelsa State Government Civil Service and Financial compensation. The computed t value of 6.58 is greater than the critical t* value of 2.14. This result provide the basis for the rejection of the null hypothesis of the study, and the acceptance of the alternative hypothesis which states that reform programmes of Bayelsa State Government have significant effect on financial compensation policies and practices of the Civil Service in the state.

Conclusion and Recommendations

The study examined the compensation management on employee performance in the Bayelsa State Civil Service. The review of literature provides strong evidence of the impact of compensation management on employee performance in the Bayelsa State civil service. Our research empirically substantiated the results of prior studies of the relationship between financial compensation management and employee performance in organisations. The study highlights various variables in the study as proxy for financial compensation and with that of employee performance. The findings reveal that financial compensation received by Bayelsa State Civil Servants do have significant impact on their performance, the financial compensation received are commensurate with their efforts and the reform programmes of the government do have significant effect on the financial compensation policies and practices. Based on the findings, the study recommended that for the Bayelsa State Civil Service Commission to improve performance of employees, they should offer financial compensation that will be specifically designed to link performance. On the basis of the empirical result, the study concludes that financial compensation to employees provides a strong incentive for workers to give organisation their best. Therefore on the basis of the conclusion the paper recommends that the Bayelsa State Civil Service Commission should conduct proper job analysis along with wages and salaries; the civil service should relate pay rise directly to performance and the state government should engage in proper and effective civil service reforms that will engineer and streamline government machinery so that a significant increase in the quantity and cost effectiveness of civil service can be realized.

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