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Article

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Original Research Article

Employee Remuneration and the Financial Performance of Selected Manufacturing Companies in Nigeria

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Abstract

This study investigates employee remuneration and the performance of selected Nigeria manufacturing companies using five companies that had the highest asset base from the quoted manufacturing companies. A non-experimental research design was adopted using a dataset for the period 2009–2018 collated from the annual reports and financial statement of the selected manufacturing companies. Three hypotheses were proposed and tested using a multiple regression model. The findings revealed that there is a statistically significant relationship between staff salaries, post-employment benefits, and Profit after tax of selected Nigeria manufacturing companies with P-value of 0.0090 and 0.0006, respectively. The findings show that staff cost is not significantly related to profit with P-value of 0.8894. The study recommended that manufacturing companies should intensify training and retraining programmes for all staff, particularly the management staff, to improve management efficiency.

Keywords*:* Employee Cost, Staff Salaries, Post-employment benefit, Profit after tax

JEL Classification Codes: M5, M12

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1. INTRODUCTION

Remuneration is about the satisfaction that workers get for the work done which includes all forms of payment or rewards and adding to the satisfaction; moreover, this supports the organisation to acquire, keep up and hold a beneficial workforce (Onyekwelu, Dike, & Muogbo, 2020). Remuneration is traditionally seen as the total income of an individual and may comprise a range of separate payments determined according to different rules. For instance, in an organisation, the total compensation of their staff may comprise a capitation fee and a fee for services, or it may include a salary and shared financial risk (Buchan, Thompson, & O'May, 2000 in Balogun and Omotoye, 2020). Remuneration provides basic attraction to an employee to perform the job efficiently and effectively. Remuneration leads to employee motivation. Salaries constitute an essential source of income for employees and determine their standard of living. Salaries affect an employee's productivity and work performance. Thus, the amount and method of remuneration are significant for both management and employees. Performance improvement is not only a result of a well-functioning system but also depends on effective human resource strategies that succeed in recruiting and maintaining a committed and motivated workforce (Al-Ahmadi, 2009 in Fubara, 2019). In line with the above, the objective of the study is to assess the effect of employee remuneration on the financial performance of selected Nigeria manufacturing companies.

Statement of the Problem

People who administer wage and salary face challenges which often necessitate adjustments to a remuneration plan. The more important of the challenges are skill-based pay, salary reviews, pay secrecy, comparable worth, employee participation, elitism or egalitarianism, below market or above market rates, and marketing versus non-marketing rewards (https://www.tuturself.com, 8th April, 2020). Rewards management has to be seen in the context of what is proper and just rewards and what is disproportionate rewards. For the present-day generation, rewards matter more than the actual performance, and this is reflected in the increasing demands from the employers for salary hikes and bonuses. Hence, a proper reward system in organisations would be aligned with the correct strategic fit between internal motivation and external rewards and only when they are in balance can organisations thrive (https://www.managementstudyguide.com/rewards-management, 8th April 2020).

Management of human relations in the future will be more complicated than it is today. "Many of the new generations of employees will be more challenging to motivate than their predecessors. This will in part, be the result of a change in value system coupled with rising educational levels. Greater skepticism concerning large

organisations and less reverence for authority figures will be more common. As changing work ethic requires increasing emphasis on individuals, jobs will have to be redesigned to provide a challenge to the employees.

Further, the focus will shift from extrinsic to the intrinsic motivation of employees. In future, changes will have to be initiated and managed to improve organisational effectiveness. A work culture conducive to the absorption of changes in the technological, economic, political, socio-cultural and international environment will have to be nourished by the Human Resources/Personnel executives if they want to acquire higher status in industry and society. Over the years, human resource management has emerged as a discipline in its own right and the Human Resources manager as a professional. Professional dynamics will enhance its prestige and quality of service. However, its survival and success in future will depend upon the judicious application of knowledge and skills available. Human resource management will emerge as a well-established, well-respected and well-rewarded profession, comparable to other established professions provided the challenges and opportunities are successfully exploited for its advancement (poor citation). Hence, this study examine the effect of employee remuneration on the performance of selected Nigerian manufacturing companies

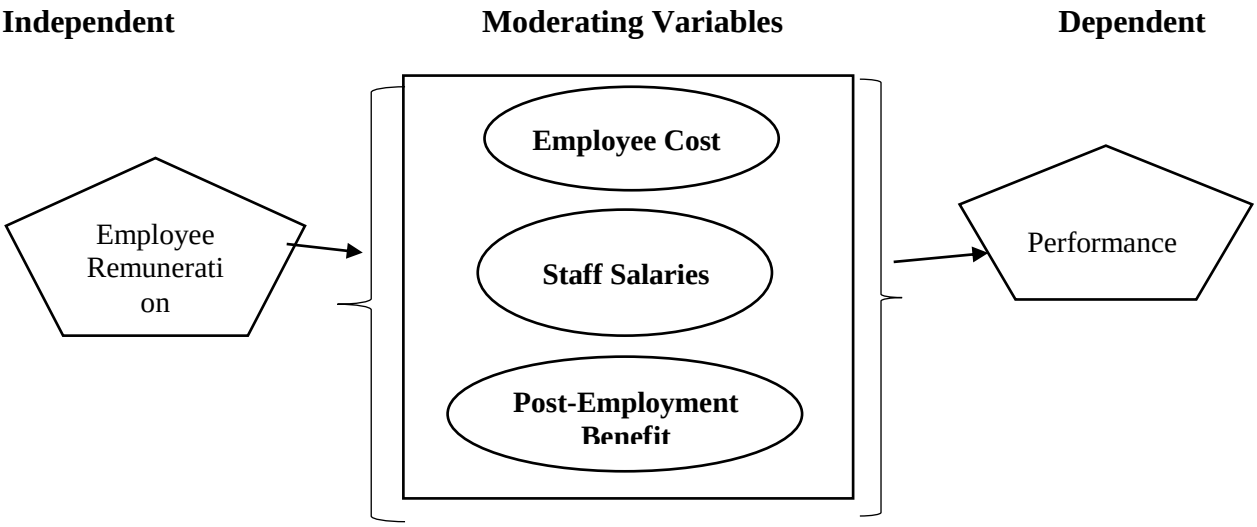

Figure 1: Conceptual framework on employee remuneration and performance
Source: Researchers' Conceptual Framework, (2020).

2. LITERATURE AND HYPOTHESES DEVELOPMENT

Conceptual framework

The Concept of employee remuneration and performance

Performance

Employee performance involves factors such as quality, quantity and effectiveness of work as well as the behaviour employees show in the workplace. Employee

performance refers to how workers behave in the workplace and how well they perform the job duties obligated to them. Most companies typically set performance targets for individual employees and the company as a whole in hopes that the business offers good value to customers, minimises waste and operates efficiently (Donohoe, 2019). Every individual employee contributes to the success (or failure) of your business. Of course, the goal is to improve the quality and efficiency of your workforce continuously. However, without a clear understanding of which factors influence employee performance, it will be difficult to sustain success. Measuring employee performance will differ across roles and departments, but generally, it can be measured by:

1. **Speed and efficiency** – How much does the employee accomplish in an average day, month, or quarter? Are there impediments to address or possible resources to consider that could enable higher productivity?
2. **Quality and depth** – How "good" is the employee's work in comparison to colleagues and other employees in the same role, field, or industry? Does the employee contribute something unique to their role that brings the company added value?
3. **Trust and consistency** – Can the employee be depended on to make good decisions and execute their duties on time? Do they need to be managed meticulously or do they self-manage well? Do they demonstrate the potential to grow within the company, or has their growth plateaued?

The specifics of these metrics will differ depending on the specific job function. All employees (and their supervisors) should be aligned on the goals and expectations that underpin each metric. By establishing clear objectives and timelines for achieving them, each employee should understand exactly what is expected of them (Ciner, 2019).

Employee Remuneration

The term "remuneration" means compensation or pay, but it has a broader meaning than just basic pay. It can also include not just base salary or bonuses but commissions and other payments, as well as deferred compensation or benefits paid under the terms of an employment contract. Businesses can set up their remuneration systems as long as they comply with federal and state laws. Businesses should treat their employees the same regardless of race, gender, and other issues to avoid discrimination and lawsuits, always assuming they work in the same type of position or capacity. Individual employees might be entitled to specific amounts of remuneration based on practice and policy, even without a written contract (Murray, 2019).

Employee Cost

The cost of labour is the sum of all wages paid to employees, as well as the cost of employee benefits and payroll taxes paid by an employer. The cost of labour is distinguished into direct and indirect (overhead) costs. Direct costs include wages for the employees that produce a product, including workers on an assembly line, while indirect costs are associated with support labour, such as employees who maintain factory equipment (Chappelow, 2019).

Staff Salaries

Salary is a fixed amount of money or compensation paid to an employee by an employer in return for work performed. Salary is commonly paid in fixed intervals,

for example, monthly payments of one-twelfth of the annual salary. Salary is typically determined by comparing market pay rates for people performing similar work in similar industries in the same region. Salary is also determined by leveling the pay rates and salary ranges established by an individual employer. Salary is also affected by the number of people available to perform the specific job in the employer's employment locale. Salary can also be viewed as the cost of acquiring and retaining human resources for running operations, and is then termed personnel expense or salary expense (Wikipedia).

Post Employee Benefit

International Accounting Standard 19 (IAS 19) defines post-employment benefits as "employee benefits (other than termination benefits) which are payable after the completion of employment". Employee benefits are all forms of consideration given by an entity to its employees in exchange for services rendered by the employees. Employee benefits include benefits provided to either employees or their dependants. Employee benefits can be settled by either cash payments or by the provision of goods or services. Post-employment benefits are one of the types of employee benefits. They are the benefits that will need to be paid after the employee has completed his/her employment. Post-employment benefits include pensions, other retirement benefits, post-employment life insurance, and post-employment medical care.

It should be noted that the termination benefits are not considered to be the post-employment benefits. The termination benefits are employee benefits payable as a result of either an entity's decision to terminate an employee's employment before the expected retirement date or an employee's decision to accept voluntary redundancy in exchange for those benefits. The termination benefits to encourage employees to leave service voluntarily. The obligation to provide post-employment benefits arises as the employees render services in return for post-employment benefits, which an entity expects to pay in future reporting periods. Actuarial techniques are used to measure this obligation with sufficient reliability to justify the recognition of a liability. Some post-employment benefits are linked to variables such as the level of state retirement benefits or state medical care. The measurement of such benefits should reflect expected changes in such variables. This can be done on the basis of past history and other reliable evidence (International Financial Reporting tool).

Theoretical Review

Reinforcement and Expectancy Theories

The reinforcement theory was published by American social philosopher, psychologist and behaviourist Burrhus Frederic Skinner in 1957, focusing on human motivation. The theory postulates that a behaviour that has a rewarding experience is likely to be repeated. The implication for remuneration is that high employee performance, followed by a monetary reward, will make future employee performance more likely. A high performance not followed by a reward will make its recurrence unlikely in the future. The theory emphasises the importance of a person experiencing the reward. Like the reinforcement theory, Vroom's expectancy theory focuses on the link between rewards and behaviour. Motivation, according to the theory, is the product of valence, instrumentality, and expectancy. Remuneration systems differ according to their impact on these motivational

components. Generally speaking, pay systems differ most in their impact on instrumentality, the perceived link between behaviour and pay. The valence of pay outcomes remains the same under different payment systems. Expectancy perceptions often have more to do with job design and training than pay systems. (http://hrmpractice.com/theories-of-compensation). Expectancy theory is only likely when a perceived and functional relationship exists between performance and outcome, and the outcome is seen as a means of satisfying needs (Balogun and Omotoye, 2020).

Equity Theory

Equity Theory of motivation, developed in the early 1960s by J. Stacey Adams, recognised that motivation could be effected through an individual's perception of fair treatment in social exchanges. When compared to other people, individuals want to be compensated fairly for their contributions (the outcomes they experience to match their input(s))**.** A person's beliefs in regards to what is fair and what is unfair can affect their motivation, attitudes, and behaviour. Equity Theory helps explain how highly paid union workers can go on strike when no one else seems to understand why (Wood, 2016). Adam's equity theory says that an employee who perceives inequity in his or her rewards seeks to restore equity. The theory emphasises equity in the pay structure of employees' remuneration. Employee's perceptions of how they are being treated by their firms are of prime importance to them. The dictum 'a fair day work for the fair day pay a sense of equity felt by employees. When employees perceive inequity, in can result in lower productivity, higher absenteeism, or an increase in turnover (http://hrmpractice.com/theories-of-compensation).

Agency Theory

The agency theory focuses on the divergent interests and goals of the organisation's stakeholders and the way that employee remuneration can be used to align these interests and goals. Employers and employees are the two stakeholders of a business unit, the former assuming the role of principals and the latter the role of agents. The remuneration payable to employees is the agency cost. Naturally, the employees expect high agency costs while employers seek to minimise it. The agency theory says that the principle must choose a contracting scheme that helps align the interest of the agents with the principal's interests. These contracts can be classified as either behaviour-oriented (e.g. merit pay) or outcome-oriented (e.g. stock option schemes, profit sharing, and commission) (hrmpractice.com). Agency theory is a principle that is used to explain and resolve issues in the relationship between business principals and their agents. Most commonly, that relationship is the one between shareholders, as principals, and company executives, as agents (Kopp, 2019).

Empirical Review

Employee cost and financial performance

Omodero, Alpheaus, & Ihendinihu (2016) investigate the effect of human resource costs on the financial performance of firms in Nigerian. Secondary data on relevant financial variables were extracted from published financial statements of ten selected listed firms in Nigeria. The OLS technique was employed in analysing the data, and the results indicate that personnel benefit costs have a positive and significant effect on profitability, explaining about 73.9% of the variations in Profit After Tax

of firms in Nigeria. The results, however, reveal no significant effect of Personnel Benefit Costs on firm turnover. The paper, therefore, concludes that investments in human resources have positive trade-off effects on the profitability and growth of firms and recommends a greater commitment to manpower development and training while providing proper infrastructures and a conducive working environment to enhance the capacity of employees to drive positive improvements in corporate financial performance.

Tomic, Tesic, Kuzmanovic, and Tomic (2018) researched the relationships among employee loyalty, service quality, cost reduction, and company performance to investigate the impact of employee loyalty to company performance. The research model was developed and empirically tested on the sample of 100 service companies with 317 questionnaire surveys conducted in the Republic of Serbia and Bosnia and Herzegovina. Using different statistical analysis (the Kolmogorov-Smirnovljev statistic, Path analysis, A.M.O.S. statistic software, and lavaan software) leads to the conclusion that employee loyalty is significantly related and has a positive influence on company performance

Staff salaries and financial performance

Onyekwelu *et al.* (2020) examine remuneration as a tool for increasing Employee Performance in Nigerian. The study adopts primary and secondary sources to gather information, and copies of the questionnaire were also used. The research adopted a survey and descriptive research technique in analysing data acquired from Bottling Companies in Nigeria, while hypotheses were tested using Regression analysis and ANOVA. It was found that remuneration assumes a significant role in increasing workers' performance in an organisation. The study, therefore, suggests that organisation ought to embrace the right remuneration tool that meets the craving of their workers to increase their output.

Fubara (2019) researched on Compensation and Employee Performance of Bank in Port Harcourt, Nigeria. The study utilised a cross-sectional survey design as the research methodology as a structured questionnaire was distributed to one hundred and forty-nine staff of five selected banks and one hundred and twenty were retrieved from the field. With the aid of mean, standard deviation and Pearson Product Correlation Coefficient were utilised as the analysis technique, aided by statistical package for social sciences. Findings from the research revealed that compensation relates positively and significantly with employee performance, as it has a significant impact on job satisfaction, employee productivity, and employee efficiency. Therefore, it was recommended that compensation is strategic tool management can leverage on to enhance employee performance and it should be positively utilised as a veritable tool to improve motivation to work better.

Balogun *et al* (2020) investigates the impact of remuneration and employee performance in Global Communication Limited, Lagos, Nigeria. The descriptive research design was adopted. The questionnaire format was employed for data collection, which was made into several sections, and 120 copies were distributed for data collection. Both the descriptive and inferential statistics were adopted for data analysis. The result revealed that there is a significant relationship between remuneration scheme and employee performance in Global Communications Limited, and also, there is a significant problem affecting the payment

scheme and the performance of employees in Global Communications Limited. The study recommended that organisations like Global communication limited should use more work-related remunerations rewards design to motivate their employees.

Post-employment benefit and financial performance

Lin, Yao, & Zhao (2014) investigates the relationship between employee benefits and firm performance by studying 324 firms of different ownership forms in China. The research proposes three benefit dimensions, which are confirmed by the results of factor analysis. Besides, this research finds that a combined employee benefits system produces significant associations with overall firm performance and that the strength of the relationship is mediated by attitudinal and behavioral outcomes, which are generated from a psychological consequence of employees. This paper contributes to the knowledge on the value of employee benefits and has important implications for organisational practices.

3. METHODOLOGY

The research design employed in this study is the non-experimental research design since the data was a panel data. The population of the study was limited to the Fifty-Seven (57) Nigerian manufacturing companies. Five (5) companies were selected on the basis of availability of information, and they are Nigeria Breweries, Dangote Cement Plc, Nestle Nig. Plc, Nigerian Guinness, and Vitafoam Plc., while the technique adopted was a purposive-sampling technique because the companies selected comprised food and beverage, building, and consumer goods. The relevant information used for the data analysis was collected from audited statements (secondary data) of the selected companies between 2009-2018. Data collected were analysed using multiple regression analysis. The mathematical equation below represents the relationship between employee remuneration and performance of Nigerian manufacturing companies in a linear form.

$Y= f(x)$

$PAT_{it}=a_0+\beta_1 EC_{it} + \beta_2 SS_{it} + \beta_3 PEB_{it} + e$ ----------I

Where PAT= Profit after tax (Dependent Variable)

β_1- β_3 = Co-efficient of independent variables

a_0= constant of the equation

EC= Employee Cost

SS= Staff Salaries

PEB= Post-employment benefits

EC, SS & PEB are all independent variables

i = number of companies used

t = time interval

e= error terms

Based on theories and extant literature, it is presumptively expected that β_1, β_2, and β_3 >0. That is an increase in the explanatory variables of employees cost, staff salaries and post-employment benefits will have a positive influence on the Profit after tax of the selected manufacturing companies.

4. ESTIMATION RESULTS AND DISCUSSION OF FINDINGS

Table 1: Result of the Descriptive Analysis

	POST EMPLOYMENT BENEFIT	PROFIT AFTER TAX	STAFF SALARIES	STAFF COST
Mean	17402303	33917631	18227599	28863637
Median	10418329	35526003	18173233	28231487
Maximum	92744733	43080349	31527145	42400343
Minimum	3777076.	19401169	2750383.	14415149
Std. Dev.	25675622	7167288.	9328269.	10512978
Skewness	2.549524	-0.518541	0.015879	-0.063346
Kurtosis	7.746300	2.380307	1.819879	1.470618
Jarque-Bera	101.0993	3.040751	2.903528	4.906376
Probability	0.000000	0.218630	0.234157	0.086019
Sum	8.70E+08	1.70E+09	9.11E+08	1.44E+09
Sum Sq. Dev.	3.23E+16	2.52E+15	4.26E+15	5.42E+15
Observations	50	50	50	50

Source: Author's computation, 2020

The mean of the data are EC (28863637), SALARIES (18227599), PAT (33917631), and PEB (17402303), while the standard deviations of the data are EC (10512978), SALARIES (9328269), PAT (7167288), and PEB (25675622). Jarque-Bera test (Prob) accepts the normality of PAT and EB at 5% and 10%, respectively, except for EC and SALARIES that was greater than 5%.

Table 2: Result of the Regression Analysis of Employee remuneration and performance

H_O: Employee remuneration has no effect on the performance of selected Nigeria manufacturing companies

Dependent Variable: PROFIT AFTER TAX
Method: Panel Least Squares
Date: 04/30/20 Time: 12:39
Sample: 2009 2018
Periods included: 10
Cross-sections included: 5
Total panel (balanced) observations: 50

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	38080280	2542101.	14.97984	0.0000
Employee Cost	-0.014699	0.105102	-0.139856	0.8894
Staff Salaries	-0.323851	0.118754	-2.727082	0.0090

Post Employment Benefit	0.124389	0.033791	3.681139	0.0006

R-squared	0.337826	Mean dependent var	33917631
Adjusted R-squared	0.294641	S.D. dependent var	7167288.
S.E. of regression	6019493.	Akaike info criterion	34.13552
Sum squared resid	1.67E+15	Schwarz criterion	34.28848
Log likelihood	-849.3881	Hannan-Quinn criter.	34.19377
F-statistic	7.822728	Durbin-Watson stat	1.693448
Prob(F-statistic)	0.000253		

Source: Author's computation, 2020

A closer examination of the regression result from Table 2 above shows that *Staff cost* and *Staff salaries* (SS) has a negative relationship, while *Post-employment benefit* shows a positive relationship with the dependent variable (PAT) respectively. The sign of *employee cost and staff salaries* were inappropriate, while that of *post-employment benefit* was appropriate and significant, indicating the quantum and quality of *post-employment benefit* for the period under review. The R^2 of 0.3378 shows that about 34% of variations in PAT was explained by the independent variables included in this equation. The unexplained variations may include variables that are not taken care of by employee remunerations. The overall significance shown by the F-test was very significant. This shows that the dependent variable strongly explains changes in the independent variable accurately. Thus, the t-statistic, $R^{2,}$ and Prob (F- statistic) are statistically reliable, and the complete regression result was acceptable.

Decision Rule: As a result of this outcome, the Null Hypothesis was rejected because the p-value was less than 0.05. Hence, the Alternative hypothesis was accepted, that employee remuneration has an effect on the performance of selected Nigeria Manufacturing companies.

Discussion of Findings

The result as depicted in **table 2** above revealed that there is a statistically insignificant relationship between *employee cost* and *financial performance* of selected Nigeria manufacturing companies. This is in line with Omodero, Alpheaus, & Ihendinihu (2016) their results however reveal no significant effect of Personnel Benefit Costs on firm turnover. The outcome was against the result of Tomic, Tesic, Kuzmanovic, & Tomic (2018).

Findings from *staff salaries and financial performance* show there is a significant relationship between staff salaries and Profit after tax of selected manufacturing companies, which is in line with Onyekwelu *et al.* (2020), Fubara (2019), & Balogun *et al.* (2020).

The result of the study further shows there is a significant relationship of post-employment benefit on the financial performance of selected manufacturing companies, which is in line with the findings of Lin, Yao, & Zhao (2014).

Arising from the above, the study accepts the alternative hypothesis that employee remuneration has a significant relationship

on the financial performance of selected Nigeria Manufacturing companies.

5. SUMMARY, CONCLUSION AND RECOMMENDATION

Summary of findings

The broad objective of this study was to examine the effect of employee remuneration on the performance of selected Nigeria Manufacturing companies using data spanning from 2009 through 2018. Employee remuneration as the independent variable was measured by *employee cost, staff salaries, and post-employment benefit* while the performance of selected Nigeria Manufacturing companies as the dependent variable was measured with *Profit after tax*. Given that the Prob. The value of two of the models is less than 0.05; the null hypothesis was failed to be accepted. In effect, the alternative hypotheses that there was a statistically significant relationship between staff salaries, post-employee benefit, and Profit after tax of selected Nigeria Manufacturing companies were accepted.

Conclusion and Recommendation

The study examines the effect of employee remuneration on the financial performance of selected Nigerian Manufacturing companies. From the findings, it was concluded that manufacturing companies should reduce the employees' cost and improve staff welfare so as to improve the financial performance of the employee in the organisation. The study hereby recommended that the management of the selected companies should improve the rate at which staff welfare is catered for. In addition, the companies should revisit the pay package of the employees in the organisation to enhance employee effectiveness and performance,

Contribution to Knowledge, Suggestions for further studies, and limitation of the study

The outcome of this research would contribute to the field of study and help MAN to further enforce discipline in the manufacturing companies in paying staff costs. Therefore, future researchers should consider variables like compensation, pension, and proxies to measure employee remuneration and performance of selected Nigeria Manufacturing companies and other Manufacturing companies using other variables. This study was conducted using panel data extracted from the financial statements of the selected Nigeria Manufacturing companies.

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