Negative Compensation Shocks and Organizational Performance: Evidence from The Nigerian Banking Subsector

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Abstract
This paper investigated the nexus between negative compensation shocks and organizational performance in the Nigerian banking subsector. The survey research method was adopted with questionnaire administered on branch service managers, head teller and fund transfer officers of five (5) selected banks in Delta State of Nigeria, resulting in a sample size of hundred (100) respondents. Negative compensation shock metrics used are employee stagnation, salary reduction and demotion. Data collected from the field survey were analyzed using both descriptive (mean, standard deviation and correlation) and inferential (multivariate) statistical techniques. Based on the analysis of data, it was found that there is a significant nexus between the dimensions of negative compensation shocks and organizational performance. Besides, negative compensation shocks negatively affect organizational performance. In view of this, it was recommended among others that bank managements should reduce the level of negative compensation. Bank management can revise and constantly appraising their compensation policies and practices.

Keywords: Negative compensation shock, organizational performance, employee demotion, reduction in employee salary and employee stagnation

Introduction

Predicting organizational performance via negative compensation is of fundamental import to organizational management and practices; yet relatively little is known about the nexus of negative compensation shocks and organizational performance over time. Moreover, missing from much of the research on organizational performance is the role of organization life changes, or shocks that may or can cause significant drifts in performance. The concept of negative compensation shocks was first introduced into the management literature prior to the documentation of Lee and Mitchell (1994) in a paper titled 'unfolding model of turnover'. Onuorah, Okeke and Ibekwe (2019) contended that organizational management and practices should see negative compensation as metrics for assessing and/or evaluating organizational performance.

In the view of Dustin (2009), a shock refers to an initial and unbearable occurrence that stimulates an employee towards deliberate judgment about his/her job, thus leading such an employee to think of voluntarily quitting the organization. Besides, Prayoga and Achmad (2017) see compensation as the ability and responsibility of an organization to contribute to its employees for their achievement of task and to appreciate their performance. Putting these extremes (shocks and compensation) together, it behooves that negative compensation shocks refer to an unenthusiastic desire of an organization to inflict unbearable events on employees within the workplace. Fundamental among these negative compensation shock metrics as opined by Osinbajo, Pavithra and Adeniji (2014) encompassed employee workplace favouritism, demotion, increased work tasks, reduction in salary, stagnation, poor working condition and so on.

In management literature, vast majority of empirical studies associated with negative compensation shocks have been conducted in the context of the unfolding model of turnover and with employees who had already left their organizations. It is for this reason that so little is known about the effect of shocks on organizational performance. Using social exchange theory as theoretical paradigm, the paper examines whether the magnitude of shock matters and whether the impact of a negative compensation shocks disintegrates over time.

Furthermore, why prior studies (Yamoah, 2013) in this area focused on other variants of negative compensation shocks, little study had focused on negative compensation shock metrics like employee demotion, reduction in salary and stagnation as they affect organizational performance. More also, in Nigeria, there is no study that had focused attention on states in south-south geopolitical zones of Nigeria. Additionally, this paper proposes an extension to the unfolding model of turnover by suggesting that a logical outcome in response to a negative compensation shocks may be to stay with an organization but to reduce performance in response to a dissatisfying situation. Thus, the thrust of this paper is to investigate the nexus of negative compensation shocks and organizational performance in Nigeria.

Objectives of the study

i. To examine whether there is a relationship between employee salary and organizational performance.
ii. To find out the relationship between reduction in employee salary and organizational performance stagnation.
iii. To examine the effect of employee stagnation on organizational performance in the banking subsector.

Research Hypotheses

The following research hypotheses were formulated:

H_o1: There is no significant relationship between employee demotion and organizational performance.

H_o2: There is no significant link between reduction in employee salary and organizational performance in the Nigerian banking subsector.

H_o3: Employee stagnation has no significant effect on organizational performance in the Nigerian banking subsector.

Review of Related Literature

Organizational Performance

Despite the great relevance of individual performance and the widespread use of job performance as outcome measure in empirical research, relatively little effort has been spent in demystifying the concept. Masea (2016) opined that organizational performance is a multi-dimensional construct, the measurement of which varies depending on a variety of factors. Kane (2016) argued that organizational performance is something that the organization leaves behind and exists apart from the organization.

Bernadin (2007) as cited in Kanfer (2011) sees organizational performance as the outcomes of work because they provide the strongest linkage to the strategic goals of organization and employee satisfaction. Campbell (2010) believed that organizational performance should be distinguished from outcomes because it can be contaminated by system factors.

Several authors have agreed that, when conceptualizing organizational performance, one has to differentiate between an action or behavioural aspect and an outcome aspect of organizational performance (Kanfer, 2011). A more comprehensive view of organizational performance is achieved if it is defined as embracing both behaviours and outcomes. This was well defined by Brumback (2018) who pointed out that organizational performance means both behaviours and results.

Behaviours emanate from the performer and transform performance from abstraction to action. Not just the instruments for results, behaviours and also outcomes in their own right – the product of mental and physical effort applied to tasks – and can be judged apart from results within the workplace or environment. Thus, the diverse definitions of organizational performance suggest that, when managing the performance of an organization both inputs (behaviour) and outputs (results) need to be taken into cognizance.

Negative Compensation Shocks

The concept of negative compensation shock was initiated into literature sequel to the writings of Lee and Mitchell (1994). In view of this, Onuorah, Okeke and Ibekwe (2019) contended that negative compensation can be used as metrics for assessing organizational performance. Prayoga and Achmad (2017) see compensation as ability and responsibility of an organization to contribute to its employees for their achievement of task and to appreciate their performance. On the other hand, Dustin (2009) sees a shock as an initial and unbearable occurrence that stimulates an employee towards deliberate judgment about his/her job.

Putting these extremes (shocks and compensation) together, it shows that negative compensation shock is an unenthusiastic desire of an organization to inflict unbearable events on employees within the workplace. In this paper, three metrics of negative compensation shocks were used namely employee demotion, reduction in employee salary and employee stagnation. In management literature, vast majority of empirical studies associated with negative compensation shocks have been conducted in the context of the unfolding model of turnover and with employees who had already left their organizations and results indicated a significant effect of negative compensation shocks on turnover of employees. It is for this reason that so little is known about the effect of shocks on organizational performance.

Theoretical Framework

The theoretical framework of this paper is anchored on the Social Exchange Theory (SET). The SET is among the most influential conceptual paradigms for understanding organizational behaviour and its origins dates back to 1920s. Although diverse views of SET have emerged, theorists agree that social exchange involve series of interactions that generate obligations. Within SET, these interactions are usually seen as interdependent and contingent on the actions of another person (Blau, 1964) as cited in Campbell (2010). SET also emphasizes that these interdependent transactions have the potential to generate high-quality performance.

According to the SET, the parties involved in exchanges provide benefits, invoking obligation from the other party to reciprocate by providing other benefits in return (Campbell, 2010). The SET demonstrates that reciprocated benefits create social bonds among exchange actors. This is because social exchanges build up feelings of personal obligation, gratitude, and trust among partners, all of which lay a foundation of social solidarity and micro social order even without binding contracts.

SET posits that employees engage in positive behaviour like increased performance as a reaction to goodwill extended to them in their workplace. Gouldner (1960) as cited by Bates and Holton (2005) described this exchange as one based on values that drive them to work. Employees tend to reciprocate positive experiences in the organisational environment by behaving in manners consistent with organisational goals and processes. The social exchange theory explains positive work attitudes like increased performance as a response by employees to positive organisational environment in terms of equitable rewards, and favourable organisational policies.

Empirical Studies

There is paucity of empirical studies on the link between negative compensation shocks and organizational performance in Nigeria. Most studies in this area examined the positive compensations aspect on organizational performance. Idemobi, Onyeizugbe and Akpunonu (2011) assessed the extent to which compensation management can be used as a tool for improving organizational performance in a typical public sector organization like the Anambra State Civil Service. In pursuance of the objectives of the study, the descriptive survey design was adopted and Pearson Product Moment Correlation and Z-test was used for data analysis. Findings showed that financial compensation for staff members in the public service do not have a significant effect on their performance and that financial compensation received are not commensurate with staff efforts. The study further found that reform programmes of the government do not have a significant effect on the financial compensation policies and practices in the public sector due to poor compensation management.

Obasan (2012) assessed the link between compensation and employee performance using some selected manufacturing firms in Nigeria. Using the cross-sectional data analysis, the study found that compensation strategy has the potential beneficial effects of enhancing workers' productivity and by extension improving the overall organizational performance. Adeniyi (2013) looked at the impact of organizational compensation management system on the performance of employees in the public sector in Nigeria. Chi-square statistical tool was used in analyzing the field questionnaire. The result indicated that that compensation management system has a great impact on employee's efficiency and performance at the Nigeria Ports Authority (NPA).

Osibanjo, Adeniji, Falola and Heirsmac (2014) examined the effect of compensation packages on employees' job performance and retention in a selected private University in Ogun State, South-West Nigeria. A model was developed and tested using one hundred and eleven valid questionnaires which were completed by academics and non-academic staff of the university. The collected data were carefully analyzed using simple percentage supported by structural equation modelling to test the hypotheses and relationships that may exist among the variables under consideration. The results showed strong relationship between compensation packages and employees' performance and retention. In addition, findings indicated that there is strong correlation between the tested dependent and independent variables (salary, bonus, incentives, allowances, and fringe benefits).

Olarewaju (2014) examined the relationship between compensation management, motivation and organisational performance in the insurance industry in Nigeria. The instruments used to collect data from study respondents were compensation management questionnaire scale (CMQS); short form of Minnesota job satisfaction questionnaire (MSQ); motivation questionnaire scale (MQS); job performance scale (JPS); multi-factors leadership questionnaire-form 5X (MLQ-Form 5X); the reversed brief index of self-actualisation (BISA-R); organisational effectiveness assessment questionnaire (OEAQ) and governmental policy questionnaire scale (GPQS). Descriptive (mean and standard deviation) and inferential (correlation) statistics were used in analyzing the data of the study and findings revealed that a relationship exists between organisational performance and employees' satisfaction. Besides, it was found that there is a relationship between organisational effectiveness and objectives achievement.

Kelechi, Akpa, Egwuonwu, Akintaro, Shonubi and Hebertson (2016) study focused on the effect of compensation administration on employee productivity. The study adopted a survey design which includes the distribution of a well-designed questionnaire to 50 employees in Dangote Nigeria Headquarters, Lagos of Nigeria. Regression statistical technique was used in the analysis of data and findings indicated that effective compensation administration has a positive bearing on employee productivity as indicated in by the figures generated.

Methodology

This paper adopts the survey design because it seeks to obtain perception of respondents on the negative compensation shocks and organizational performance in Nigeria. The study population comprises of bank employees in five (5) selected bank branches in Warri, Delta State namely: First City Monument Bank, First Bank of Nigeria Plc., United Bank for Africa, Guaranty Trust Bank, and Zenith Bank International Plc. The convenience sampling technique was adopted in selecting twenty (20) employees each from the selected five bank branches, resulting in a total of one hundred (100) bank employees. The instrument of data collection was structured questionnaire which was administered on a face-to-face basis on the selected bank respondents. The questionnaire was designed on a 5-point Likert scale of Strongly Agree, Agree, Undecided, Disagree and Strongly Disagree. The test-re-test method for reliability of research instrument and Cronbach Alpha test was used to determine if the research instrument was reliable, yielding a Cronbach Alpha of 0.89. Besides, the validity of research instrument was done via content validity by research supervisor. The dependent variable was organizational performance while the independent variable was negative compensation shocks metrics which encompassed employee demotion, reduction in employee salary as well as employee stagnation. In view of the above, the empirical model for this study is given as:

Composite Model

$$ORGP = f(EMD, RIS, ESG) \qquad eq.\ 1a$$

$$ORGP_t = \beta_0 + \beta_{1it} + \beta_{2it} + \beta_{3it} + \mu_t \qquad eq.\ 1b$$

Model 1: Employee Demotion and Organizational Performance

$$ORGP = f(EMD) \qquad eq.\ 2a$$

$$ORGP_t = \beta_0 + \beta_1 EMD_t + \mu_t \qquad eq.\ 2b$$

Model 2: Reduction in Salary and Organizational Performance

$$ORGP = f(RIS) \qquad eq.\ 3a$$

$$ORGP_t = \beta_0 + \beta_1 RIS_t + \mu_t \qquad eq.\ 3b$$

Model 3: Employee Stagnation and Organizational Performance

$$ORGP = f(ESG) \qquad eq.\ 4a$$

$$ORGP_t = \beta_0 + \beta_1 ESG_t + \mu_t \qquad eq.\ 4b$$

Where: EMD =Employee demotion; *RIS* = Reduction in employee salary; ESG= Employee stagnation; ORGP = Organizational performance. Regression statistical technique was adopted in the analysis of data and in sections: descriptive statistics (mean, standard deviation and correlation); analysis of variance; and correlation analysis. The statistical analysis was done via STATA 13.0.

Result of the Findings

Table 1: Bio-Data of the Respondents

S/N	Variables	Respondents	Frequency N=100	Percent (%)
1	Gender	Male	67	67.0%
		Female	33	33.0%
		Total	**100**	**100%**
2	Age	21-25years	28	28.0%
		26-30years	37	37.0%
		31-35years	17	17.0%
		36years and above	18	18.0%
		Total	**100**	**100%**
3	Marital Status	Single		
		Married	22	22.0%
		Others	73	73.0%
		Total	5	5.0%
			100	**100%**
4	Respondent Type	Managers		
		Accountants	5	5.0%
		Cashiers	10	10.0%
		Others	68	68.0%
		Total	17	17.0%
			100	**100%**

Source: Field Survey, 2022

The result as shown in Table 1 indicates that 67.0% of the respondents are males while 33.0% are females. 28.0% of the respondents were within the age brackets of 21-25years, 3.0% 26-30years, 17.0% 31-35years while 18.0% 36years and above. Also, it was found that 22.0% and 73.0% of the respondents are single and married respectively. 5.0% represents other category of marital status such as divorced and separated. Also, it was shown that 5.0% and 10.0% of the respondents are Managers and Accountants respectively while 68.0% and 1.0% are Cashiers and other respondent types.

Table 2: Descriptive Statistics of Dynamics of Audit Market Choice

Factors	Obs.	Mean	Standard Dev.
EMD	*100*	3.122	.39888
RIS	*100*	3.228	.41974
ESG	*100*	3.024	.35423
ORGP	*100*	2.966	.52266

Source: Field Survey, 2022

With regards to the dependent (organizational performance: ORGP) and independent (employee demotion: EMD; reduction in employee salary: RIS; and employee stagnation: ESG) variables as shown in Table 2, all the variables scored above a mean benchmark of 2.50, with RIS being the higher scale value. The average respondent answered with a scale value of above 2.50, hence suggesting that the respondents perceive these dynamics as some of the determinants of negative compensation shocks.

Table 3: Correlation Matrix

Factors	ORGP	EMD	RIS	ESG
ORGP	1.0000			
EMD	0.0317	1.0000		
RIS	0.1020	0.1025	1.0000	
ESG	0.2380	-0.0467	-0.0399	1.0000

Source: Field Survey, 2022

Presented in Table 3 are the correlation values of the dependent and independent variables. The correlation matrix showed that the factors such as *EMD* and *RIS* are carrying the right signs (negative) except *ESG* that is carrying a positive sign. This is an indication that the independent variables follow a-priori expectation except *ESG*. Besides, none of the correlation coefficients exceeded 0.8, thus implies an absence of multi-collinearity among pairs of the independent variables.

H_o1: There is no significant relationship between employee demotion and organizational performance.

Table 4a: Regression result of employee demotion and organizational performance

Dependent Variable: Organizational Performance (ORG)				
Variable	**Coefficient**	**Std. Error**	**t-Statistics**	**Prob.**
C	2.836217	.4163501	6.81	0.000
EMD	.0415704	.1322954	-0.31	0.754
No. of Obs.= 100	F (1, 98)= 0.10	R^2= 0.010	R^2 Adj.=0.0092	Total df = 99

Source: Field Survey, 2022

Table 4a presents the results of employee demotion (EMD) and organizational performance (ORG). The R-squared (R^2= 0.010) shows that there are more excluded variables that drive the dependent variable, indicating that employee demotion explains about 10% of the systematic variation in organizational performance. It is obvious from the table that the coefficient (EMD) is carrying a negative sign (t= -0.31). The negative sign in the coefficient for EMD is an indication that employee demotion negatively affects organizational performance. However, it was found that the variable (EMD and ORG) are statistically insignificant as shown in the f-ratio = 0.10 (p=0.754<0.05). This result led to the acceptance of the null hypothesis and rejection of the alternative hypothesis that there is no significant relationship between employee demotion and organizational performance in the Nigerian banking subsector.

H_o2: There is no significant link between reduction in employee salary and organizational performance in the Nigerian banking subsector.

Table 4b: Regression result of reduction in salary and organizational performance

Dependent Variable: Organizational Performance (ORG)				
Variable	**Coefficient**	**Std. Error**	**t-Statistics**	**Prob.**
C	2.556022	.4072863	6.28	0.000
RIS	.1270067	.1251301	-1.01	0.313
No. of Obs.= 100	F (1, 98)= 1.03	R^2= 0.0104	R^2 Adj.= 0.003	Total df = 99

Source: Field Survey, 2022

Table 4b presents the results of reduction in employee salary (RIS) and organizational performance (ORG). The R-squared (R^2= 0.0104) shows that there are more excluded variables that drive the dependent variable, indicating that reduction in employee salary explains about 1.04% of the systematic variation in organizational performance. It is obvious from the table that the coefficient (RIS) is carrying a negative sign (t= -1.01). The negative sign in the coefficient for RIS is an indication that reduction in employee salary negatively affects organizational performance. However, it was found that the variable (RIS and ORG) are statistically insignificant as shown in the f-ratio=1.03(p=0.3126<0.05). This result led to the acceptance of the null hypothesis and rejection of the alternative hypothesis that there is insignificant link between reduction in employee salary and organizational performance in the Nigerian banking subsector.

H_o3: Employee stagnation has no significant effect on organizational performance in the Nigerian banking subsector.

Table 4c: Regression result of employee stagnation and organizational performance

Dependent Variable: Organizational Performance (ORG)				
Variable	**Coefficient**	**Std. Error**	**t-Statistics**	**Prob.**
C	1.90425	.4407342	4.32	0.000
ESG	.3511076	.1447655	-2.43	0.017
No. of Obs.= 100	F (1, 98)= 5.88	R^2= 0.566	R^2 Adj.= 0.470	Total df=99

Source: Field Survey, 2022

Table 4c presents the results of employee stagnation (ESG) and organizational performance (ORG). The R-squared (R^2= 0.566) shows that there are few excluded variables that drive the dependent variable, indicating that employee stagnation explains about 56.6% of the systematic variation in organizational performance. It is obvious from the table that the coefficient (ESG) is carrying a negative sign (t=-2.43). The negative sign in the coefficient for ESG is an indication that employee stagnation negatively affects organizational performance. However, it was found that the variable (ESG and ORG) are statistically significant as shown in the f-ratio = 5.88 (p=0.0171<0.05). This result led to the rejection of the null hypothesis and acceptance of the alternative hypothesis that employee stagnation has significant effect on organizational performance in the Nigerian banking subsector.

Conclusion

This study investigated the nexus between negative compensation shocks and organizational performance in the Nigerian banking subsector. The survey research method was adopted and questionnaire was administered on branch service managers, head teller and fund transfer officers of five (5) selected banks in Delta State of Nigeria, resulting in a sample size of hundred (100) respondents. The selected banks comprised of First City Monument Bank, First Bank of Nigeria Plc., United Bank for Africa, Guaranty Trust Bank, and Zenith Bank International Plc.

The negative compensation shock metrics of the study include employee stagnation, salary reduction and demotion. The proposed variables emanated from the major constructs of the survey and were tested and analyzed with the use of descriptive (mean, standard deviation and correlation analysis) and inferential (Ordinary Least Square: OLS) statistical techniques. Based on the results obtained via the Ordinary Least Square, close association was found to exist among the tested variables of the study. Expectedly, reduction in employee salaries, demotion as well as stagnation, tend to have negative effect on organizational performance. This calls for policy decision.

Recommendations

Based on the findings of the study, the following recommendations are made;

i. Bank managements should moderate the level of negative compensation. There is the need for bank managements to strike a balance between these variables in order to make employees remain on their jobs. Bank managements can achieve this by revising and constantly appraising their compensation policies and practices. As a matter of fact, this is needed given the fact that the banking subsector is highly competitive; employers need to offer their employees compensation packages that can attract, retain and motivate them. However, this can be achieved if there is transparency in the compensation system and if the compensation meets the aspirations of employees.

ii. Furthermore, the study recommends that bank management should make equity-based compensation as compulsory policy since equity-based compensation are used more extensively in firms for ensuring maximum performance. As a way of enhancing organizational performance, bank management should have performance-based compensation plans at program at every level of the firm.

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