Impact Of Employees Benefits On Organizational Performance: A Study Of Selected Manufacturing Firms In Nigeria

Mrs. Lekan C. N. Akomolafe And
Prof. G. A. Emerole
Department of Business Administration,
Michael Okpara University, Umudike, Abia State

Rachel Serieke Dickson, PhD
Department of Business Administration
Faculty of Management Sciences,
Niger Delta University, Wilberforce Island, Amassoma
Bayelsa State
Racheldickson400@gmail.com
08162656660

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Abstract

The study examines the impact of employees' benefits on organizational performance: a study of selected manufacturing firms in Nigeria. This study employs loglinearized regression estimates as data analysis technique. Sequel to the nature of the study it adopts a panel data to fully capture the inter-relationship among the variables and also across the selected manufacturing companies. The study covers the period of 2011 – 2015, and adopts secondary data sourced from the various annual reports of the selected manufacturing companies over the study period. The econometric software used for the study is e-views 9. In order to establish the best model between fixed effect and random effect model suitable for our panel data analysis. Hausman Test was adopted. From the result of the test since p-value is 1.00 which is higher than 0.05 we fail to reject the null hypothesis that Random Effect Model is appropriate. The study concludes that Employee benefits when strategically structured, enhances the profitability of manufacturing companies in Nigeria. The suggested that continuous training and development programmes is recommended to boost the competencies of employees in their various functions and operations.

Key words: Benefits, Organizational performance, Motivation, Employee, Manufacturing.

1.0 Introduction

Employees' competencies, intellectual capacities, and innovative skills have been recognised in various industries as important assets of corporate organizations (Jalaini et. al. 2013; Heng, 2012). However, employees' benefits have formed a contemporary business and organizational focus, since the reward system dictates the pace and direction of performance (Hatice, 2012). Employee benefits can be seen as any form of reward provided by the organization other than routine remunerations that are paid for in whole or in part by the employer. Thus the employee benefits become essential if employee satisfaction is to be maintained and employee commitment increased. Employees are the most valuable asset to an organization and they play an important role in preserving the successful image of organization. Employee performance is the main factor in ensuring that the organization is run smoothly and successfully. Good employee performance will improve the organization performance. To maintain a good employee performance, a suitable performance management is needed. According to (2000), a performance management is defined as a continuous process of identifying, measuring and developing the performance of individuals and teams and aligning performance with the strategic goals of the organization.

In this time of global financial challenges corporations intensify efforts to adequately provide employees with all available resource in order to accelerate their competitive advantage to outperform various competitors both locally and their foreign counterparts. This strategic focus can be delayed or possibly hindered due to lack of motivation in employees or sudden loss of key employees as a result of inadequate compensations and retirement plans. As pointed by Furtado et al. (2009), employee turnover will be reduced when corporations define their employee benefits to the understanding of their employee with timely implementation.

In Nigeria, the situation of employees work condition and benefits vary across sectors and organizations, resulting in high employee turnover and readiness of most workers to move to new organizations or sectors in search of higher benefits, and better work conditions. Consequently, only fewer employees devote their time and skills in the development and productivity of the organization where they were employed. This has led to low performance and inefficiency in many public and private organizations especially the manufacturing sector which should be the prime driver of a developing country like Nigeria. This study therefore is orchestrated to investigate the impact of employees' benefits effects on organizational performance with a focus on selected manufacturing companies in Nigeria.

2.0 Theoretical Literature

2.2.1. Expectancy Theory

The Expectancy Theory of Motivation provides an explanation of why individuals choose one behavioral option over others. The basic idea behind the theory is that people will be motivated because they believe that their decision will lead to their desired outcome (Allen and Myers, 1990). Expectancy theory proposes that work motivation is dependent upon the perceived association between performance and outcomes and individuals modify their behavior based on their calculation of anticipated outcomes (Allen and Myers, 1990). This has practical and positive benefit of improving motivation because it can, and has, helped leaders create motivational programs in the workplace. This theory is built upon the idea that motivation comes from a person believing they will get what they want in the form of performance or rewards. Although the theory is not all inclusive of individual motivation factors, it provides leaders with a foundation on which to build a better understanding of ways to motivate subordinates. Expectancy theory is classified as a process theory of motivation because it emphasizes individual perceptions of the environment and subsequent interactions arising as a consequence of personal expectations.

2.2.2. Need Theory

According to Faems et al. (2005), needs-based motivation theory is based on the understanding that motivation stems from an individual's desire to fulfill or achieve a need. Human beings are motivated by unsatisfied needs, and certain lower needs must be satisfied before higher needs can be satisfied. In general terms, motivation can be defined as the desire to achieve a goal, combined with the energy, determination and opportunity to achieve it. The basic premise of the need theory is that people are motivated to obtain outcomes at work that will satisfy their needs. It complements the expectancy theory by exploring the depth at which outcomes motivate people to contribute valuable inputs to a job and perform at high levels. A manager must determine what needs the person is trying to satisfy at work and ensure that the person receives outcomes that help to satisfy those needs when the person performs at a high level and helps the organization achieve its goals. The most basic human needs, represented by food, water, shelter and safety, are considered essential for human existence. Higher-order needs are those associated with social activities, esteem building, and self-actualization or constant self-improvement. Elaborating further on this theory, Jain et al. (2007) stated that each of these needs operates at all times, although one deficient set dominates the individual at any one time and circumstance. The motivation experienced by humans to fulfill these needs is

either derived from internal or external factors. People who experience internal motivation are influenced by factors that cause a sense of accomplishment and pleasure, while externally motivated people are commonly influenced by factors controlled by others, such as money and praise.

2.3 Empirical Review

Previous studies on employee rewards policy have consistently found out that there is a strong relationship between rewards and employee performance (Agwu, 2013). This implies that organization's productivity depends on the level of motivation or compensation schemes available. Majority of employees therefore, would wish to equate their output in terms of performance with the level of motivation generated from the incentives they get at workplace.

According to survey conducted by Scot et al. (2010), 42% of the respondents agreed that their organization's total reward system had a positive effect on employee engagement and performance. This is because those organizations that encourage their managers to engage employees and have clear reward criteria foster team work that result into high yields for the organization. This is because rewards provide the much needed stamina that propels performance in the organization. Organizations with poor motivation system tend to perform dismally (Razwan and Ali, 2010).

Research done by Heng, (2012) found out that employee's performance is dependent on the way they are treated in the organization despite high salary. It is a fact that all employees would wish also to be appreciated and feel valued at their workplace. This is what Abraham Maslow referred to as the social affective need at workplace which is a very powerful tool in shaping employees behavior towards better delivery of results. Despite the competing two ideologies on the most effective form of reward which is more significant to employees there is one major consensus that reward controls employees level of motivation and significantly affect organizational performance.

Allen and Helms (2002) in a study, Reward practices and organizational performance in Tennessee, observed that many current reward practices have not been studied to determine whether their rewards are related to organizational performance. This article describes a study undertaken to explore the relationship between reward practices and organizational performance. The findings suggest that a small group of reward practices is linked to greater perceived organizational performance. Suggestions for managers as well as recommendations for further research are provided. In another related study, (Condly et al., 2003) in their study explore the relationship between organizational strategy, reward practices, and firm performance. Researchers have not extensively investigated this potentially important topic. This study presents some initial empirical evidence that supports the notion that different types of reward practices more closely complement different generic strategies and are significantly related to higher levels of perceived organizational performance. Ombui and Wambugu (2013) in their study opine that many best practice models exist that describe successful approaches to reward management which is influenced by the cultural, legal, organizational and administrative challenge's in Islamic world. Thus, the decision in setting and designing reward programs in raising productivity through human effort has always been controversial; studies that were undertaken in numerous countries have shown varying degrees of success of such practices.

Edgar and Geare (2005) stated that, perhaps none of the resources used for productivity in organizations are so closely scrutinized as the human resources. Many of the activities undertaken in an HR System are designed to affect individual or organizational productivity. Pay, appraisal systems, training, selection, job design and compensation are HR activities directly concerned with productivity. Ratho and Rastogi (2008) opine that controlling labour costs and increasing productivity through the establishment of clearer linkages between pay and performance are considered to be key human resource management (HRM) component of competitive advantage.

Methodology

This study employs loglinearized regression estimates as data analysis technique. Sequel to the nature of the study it adopts a panel data to fully capture the inter-relationship among the variables and also across the selected manufacturing companies. According to Draugalis, et al. (2012) panel data embody information of entities across both time and space and measures some quantity about them over time. Panel data estimation could be done using fixed effects model or random effect model. To select the best analysis model, the study utilizes the Hausman-test analysis. The study covers the period of 2011 – 2015, and adopts secondary data sourced from the various annual reports of the selected manufacturing companies over the study period. The econometric software used for the study is e-views 9.

Model Specification

The model adopted for this study is based on the study by Heng (2012) with modifications.

Thus the functional form of the model is given as:

$ROA = f(EMO, REB)$ ……..…….. (1)

The mathematical specification is thus:

$ROAit = \alpha + \beta 1EMOit + \beta 2REBit$ …….. (2)

The stochastic variable is introduced to account for the error term.

$ROAit = \alpha + \beta 1EMOit + \beta 2REBit + \mu it \ldots .. (3)$

Where: ROAit = Return on Assets: ratio of profit after tax to total assets across the section

EMOit= Employees Motivation: ratio of staff welfare to employee benefit expenses across the section.

REBit= Retirement Benefits: ratio of pension cost to employee benefit expenses across the section.

μ = stochastic variable

Table 1.0 Correlated Random Effects – Hausman Test

Correlated Random Effects - Hausman Test			
Equation: Untitled			
Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.000000	2	1.0000
* Cross-section test variance is invalid. Hausman statistic set to zero.			
** WARNING: estimated cross-section random effects variance is zero.			

Source: e-views 9

α = Intercept

$\beta 1, \beta 2$ = Coefficients of the variables

Apriori Expectation: Hence, $\beta 1 - \beta 2 > 0$.

Result and Discussion

This section holds the result presentation and discussion of findings.

Hausman test is presented in Table 1.0. This is in order to establish the best model between fixed effect and random effect model suitable for our panel data analysis.

Hausman Test:

Null Hypothesis: Random Effect Model is appropriate

Alternative Hypothesis: Fixed Effect Model is appropriate

Decision Rule: we will accept the null hypothesis if p-value is greater than 0.05 level of significance.

From the result of the test since p-value is 1.00 which is higher than 0.05 we fail to reject the null hypothesis that Random Effect Model is appropriate.

Ordinary Least Squares parameters in panel data are estimated consistently but inefficiently, hence random effect model modifies the result of the cross-correlation between the parameters for a given cross-sectional unit at different points in time (Draugalis, et al., 2012). Having established the best suitable model for the research, the Panel Estimates of Random Effect Model is carried out.

The result of the cross section random model as estimated from Table 2.0 above reveals that R2 is 0.587. This means that about 58.7% of the variation in the Return on Asset (ROA) of the manufacturing companies is caused by the independent variables, while about 41.3% is caused by other factors outside the model, but represented by the stochastic variable. Also, with the F-statistics 2.533430 higher than the Prob (F-Value) of 0.102290, it can be stated that the estimates is acceptable at 5% significant level.

The Panel Radom Effect Model result shows that the independent variable-Employee Motivation (EMO) is positively related to Return on Assets (ROA) with Coefficient of 0.1981. Considering the significance of the relationship, EMO has a p-value of 0.281, which is greater than the acceptable 0.05 significance level, the relationship is therefore insignificant. However, the apriori expectation of positive coefficient was achieved. Retirement Benefit (REB) also showed a positive relationship with Return on Asset (ROA) with a coefficient of 0.1477. A closer view reveals that REB also has an insignificant relationship with ROA with a p-value of 0.2103 which is higher than the 5% significance level.

Discussion

The importance of maximum utilization of human capital in the productivity of corporations in this era of tough competition across the globe cannot be over emphasized. As shown from the reviewed literatures the human capital utilization has been inhibited due to lack of motivation and perceived fear of after active work-life.

Our findings from the analysis show that the two independent variables adopted for this study exhibit a positive relationship with the ROA of the manufacturing companies. The regression result reveals that EMO shows a positive relationship with ROA with a coefficient value of 0.1981. This means that as the companies' incentive and remuneration

Table 2.0 Panel Estimates of Random Effect Model

Dependent Variable: ROA
Method: Panel EGLS (Cross-section random effects)
Date: 09/23/17 Time: 18:14
Sample: 2011 2015
Periods included: 5
Cross-sections included: 5
Total panel (balanced) observations: 25
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.241705	0.022621	10.68500	0.0030
EMO	0.198127	0.179259	1.105259	0.2810
REB	0.147734	0.114486	1.290405	0.2103

Effects Specification	S.D.	Rho
Cross-section random	0.000000	0.0000
Idiosyncratic random	0.023278	1.0000

Weighted Statistics			
R-squared	0.587198	Mean dependent var	0.200000
Adjusted R-squared	0.413307	S.D. dependent var	0.022361
S.E. of regression	0.021056	Sum squared resid	0.009754
F-statistic	2.533430	Durbin-Watson stat	2.442897
Prob(F-statistic)	0.102290		

Unweighted Statistics			
R-squared	0.587198	Mean dependent var	0.200000
Sum squared resid	0.009754	Durbin-Watson stat	1.442897

Source: e-views 9

packages increases, profitability also increases. However, the relationship is insignificant, suggesting when all factors is well considered, EMO has the potential to accelerate employee commitment thereby improving the performance of the organization. The positive relationship is in line with the study Edgar and Geare (2005) which asserts that a well-structured employee remuneration and incentive packages spur a larger part of the organizational workforce to productivity. This supports the works of Allen and Helms (2002) that conclude that stringent recruitment processes do not always guarantee employees efficiency during operations but organizational attitude towards the welfare of such employees.

The positive relationship between Retirement Benefit and organizational performance proxy by ROA supports the study by Heng (2012). To Scot et al (2010) the after work-life benefits of employee determines their work change attitude from organization to organization.

Furthermore, the study supports the study Ombui and Wambugu (2013) which concludes that human capital when adequately managed can boost the profitability of corporate organization and gain higher competitive advantage in a time of distress.

Conclusion and Recommendations

In summary, the study has shown that employee benefits and adequate post retirement administration policy and plan in an organization form a lubricant that triggers the efficiency and effectiveness of employees towards the productivity of corporations. This is critical as most employees desire to put in their best in a system that has the highest welfare feedback mechanism. Although the vast majority of literature on employee benefits during and after active-work life is heterogeneous, our study supports that organizational commitment to better the living standards of their employees reflects in the increased productivity and better performance of such organization.

In light of the above, the study therefore concludes

thus:

i. Employee benefits when strategically structured, enhances the profitability of manufacturing companies in Nigeria.

ii. Tough international competition faced by manufacturing companies in Nigeria due to trade liberalization, can be turned to good opportunity when the intellectual capacity of the employees and well utilized.

iii. Absence and low incentive packages for employees have resulted to dwindling of profits and performance of most manufacturing companies in Nigeria.

iv. Many manufacturing companies in Nigeria are yet to incorporate employees benefit in their strategy to outwit competitors.

Following the findings above our recommendations are thus:

I. Periodic and extensive meetings with the employees on the issue of incentives and pay packages are recommended.

ii. Equity in recommendation and promotion of effective employees is advocated to reduce inefficiency among workers due to bias mind/treatment.

iii. Continuous training and development programmes are recommended to boost the competencies of employees in their various functions and operations.

iv. The incorporation of employee benefit in the organization as an effective strategy to gain competitive advantage is advocated.

These recommendations we believe will increase the utilization of human capital in employees and increase the level of productivity of the manufacturing companies in this time of tough challenges and economic recess.

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APPENDIX

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.000000	2	1.0000

* Cross-section test variance is invalid. Hausman statistic set to zero.

** WARNING: estimated cross-section random effects variance is zero.

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
EMO	-0.198127	-0.198127	0.000000	1.0000
REB	-0.147734	-0.147734	0.000000	1.0000

Cross-section random effects test equation:
Dependent Variable: ROA
Method: Panel Least Squares
Date: 09/23/17 Time: 18:15
Sample: 2011 2015
Periods included: 5
Cross-sections included: 5
Total panel (balanced) observations: 25

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.241705	0.022621	10.68500	0.0000
EMO	-0.198127	0.179259	-1.105259	0.2836
REB	-0.147734	0.114486	-1.290405	0.2132

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.187198	Mean dependent var	0.200000
Adjusted R-squared	-0.083736	S.D. dependent var	0.022361
S.E. of regression	0.023278	Akaike info criterion	-4.451115
Sum squared resid	0.009754	Schwarz criterion	-4.109830
Log likelihood	62.63894	Hannan-Quinn criter.	-4.356457
F-statistic	0.690935	Durbin-Watson stat	1.442897
Prob(F-statistic)	0.659854		

Source: e-views 9

Dependent Variable: ROA
Method: Panel EGLS (Cross-section random effects)
Date: 09/23/17 Time: 18:14
Sample: 2011 2015
Periods included: 5

C	0.241705	0.022621	10.68500	0.0030
EMO	0.198127	0.179259	1.105259	0.2810
REB	0.147734	0.114486	1.290405	0.2103

Effects Specification		
	S.D.	Rho
Cross-section random	0.000000	0.0000
Idiosyncratic random	0.023278	1.0000

Weighted Statistics			
R-squared	0.587198	Mean dependent var	0.200000
Adjusted R-squared	0.413307	S.D. dependent var	0.022361
S.E. of regression	0.021056	Sum squared resid	0.009754
F-statistic	2.533430	Durbin-Watson stat	2.442897
Prob(F-statistic)	0.102290		

Unweighted Statistics			
R-squared	0.587198	Mean dependent var	0.200000
Sum squared resid	0.009754	Durbin-Watson stat	1.442897

Source: e-views 9