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Appraisal as a Determinant for Adequate Compensation in Private Sector: A Study of Selected Organisations in Nigeria

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Abstract

In this paper, efforts were made to critically investigate and analyze appraisal as a determinant for adequate compensation in private sector organizations in Nigeria. Thus, the paper sets out by reviewing a body of existing literature on concept of management theories and how the subject of appraisal and adequate compensation, have evolved over the years. The research adopts the basic tenets and focus on major private sector organizations in Nigeria's manufacturing and service industries. Six organizations listed on the Nigeria stock exchange were served with structured questionnaire to elicit information needed to test the research hypotheses. Published annual reports and statement of accounts of the respondent organizations for the period 2001 – 2007 were used to extract relevant information relating to the Study. Data collected from both sources were analyzed using statistical tools such as frequency distribution, simple percentage and chi-square (χ^2). The results indicate that effective management and conduct of appraisal could be used by private sector organizations in Nigeria to determine adequate compensation for the

workforce, while taking into account other factors. Finally the paper recommends that private sector organizations should develop an appraisal system base on careful job analysis and establish its reliability and validity.

Key Words: Appraisal, Determinant, Adequate Compensation, Private Sector

Introduction

Appraisal is a function of Human Resource Management that is fundamental to employees and organizations growth. According to Boohene and Asuinura (2011) research in Human Resource Management (HRM) has established that the success of any organization is highly influenced by the caliber of its human resource (HR), which in turn is affected by the organization's human resource management practices.

Human Resource Management (HRM) is fundamentally about matching human resource (HR) to the strategic and operational needs of an organization, and ensuring full utilization of those resources. It is concerned not only with obtaining and keeping the right number and quality staff required but also with selecting, appraising, promoting and compensating people who "fit" the culture and strategic requirements of the organization. Today, organizations in the private sector are beginning to realize and appreciate the usefulness of performance appraisal as a management tool for the attainment of organizational goals and objectives.

Lee (2004) noted that performance appraisal is one of the important components in the rational and systemic process of human resources management. The information obtained through appraisal provides foundation for recruiting and selection validation of hires, training and development of existing employees, and motivating and maintaining a quality workforce by adequately compensating their performance. In the words of Greller (1998), "without a reliable performance appraisal, human resources management systems falls apart, resulting in the total waste of the valuable human assets an organization has."

The use of appraisal as a determinant for adequate compensation entails effective management of Human Resource, which occupies a fundamental position in any organization (Jones, George & Hill, 2000). According to Pigers & Myers (1999) performance appraisal is a Human Resource activity used to determine the extent to which the employees are performing their job

effectively and their compensation payment for improved productivity. Nnamdi, Offiong & Tonwe (2004) affirmed that the history of performance appraisal roots could be traced to Taylor (1911) pioneering work and motion studies of his associates, Gantt (1919) as well as Mayo (1949).

Illgen, Barness-Farrell & Mckellin (2002) stressed that a well-established appraisal system renders enough information for determining compensation. However, in most cases, employees are likely to be dissatisfied with the results and outcome of the appraisal exercise. This probably may be due to the fact that individual's expectation at work varies. The dissatisfaction eventually has effects on the employee's subsequent attitude to work.

This paper made efforts to investigate, and examining systematically, the extent to which employees' appraisal and compensation system are adopted by Nigerian organizations; and how effective appraisal can determine adequate compensation of employees in order to enhance the productivity of the private sector organizations.

Statement of the problem

In this paper efforts were made to examine the following problems relating to Appraisal and adequate Compensations in selected Nigerian organizations

- There is doubt on the use of appraisal to determine adequate compensation in private sector organizations in Nigeria.
- There is distorted opinion on the relationship between appraisal and employees compensation towards the attainment of organizations objectives in Nigeria

Purpose of the study

The purpose of the study includes:

- To examine whether appraisal could be used to determine adequate employee compensation in private sector organizations in Nigeria.
- To examine the relationship between appraisal and employees compensation towards the attainment of private sector organizations objectives in Nigeria.

Research questions

Now that we have a clear picture of the problem of the study, we shall state the research questions. The fundamental question this work seeks to answer

is how can employee appraisal be used as a determinant for adequate compensation in private sector organizations in Nigeria? The other question is: Are there significant relationships between employee's appraisal and Compensation towards the attainment of private sector Organizations objectives in Nigeria? Several other questions naturally derive from this will be addressed in this study.

Hypotheses

In order to answer our research questions it is necessary to restate them in the form of research hypotheses. The following hypotheses were stated and tested in this study.

- i. **H₀**: The use of appraisal does not determine adequate compensation in private sector organizations in Nigeria.
- ii. **H₀**: There is no significant relationship between appraisal and compensation towards the attainment of organizational objectives in Nigeria.

Scope of the study

The study covers major private sector organizations in Nigeria's manufacturing industries such as Guinness Nigeria Plc, 7up Bottling company Nig. Plc Presco Nigeria Plc and financial services Industries such as First Bank of Nigeria Plc and United bank for Africa Plc, also Oando Nigeria Plc. These selected organizations are listed on the Nigerian Stock Exchange. Precisely, the work has been designed to elicit response from the participants in the chosen industries on how organizations determine compensation schemes through staff performance appraisal.

Examining how appraisal could be used to determine adequate compensation

Concept of performance appraisal

Performance Appraisal could be defined as a process of assessing the performance of an employee in his job periodically so that human activity can be coordinated to accomplish objective. Put differently- the process of defining expectations for employees' performance, measuring, evaluating and recording employees' performance relative to those expectations, and providing feedback to the employee. According to Brown et al, (2003) Appraisal can be based directly on a particular employees' work result, or on his/her activities or competencies and is regarded as the main component of

performance management, through which it is also possible to evaluate the effectiveness of an organization. A performance appraisal criterion has to be relevant, reliable and justly measurable, while also closely linked with the objectives of the organization (Boyd & Kyle, 2004).

In their view, experts such as Pigors et al (1999), Ting (1997) believed that systematic performance appraisal is adopted by many organizations as a means of helping supervisors to evaluate the work of each employee. They further believed that the appraisals are used most frequently as a basis for selecting candidates for promotion to better jobs and for making merit increases in hourly rates or salaries. Appraisal is also useful as a check on the success of recruitment, selection, placement and training procedures and confirmation of employee's appointment after their probationary period.

One of the most comprehensive definitions of performance appraisal is the definition provided by the United States office of personnel management. That office defines performance appraisal as: "all periodic written assessment of job performance, measured against specific responsibilities, goals and or tasks assigned and agreed to as well as identification of strengths and weaknesses demonstrated by employee's potentials, training or development needs" (Byars & Rue, 2004). From this definition, performance appraisal can be seen from five different but related angles as follows: it is periodic assessment of employee's performance on the job; hence appraisal instruments are designed and used; it is measured against responsibilities or duties; it is measured against goals or targets assigned and agreed upon; it identifies employee's strengths and weaknesses; and it identifies employee's potentials, training or development needs.

Concept and theoretical explanation of adequate compensation

Having discussed the concept of appraisal, effort will now be directed towards defining the subject adequate compensation which consists of two words namely: Adequate and Compensation. The word adequate which is synonymous with commensurate, sufficient, satisfactory, enough, suitable is essentially an adjective qualifying the term 'compensation'

To better understand the meaning of adequate compensation, this work will examine and explain the words jointly without necessary separation of terms. Adequate compensation refers to all fair rewards (direct financial payments plus indirect payments plus incentives an employee receives in an organization plus non-payment rewards). It is all aspects of pleasant working

environments. It is a satisfactory reward for services rendered by people at the work place. These rewards must meet both the organizations ability to pay and any governing legal regulation.

Compensation according to Newman, (2000) deals with wages, salaries, bonuses and other forms of direct financial remuneration, such as power and similar intangible values that often provide important incentives for human effort. Consequently, appraisal plays a determinant role in making sure that the amount of compensation paid to employees is commensurate with the human effort to improve productivity. Appraisal process is an essential part of organizational life, for it helps to justify besides compensation differentiation, for example promotions, demotions, selection validation and terminations.

Byars et al, (2004) referred to compensation as all the extrinsic rewards employees receive in exchange for their work. Usually compensation is composed of the base salary, any incentives or bonuses, and any fringe benefits. The base salary is the monthly pay employees receive for their work. Incentives as rewards offered in addition to the base salary are usually directly related to performance. Fringe benefits are rewards employees receive as a result of their employment and position with the organization.

Without being guilty of fixation, there are two broad types of compensation. The first is direct compensation, which include basics pay and individual or group incentives. Basic salary is the direct compensation for utilizing the skills of the person by the company. It, in fact, determines the status and quality of the employed person. Incentive pay is the additional compensation based on the performance of the person, unit, department or company. It includes items like bonus, commission, profit sharing and stock option.

The second is indirect compensation, which include various benefits. Some of which are legally required, while others are provided at the goodwill of the company. The legally required benefits are social security benefits like pension fund contributions, gratuity at the time of retirement or after a certain qualifying period of work, leave encashment, workers compensation and disability insurance, medical and other leaves. Optional benefits are leave travel benefits, health insurance, life insurance, education allowance, holiday benefit, dependent allowance, and flexible work schedule. These compensations are based on certain well thought out criteria and not on the whim and fancy of a person.

Since no Human activity is devoid of theoretical explanation, reward (wages and salaries) could not be exemptions (Fagbohunge, 2006). The Vroom (1964) theory, which is adequately relevant, is being discussed in this study. The theory discusses how the employee and the critical evaluation of reward for satisfaction or dissatisfaction at work place perceive the reward received. The theory of Vroom (1964) described the action aspect of employee behaviour. The Vroom Expectancy theory highlights what informs employee's decision to do or not to do certain things. Hence the theory suggests that employees tends to expend more energy towards reaching goals when both the probability of receiving reward (Compensation) and the magnitude of the rewards are known in advance, thus in a given situation, human behaviour (employee) is a joint function of the degree to which the particular behaviour is instrumental in attaining an outcome (reward) and the subjective probability that the outcome will be forthcoming (Ting, 1997). This implies that individual employee is motivated to choose the behaviour that he perceives as capable of leading to the things he want. The implication of Vroom's theory is that private sector organizations should make clear to employees what exactly it expects from new working practices.

Relationship between adequate compensation and appraisal

The above theory shows that employee's compensation is very important in attaining the objectives of an organization. According to Onwuchekwa, (1999) organizations are expected to formulate compensation policies, which will satisfy the economic needs of their employees so that they can contribute to the attainment of the objectives of organizations. Organizations operate or formulate three types of compensation policies. These are basic, variable and supplementary or fringe benefit compensations. Each of these types of compensation performs specific purpose/functions for the organizations: Basic compensation policies aim at attracting workers to the organization, variable compensation is motivational and it aims at directing a worker towards superior performance. Many organizations use the results of appraisal to determine the individual variable compensation for their employees. While fringe benefits aim at retaining workers in the organization. These purposes have to be achieved within an agreed budget for wages, salaries and related payments. There are considerable variations in what organizations have to pay to ensure that they do attract, retain and motivate sufficient staff.

Drucker (1954) was enthusiastic about appraisal; "To appraise a subordinate and determine his compensation is part of the manager's job. Indeed, unless he does the appraising himself he cannot adequately discharge his responsibility for assisting and teaching his subordinates." It must be noted that one of the functions of appraisal is in the area of compensation (payment of salary and bonus). Pay and benefits occupy a central position in the affairs of any organization.

The research of Pigors et al (1999) indicated that performance appraisal is often used to determine what an individual's pay should be, especially for salaries personnel, while continuing following up is needed for efficient administration of wages, salaries and benefits as job and condition change. Although, even if the employees perform well in their job and receive good performance appraisals, their compensation will still be low if the organization's financial resources is low.

St. Liffer (2000) reported the results of a survey of appraisal of workers performance and commensurate remuneration of employees. These include compensation and benefits, advancement opportunities, and technological challenges. The result showed that salaries and benefits are related to appraisal of employees' performance. Similarly, the result of some other studies have shown meaningful relations between appraisal and wages, management policy, working conditions, possibilities of promotion, the size of the organization and self development and achievement of the use of talents (Kose, 1995, Olajide, 2000, Philips, 2004a). It is this realization that compels private sector organizations to attach higher compensation (salary and bonus) to performance appraisal.

Methodology

The population is the target of this study. The research has organizational focus even though it is hope that the results could be generalized across the private sector.

The data obtained for our survey were randomly selected from six organizations in the private sector quoted on the Nigerian Stock exchange. For ease of reference, it is important to mention that these organizations, which constitute the population of this study, were stated in the scope of study. These organizations were randomly chosen because of the need for the realization of dynamic and efficient human resource developments on the belief that it will provide the insight into the critical issues of this study.

Furthermore, the use of major players in the private sector is based on the following facts: (i) that using small-scale firms in the sector cannot reveal the actual degree of implementation, since most of the smaller firms in the sector do not implement the employees' appraisal and compensation benefits above the minimum requirement as prescribed by the regulatory authority. (ii) That the use of large firms in the sector will afford the researcher a wider scope of investigation. (iii) That, since the study is on appraisal and compensation system, smaller firms may not have the facilities and all the departments required to be investigated into. Precisely, the work was designed to elicit response from the participants in the chosen industries on how organizations determine compensation schemes through staff performance appraisal. These enhance clear visualization of the study and determine the rate of returns of the respondents. The Organizations have a total population of 18642 Management, Senior and junior level personnel, which were focused on. The staff strength of the selected organizations is contained in their 2007/2008 Annual Reports and statement of Accounts.

The data was statistically analyzed and presented in order to evaluate the private sector organizations use of appraisal to determine adequate compensation pay to employees to enhance their performance. Frequency and percentage tables were used in the presentation. Each table contains information on the response to the research question, administer through the questionnaire and direct interview.

The sample size for this study was statistically determined using "Yaro Yamare" formula for a finite population of 18,642.

The formula is given as:

$$n = \frac{N}{1 + N(e)^2}$$

Where n = the sample size, N = the finite population, e = Level of significance (or Limit of the tolerable error), I = Unity (a constant)

Suppose the population is 18,642 and e = 0.05.

$$n = \frac{18,642}{1 + 18,642(0.0025)} = \frac{18,642}{47.61} = 392$$

This means that since the population is known (finite) and is 18,642 then 392 can be sampled out of it. The 392 sampled are adequate to represent the entire population based on this formula: Note that finite population is that population which is known i.e. its size determined

A set of questionnaire was designed for the study. A total of 392 persons were randomly sampled and administered the questionnaire, out of the 392 persons, 300 persons returned completed questionnaire as shown on the table 1.

As observed from table 1, the total return rate was 76.53% and this is considered adequate for this type of study.

Table 1: Rate of Return

Organizations	Questionnaire Distributed	Returned Questionnaire	Returned Questionnaire as a Percentage of Distributed Questionnaire (%)
Guinness Nigeria Plc	60	40	66.67
7up Bottling Co Plc	70	60	85.71
Presco Nig. Plc	50	30	60.0
First Bank of Nig. Plc	80	70	87.5
United Bank for Africa Plc	75	60	80.0
Oando Plc	57	40	70.18
	392	300	76.53

Source: Survey Data 2011

The Questionnaire, which was one of the major instruments of research, was designed and distributed to 392 members of staff of the selected organizations. In addition oral interviews were conducted to argument the information derived from questionnaire distributed. This was to reduce the rigidity associated with questionnaire and to give the respondents the opportunity to supply those pieces of information they cannot adequately supply through the structured questionnaire. However, out of the sample size of 392 persons who received the distributed questionnaire, 300 persons returned completed and valid questionnaire as could be observed from table one (1) above. Hence the final sample size of 300 was used to test the hypothesis.

The primary data collected was analyzed and subjected to Chi-square techniques, because of the nature of the research, which is survey research. The observed frequency was weighted against the expected frequency, which emerged from the sample opinion. The Chi-square (X^2) statistical analysis was employed to test for null hypotheses. A calculated Chi-square (X^2) greater than critical Chi-square (X^2) suggests that an association exists between the variables.

This formula was used.

$$X^2 = \frac{\{f_o - f_e\}^2}{f_e}$$

Where f_o = Observed frequencies

f_e = Expected frequencies

$e = r_t \times c_t$

G_t

$r_t r_t =$ row total

$c_t c_t =$ column total

$G_t G_t =$ grand total

d/f (degree of freedom) = (r - 1) (c - 1)

r = number of rows

c = number of columns

Hypotheses testing

Hypothesis one:

H_0 : The use of appraisal does not determine adequate compensation in private sector organizations in Nigeria.

H_1 : The use of appraisal determines adequate compensation in private sector organizations in Nigeria.

In order to test the above hypothesis question 8 is relevant.

Question 8: Does the use of effective appraisal determine adequate compensation in private sector organizations in Nigeria?

Table 2: Effective Appraisal and Determination of Adequate Compensation.

Opinion	Male	Female	Total frequency	Percentage (%)
Yes	140 a	70 b	210	70
No	40 c	50 d	90	30
Total	180	120	300	100

Source: Survey Data, 2011.

Computation of frequency percentage (%)

$$\text{Yes} = 210 \div 300 \times 100 = 70\%$$

$$\text{No} = 90 \div 300 \times 100 = \underline{30\%}$$

$$\text{Total} = \underline{100\%}$$

Table 2 shows that 70% respondents hold the view that appraisal could be used to determine adequate compensation in private sector organizations in Nigeria. While 90 respondents representing 30% indicates otherwise.

Calculation of Expected Frequencies

$$\therefore e = \frac{r_i \times c_t}{G_t}$$

G_t

$$\frac{180 \times 210}{300} = 126 \qquad \frac{120 \times 210}{300} = 84$$

$$\frac{180 \times 90}{300} = 54 \qquad \frac{120 \times 90}{300} = 36$$

Computation of χ^2

Cell	Fo	Fe	fo-fe	(fo-fe) ²	(fo-fe) ² /fe
A	140	126	14	196	1.56
B	70	84	-14	196	2.33
C	40	54	-14	196	3.63
D	50	36	14	196	5.44
Calculated			χ^2	=	12.96

fo = observed frequencies

fe = expected frequencies

Degree of Freedom (df)

df=(r-1) (c-1) where r = number of rows

c = number of columns.

$$df=(2-1)(2-1) = 1$$

Research Decision

Calculated $\chi^2 = 12.96$

Critical values $\chi^2 = 3.84$

Alpha (χ) = 0.05

Research Result: Calculated $\chi^2 >$ critical χ^2 at 0.05

This means that since the calculated χ^2 is more than the critical value of χ^2 at 0.05 level of significance; we reject the null hypothesis and accept the alternate hypothesis and conclude that the appraisal could be used to determine adequate compensation in private sector organizations in Nigeria.

Hypothesis Two

Ho: There is no significant relationship between appraisal and compensation towards the attainment of organizational objectives in Nigeria

Hi: There is significant relationship between appraisal and compensation towards the attainment of organizational objectives in Nigeria.

In order to test the above hypothesis question 10 is relevant.

Question 10: Are there significant relationship between appraisal and employees compensation towards the attainment of private sector organizations objectives in Nigeria?

Table 3: Significant Relationship between Appraisal and Employee compensation

Opinion	Male	Female	Total frequencies	Percentage (%)
Yes	152 a	48 b	200	67
No	28 c	72 d	100	33
Total	180	120	300	100

Source: Survey Data, 2011.

Computation of frequency percentage (%)

$$\begin{aligned} \text{Yes} &= 200 \div 300 \times 100 = 67\% \\ \text{No} &= 100 \div 300 \times 100 = \underline{33\%} \\ &= \underline{100\%} \end{aligned}$$

Table 3 above shows that 200 respondent representing 67% are of the opinion that there is significant relationship between appraisal and compensation towards the attainment of private sector organizations objectives in Nigeria. While 100 respondents representing 33% said otherwise.

Calculation of Expected Frequencies

$$\begin{aligned}
 fe &= \frac{r_i \cdot c_j}{G} \\
 \frac{180 \times 200}{300} &= \frac{120 \times 200}{300} \\
 300 &= 80 \\
 \frac{180 \times 100}{300} &= \frac{120 \times 100}{300} \\
 300 &= 40
 \end{aligned}$$

Computation of χ^2

Cel l	Fo	Fe	fo-fe	(fo- fe) ²	(fo-fe) ² /fe
A	152	120	32	1024	8.53
B	48	80	-32	1024	12.80
C	28	60	-32	1024	17.07
D	72	40	32	1024	25.60
Calculated $\chi^2 =$					64.0

Fo = observed frequencies; fe = expected frequencies

Degree of Freedom (df)

df = (r-1)(c-1) where r = number of rows

c = number of columns.

df = (2-1)(2-1) = 1

χ^2 at 0.05 level of significance and 1df is 3.84

Decision Rule:

- (i) Reject H₀ if χ^2 calculated is greater than χ^2 critical values
- (ii) Do not reject if otherwise

Research Decision:

Calculated $\chi^2 = 64.0$

Critical value $\chi^2 = 3.84$

Alpha (χ) = 0.05

Research Results

Since χ^2 calculated $>$ χ^2 critical value at 0.05 level of significance and Idf, we reject the null hypothesis and accept the alternative hypothesis. We therefore conclude that there is significant relationship between appraisal and compensation towards the attainment of organizational objectives in Nigeria.

Discussion of finding

In the discussion of the results we shall seek to explain them in the light of known theories and further attempt to match them to the findings of some relevant empirical studies. Based on the analysis of the hypotheses, null hypotheses were rejected while the alternative hypotheses were accepted.

- (1) To test if the use of appraisal determines adequate compensation in private sector organizations in Nigeria. The finding revealed that there was a significant relationship at calculated χ^2 of 12.96 at 5% error, which shows that private sector organizations use appraisal to determine adequate compensation payable to its workforce. The implication is the rejection of the null hypothesis. This is consistent with the position of Jones, et al (2000), Byars et al, (2004), and Hackett (1999), Turk et al (2005), Drucker, (1954), Newman, (2000), Pigors et al (1999). Jones et al (2000) stated that appraisal is used as a determinant for adequate compensation, which entails effective management of Human Resource, which occupies a fundamental position in private sector organizations. This position is still valid as at today, irrespective of the allegations of bias in appraisal exercise in Nigeria, which are under the influence of a myriad of negative factors. Such factors include: religion, ethnicity, corruption, intimidation/threat, sexual influence, who - you-know,

political pressure, just to say the least. These are summed up and referred to as Nigeria factor-our society and environment.

- (2) There is no significant relationship between appraisal and compensation towards the attainment of organizational objectives in Nigeria was found to be statistically significant at calculated χ^2 of 64 at 5% error, which indicate a relationship between appraisal and compensation toward the attainment of organizational objectives in private sector organizations in Nigeria. On this basis, the null hypothesis was rejected and the alternative hypothesis accepted. This is consistent with the held positions of St. Liffers (2000), Kose (1995), Olajide (2000) and Philips (2004a). The research report of Philips for example, indicated that a well-established appraisal renders enough information for determining adequate compensation. He regarded employee's compensation as a process of rewarding employees with monetary and non-monetary benefits according to the value of their work contribution, thus compensating them for their efforts.

Conclusion and recommendations

Conclusion

Having critically discussed our findings in the light of previous studies, we shall now draw our conclusions on the strength of the total evidence available to us. Our findings from analyses of records of the organizations randomly sampled in the private sector and critical review of related Literature, as well as other information obtained for the purpose of the study the following conclusions were reached:

- (i) That effective management and conduct of appraisal could be used by private sector organizations in Nigeria to determine adequate compensation for the workforce.
- (ii) That there is a relationship between appraisal and adequate compensation. The research showed that salaries and benefits are related to appraisal of employees' performance and that a well-established appraisal renders enough information for determining adequate compensation while taking into account the value of other factors.

Recommendations

In furtherance of the objective of this study, we make the following recommendations for effective management of the private sector organizations in Nigeria.

- (1) Private sector organizations should develop an appraisal system based on careful job analysis and establish its reliability and validity. They must give clear written instructions to raters for completing appraisal and provide them adequate training if necessary. Organizations must allow employees to review the results of their appraisals. Human resource departments must play a key role in the development and implementation of an effective performance appraisal system. This is to reduce or avoid the rater's bias and subsequent legal problems that may arise.
- (2) Human resource management must be accorded prominence in the organizational policy framework. Organizations should invest richly on people and strive to establish a clear link between appraisal and compensation and their corporate vision while developing a culture predicated on employees' compensation.
- (3) Organizations should adopt more flexible and decentralized structures (as against bureaucratic and hierarchical structures of compensation) in order to enable employees respond immediately to opportunities provided in appraisal system. Management of private sector organizations should regularly conduct performance evaluation because what you measure is what you get.

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