

## **PERFORMANCE-BASED COMPENSATION AND EMPLOYEE OUTPUT OF MICROFINANCE BANKS IN ENUGU STATE, NIGERIA**

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**DOI: <https://doi.org/10.5281/zenodo.8186377>**

**Abstract:** *The Study focused on performance-based compensation on employee output of microfinance banks in Enugu State Nigeria. Specifically, the study aimed to pursue the following objectives: determine the effect of individual performance-based bonus on employee commitment, ascertain the relationship between merit increase and job satisfaction, determine the effect of piece-rate-scheme and organizational productivity and ascertain the relationship between promotion-based incentive and job output. Survey research design was adopted for the study. Hypotheses one and three were tested using simple linear regression tool while two and four were tested using Pearson product moment correlation coefficient. The study had a population (352) employees of the selected micro finance banks a sample of 222 was derived using Cochran (1963) sample size determination formula. The total number of 222 copies of the questionnaire were distributed while 202 copies were properly filled/returned and used while 20 copies were not properly filled. The findings indicated that Individual performance-based bonus had significant positive effect on employee commitment of microfinance banks in Enugu State Nigeria(  $r = 0.856$ ;  $F = 99.104$ ;  $t = 31.072$ ;  $p < 0.05$ ). There was a positive relationship between merit increase and job satisfaction of microfinance banks in Enugu State Nigeria ( $r = 0.741$ ;  $p < 0.05$ ). Piece-rate-scheme had significant positive effect on organizational productivity of microfinance banks in Enugu State Nigeria ( $r = 0.727$ ; ;  $F = 394.055$ ;  $t = 19.851$ ;  $p < 0.05$ ). There is a positive relationship between promotion-based incentive and job output of microfinance banks in Enugu State Nigeria ( $r = 0.896$ ;  $p < 0.05$ ). The study recommends that performance-based compensation had significant effect on employee output of microfinance banks in Enugu State Nigeria.*

**Keywords:** *Performance-Based Compensation, And Employee Output, Microfinance Banks, Employee Commitment*

### **Introduction**

In today's challenging business environment firms continuously seeks maximum quality output through human capital. Employee output is a significant factor being considered by employers to raise profits in intense competition in the industry. Performance-based pay plays a vital role in employee output. Performance based pay plans offer extra monetary rewards to well-performing employees. Many studies found positive relationship between performance-based pay and employee output. Furthermore, firms focus on enhancing employee productivity through training programs (Edralin, 2018). Compensation is an important and complex part of the organization-employee relationship.

Compensation processes are based on compensation Philosophies and strategies and contain arrangement in the shape of Policies and strategies, guiding principles, structures and procedures which are devised and managed to provide and maintain appropriate types and levels of pay, benefits and other forms of compensation (Franco-Santos, 2017). This constitutes measuring job values, designing and maintaining pay structures, paying for performance, competence and skill, and providing employee benefits. However, compensation administration is not just about money. It is also concerned with that non- financial compensation which provides intrinsic or extrinsic motivation for employees to improve in their performance (Horton & Chilton, 2017; Lin & Ho 2016). The job satisfaction of microfinance bank employees is a very important factor that has a pro-found impact on productivity as well as on the quality of customer satisfaction (Dudkiewicz, 2015).

In recent decades, growing proportion of firms have included performance-based pay schemes in their compensation packages, linking pay to employee or company performance. Bryson, Freeman, Lucifora, Pellizzari and Pérotin (2017), such growth in incentive pay schemes has been fueled by the concern over inefficiencies in the workplace, and the belief that incentive pay can raise productivity. Traditional pay systems for non-executive staff have generally been characterized by standardization across and within sectors (e.g., government, particular industries) and within organizations. With economies gradually opening up to world trade and foreign investment, local employers were forced to compete with companies with sophisticated technology, more productive ways of providing goods and services, and the advantage of being global players. In many instances, these foreign companies are also able to attract the best local talent (De Silva, 2019).

Employees consider compensation as a return for services rendered. They see it as a reflection of their personal worth in terms of skills and abilities, as well as the education and training they have acquired. Managers, however, view compensation from two perspectives: as a major expense, and as a possible influence on employee attitudes and behaviours through compensation-based motivational strategies. This potential to influence employees' work attitudes and behaviour, and subsequently, the productivity and effectiveness of the organisation, is another reason why many people believe that pay decision can become a source of competitive advantage (Milkovich, 2018).

Employee's output and how it could be enhanced is central to the concern of industries and organizations, therefore, many organizational scientists, are very much interested in different schemes and techniques related to employee's output, and its growth incentives are those techniques used in workplaces to stimulate employees in order to get desired employee's output. Human resource provides basis for an organization to achieve sustainable competitive advantage. Since organizations are operating in a dynamic and competitive business environment, they need to develop strategies to acquire and retain the competent workforce. Human asset is considered to be the most important asset of any organization, and in order to get the efficient and effective

result from human resource, motivation is necessary (Zaman, 2017). Based on this backdrop, the study intends to investigate the effect of compensation-based performance on employee output of microfinance banks in Enugu State, Nigeria.

### **Statement of the Problem**

Over time it has been a case in some organizations that their employees are under-remunerated or that some organizations do not have good compensation programs. This could be that employee promotion does not come in time, or that their pay packages are not commensurate to the work they have done for the organization. At times, this could be a deliberate act by management in other to frustrate the employees or that the management lacks the required managerial capabilities to effectively compensation program. Gone are those days when such issues can be condoned or accepted by the employees, and therefore there is a need to tackle the problem headlong so that employees can bring out their best in terms of performance in order to boost their output.

Finding effective solutions to motivate employees to perform through pay based performance has been a primary concern of companies since the beginning of the industrial revolution. To control the performance of employees, companies need to realize what motivates employees to work for better results and it has been frequently argued that if you want to motivate high performance, you attach pay based payment to it. The tools used to compensate individuals come in many forms, and theory does little to differentiate between the various forms and types of compensation systems. Organizations are therefore, more constrained than ever in making compensation decisions, and as a result are faced with an incredible tension between needing to compete for the best labour and working within the constraints of the ability to pay.

Incentives have created a lot of challenges to employee's input and output in organizations. The negligence of adequate structure in pay incentive, fringe incentive, bonus and over time benefits has caused a lot of inequitable justice on the administration of incentive scheme. The resultant effect on employee output could be negative. The negative attributes can be seen as poor turnover, poor product quality improvement, job dissatisfaction, low morale, low commitment, absenteeism, low turnover intentions to stay with the organization and poor employee's output that affects input and output. Based on this above inevitable circumstance, the study will seem it necessary to investigate the effect of performance-based compensation on employee output of microfinance banks in Enugu State, Nigeria.

### **Objectives of the Study**

The main objective of the study was to investigate the effect of performance –based compensation on employee output of microfinance banks in Enugu State, Nigeria. The following specific objectives were included:

- i. To determine the effect of individual performance-based bonus on employee commitment of microfinance banks in Enugu State, Nigeria.
- ii. To ascertain the relationship between merit, pay increase and job satisfaction of microfinance banks in Enugu State, Nigeria.

## **REVIEW OF RELATED LITERATURE**

### **Performance**

Performance is achieving organizational objectives (Elena-Iuliana and Criveanu, 2016). This definition is applied in all fields of management (management control, general politics, human resources management). Performer is the one that reaches its objectives. Thus, performance depends on the objective/purpose.

Performance is multidimensional when goals are manifold; performance is a subset of action; performance is subjective because it is the product of operation, which, by its subjective nature, consists of approaching a reality to a desire (Elena-Iuliana and Criveanu, 2016).

### **Compensation**

Compensation is one of the key drivers of motivation because humans are naturally inclined to perform better when they perceive that they will get sufficient payment or returns from their efforts. While people exert effort for different reasons, today's competitive economic environment coupled with the consumer society has made compensation arguably the most important motivation factor. Most people are motivated by money at least for their basic needs and wants. Compensation in any form is the most obvious extrinsic reward; it provides the carrot that most people want (Patrick, 2017).

### **Performance-Based Bonus**

Individual performance-based bonus is typically a cash lump sum payment paid in addition to the employees' base salary. Unlike merit increase, bonus pay is not added to the base salary. Bonus pay has been widely used in organizations to motivate employees' performance (Sturman & Short, 2018) and although the payouts can be large, they also carry the risk to the individual of receiving no payout if performance thresholds are not met. (Milkovich & Wigdor, 2015) Usually the formula and the relationship between performance and the payment of the lump sum are known beforehand (De Silva, 2019) and the bonus is paid out upon achievement of these pre-determined goals. Bonus is paid at various intervals, for example monthly, quarterly or annually (Irvine, 2016).

### **Merit Pay Increase**

Merit pay is a form of reward in which individuals receive permanent pay increases as a function of their individual performance ratings (Heneman & Werner 2016). The merit pay plan is often based on an individual's performance and is assessed by a performance appraisal, usually by the employee's supervisor. A key characteristic of merit pay, compared to other forms of pay-for-performance, is that merit pay permanently increases employees' base pay. (Park & Sturman, 2018; Gerhart *et al.* 2015) The term "merit pay" should not be confused with the term "merit system" which is a term used in the public sector to describe hiring and promotion decisions rather than compensation decision (Heneman & Werner, 2016).

### **Employee Commitment**

Meyer and Allen (2015) state that commitment "is a psychological state that characterizes the employees' relationship with the organization and has implication for the decision to continue membership in the organization."

### **Job Satisfaction**

Oshagbemi (2020) defined job satisfaction as "an affective reaction to a job that results from the person's comparison of actual outcomes with those that are desired, anticipated, or deserved" (Eker *et al.*, 2017). Employee satisfaction is also relevant to organizational outcomes such as commitment, extra-role behavior, turnover, productivity, and service quality and customer satisfaction.

### **Theoretical Framework**

The study was anchored on Reinforcement Theory, because reinforcement theory deals with motivation of workers and also can help organization to manage a group as well as to come in early for work on a regular basis, therefore improving productivity. This theory focuses totally on what happens to an individual when he

takes some action. It states that individual's behaviour is a function of its consequences. It is based on "law of effect", i.e, individual's behaviour with positive consequences tends to be repeated, but individual's behaviour with negative consequences tends not to be repeated.

### **Empirical Review**

These parts of the study were conducted using both dependent and independent variables quoted previously in the study specific objectives

Luzon (2022) examined effects of performance-based bonus on employees' productivity and motivation in a state college in Philippines. The study revealed that a Performance-Based Bonus is a positive driver towards employees' motivation and productivity.

Irefin and Mohammed (2019) conducted a study on effect of employee commitment on organizational performance in coca cola Nigeria Limited Maiduguri, Borno State in Nigeria. The result shows that: the level of employee commitment of the Staff of Coca Cola Company Plc is very high; there is a fairly high relationship between employee commitment and organizational performance. There is also a very high relationship between employee commitment and employees' turnover etc.

Albert, Mendoza, Cuenca, Vizmanos and Muñoz (2020) conducted a study on evaluation of the effects of the performance-based bonus incentive scheme in Philippines. The findings suggest while the PBB has had some design issues and implementation challenges (e.g. changes in eligibility requirements across the years, gaming and dysfunctional behavior), the PBB is generally welcomed across the bureaucracy. Results of the study suggest that PBB could be further re-designed to sharpen its effects on public sector reform.

Jason and Michelle (2020) conducted a study on reactions to merit pay increases: A longitudinal test of a signal sensitivity perspective in USA. Results strongly supported the predictions in the case of reactions to the raise amount (happiness and effort intentions) but not for pay level satisfaction.

Ong, Chong, Tan, Goh, Lim and Hashim (2020) conducted a study on factors influencing job satisfaction among academic staffs International Business School in Malaysia. All study variables were found to have significant positive relationships with job satisfaction among academic staffs in the selected institution. Top management leadership was discovered to have the most significant relationship with job satisfaction. The findings of this research provide a clear message to the top management that leadership plays an important role in enhancing job satisfaction of the academic staffs.

### **Gaps in Empirical Review**

There have been a number of valuable studies on compensation-based performance on employee performance using cross-section data. To the researcher best of knowledge few studies used commercial banks not Microfinance Banks, The variables used in the study are so unique in the scene that it has only used by few number of them. The mixture of tools in the methodology is unique thus the study tends to cover this gap. In view of other studies gaps like study of Tetteh-Annor (2015), Onuoerah, *et al* (2019) and Wekesaand-Nyaroo (2015), all of which presented outcomes of their studies being negative when it came to using only financial incentives to link with employees motivation. Some of these studied argued that monetary incentives cannot be the only way to motivate employees to improve their job performance rather it leads to problematic outcomes especially where these incentives may stop be granted to the employees. However, none of these studies

provided a clear picture of what were the effects of these incentives on employee performance in a more detailed way and if they did motivate employees what had been the improvement on the job performance.

## METHODOLOGY

### Research Design

For the purpose of this study, descriptive survey research design was adopted. The study used primary and secondary data. The target population of the study consists of management, senior and junior staff of Selected Microfinance Bank in Enugu State, Nigeria. The total population for the study was three hundred and fifty-two (352). The selected Microfinance banks were in Enugu: Prisco Microfinance Bank Limited; Ohha Microfinance Bank Limited; Umuchinemere Procredit Microfinance Bank Nigeria Limited; Urban Microfinance Bank Limited; Preeminent Microfinance Bank Limited; Coal Camp Microfinance Bank Limited; Eastman Microfinance Bank Limited; Green bank Microfinance Bank Limited; Kenechukwu Microfinance Bank (Nig.) Ltd and University of Nigeria, Nsukka Microfinance Bank Ltd. The instrument for data collection was structured questionnaire. Data were presented and analyzed in tables, percentages and mean values. Simple linear regression analysis was used to test the hypotheses. These were computed with the computer aided Microsoft Special Package for Social Science (SPSS Version 23.00)

### Test of Hypotheses

#### Test of Hypothesis One

**H<sub>0</sub>:** Individual performance-based bonus has no significant positive effect on employee commitment

**H<sub>i</sub>:** Individual performance-based bonus has significant positive effect on employee commitment

**Table 1 Model Summary**

Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate	Durbin-Watson
1	.856 <sup>a</sup>	.733	.732		.45559	.272

a. Predictors: (Constant), Individual Performance-based-bonus

b. Dependent Variable: Employee's commitment

**Table 2 ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	200.386	1	200.386	965.447	.000 <sup>b</sup>
	Residual	73.060	201	.208		
	Total	273.446	202			

a. Dependent Variable: Employee's commitment

b. Predictors: (Constant), Individual Performance-based-bonus

**Table 3 Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.191	.054		3.506	.001
	Individual Performance-based-Bonus	.995	.032	.856	31.072	.000

a. Dependent Variable: Employee's commitment

$$\begin{aligned} R &= 0.856 \\ R^2 &= 0.733 \\ F &= 99.104 \\ T &= 31.072 \\ DW &= 0.272 \end{aligned}$$

### Interpretation:

The regression sum of squares (200.386) is greater than the residual sum of squares (73.060), which indicates that more of the variation in the dependent variable is not explained by the model. The significance value of the F statistics (0.000) is less than 0.05, which means that the variation explained by the model is not due to chance. R, the correlation coefficient which has a value of 0.869, indicates that there is positive relationship between Individual Performance-based-Bonus and employee's commitment. R square, the coefficient of determination, shows that 73.3% of the employee's commitment is explained by the model.

With the linear regression model, the error of estimate is low, with a value of about .45559. The Durbin Watson statistics of 0.272, which is not more than 2, indicates there is no autocorrelation.

The Individual Performance-based-Bonus coefficient of 0.856 indicates a positive significance between Individual Performance-based-Bonus and employee's commitment, which is statistically significant (with  $t = 31.072$ ). Therefore, the null hypothesis should be rejected and the alternative hypothesis accordingly accepted. Thus Individual Performance-based-Bonus has significant effect on employee's commitment in organizations

### Test of Hypothesis Two

**H<sub>0</sub>:** There is no positive relationship between merit increase and job satisfaction

**H<sub>i</sub>:** There is a positive relationship between merit increase and job satisfaction

**Table 4 Descriptive Statistics**

	Mean	Std. Deviation	N
Merit increase	1.3588	.65644	202
Job satisfaction	1.5451	.67580	202

**Table 5 Correlations**

		Merit increase	job satisfaction
Merit increase	Pearson Correlation	1	.741**
	Sig. (2-tailed)		.000
	N	202	202
job satisfaction	Pearson Correlation	.741**	1
	Sig. (2-tailed)	.000	
	N	202	202

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

Table (4.19) shows the descriptive statistics of the Merit increase and job satisfaction with a mean response of 1.3588 and std. deviation of .65644 for Merit increase and a mean response of 1.5451 and std. deviation of .67580 for job satisfaction and number of respondents (510). By careful observation of standard deviation values, there is not much difference in terms of the standard deviation scores. This implies that there is about the same variability of data points between the dependent and independent variables.

Table (4.20) is the Pearson correlation coefficient for Merit increase and job satisfaction. The correlation coefficient shows 0.741. This value indicates that correlation is significant at 0.05 level (2tailed) and implies that there is a significant positive relationship between Merit increase and job satisfaction. ( $r = .741$ ). The computed correlations coefficient is greater than the table value of  $r = .195$  with 200 degrees of freedom ( $df = n-2$ ) at alpha level for a two-tailed test ( $r = .741, p < .05$ ). However, since the computed  $r = .741$ , is greater than the table value of .195 we reject the null hypothesis and conclude that there is a significant relationship between Merit increase and job satisfaction ( $r = .741, P < .05$ ).

## Discussion of Findings

### Hypothesis One

To determine the effect of individual performance-based bonus on employee commitment of microfinance banks in Enugu State Nigeria. Hypothesis one was tested with simple linear regression the result indicates that Individual performance-based bonus has a significant effect on employee commitment of microfinance banks in Enugu State Nigeria ( $r = 0.856$ ;  $F = 99.104$ ;  $t = 31.072$ ;  $p < 0.05$ ). The result is in line with the finding of Shuja, Tian, Shamim and Jan (2019) Impacts of Performance-based Pay on Employee Satisfaction; Mediated by Employee Training Findings of the study revealed the positive relationship among performance-based pay, training and employee satisfaction. Also, the positive mediation of employee training was examined in the present study between the relationship of performance-based pay and employee satisfaction.

### Hypothesis Two

Hypothesis two was tested using Pearson product moment correlation coefficient, the result reveal that there was a positive relationship between merit increase and job satisfaction of microfinance banks in Enugu State Nigeria ( $r = 0.741$ ;  $p < 0.05$ ). The result is in line with the work of Syed, Abdul, Qasim, Aamir & Shahzad (2019), explored the Impact of merit pay, Rewards and Job Stress on Job Performance: Mediating Role of



Perceived Organization Support. The findings showed that merit pay and recognition have a significant and positive effect on employee performance whereas job stress has a significant and negative effect on employee performance. Findings also revealed that perceived organizational support significantly and fully mediates the relationship between employee rewards, recognition, and job stress and employee performance.

### Summary of Findings

The findings at the end of this study include the following

- i. Individual performance-based bonus had a significant positive effect on employee commitment of microfinance banks in Enugu State Nigeria ( $r = 0.856$ ;  $p < 0.05$ ).
- ii. There was a positive relationship between merit increase and job satisfaction of microfinance banks in Enugu State Nigeria ( $r = 0.741$ ;  $p < 0.05$ ).
- iii. Piece-rate-scheme had a significant positive effect on organizational productivity of microfinance banks in Enugu State Nigeria ( $r = 0.727$ ;  $p < 0.05$ ).
- iv. There is a positive relationship between promotion-based incentive and job outputs of microfinance banks in Enugu State Nigeria ( $r = 0.896$ ;  $p < 0.05$ ).

### Conclusion

The study concluded that performance-based compensation provides zeal in the employees for better employee's productivity. It is a natural thing that nobody acts without a purpose behind. Therefore, a hope for a reward is a powerful incentive to motivate employees. Besides monetary incentive, there are some other stimuli which include job satisfaction, job security, job promotion, and pride for accomplishment. Employees occupy a strategic role and position in any organization.

### Recommendations

Based on the findings, the following recommendations were made:

- i. Microfinance banks should always use individual performance-based bonus to encourage and motivate employee to be committed to their job that will at same boost organizational goal at large
- ii. Microfinance banks should adopt the application of merit pay, as motivational strategy because as workers performance their task, their merit pay will reflect on their salaries that will bring job satisfaction among employees

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