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Impact of Executive Staff Benefits on Organisational Performance of Deposit Money Banks in Nigeria: A Conceptual and Theoretical Analysis

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Abstract: **The competitive nature and the changing dynamics of Nigeria banking environment has thrown a lot of challenges which only the strongest among the deposit money banks could survive. Organisations are increasingly laying more emphasis on motivating executive staff employees since their actions or inactions have serious performance implications for the survival of these institutions. This study intends to shed more light on the importance of executive staff benefits and their impact on organisational performance. The success and survival of any organisation is largely determined by the way their executive staff are remunerated. The Marginal Productivity theory was used to underpinned executive staff benefits and a conceptual model was developed to show the effect of independent sub-variables of executive staff benefits on overall performance of the organisation. The comparison of empirical literatures show that executive benefits could be used to create and sustain organisational performance because the more competitive and attractive these benefits, the more likely it will motivate these executive staff to increase their productivity. The study recommends that there is the need for organisations, especially deposit money banks to institute and maintain excellent executive employee benefits programmes that motivates them since it will help create a sense of loyalty and hard work which encourages higher individual and organisational productivity. The study concluded that organisations should constantly review their executive staff benefits and remunerations in line with the changing environment to sustain their motivation and productivity at work place.**

Keywords: **Executive benefits, Organisational performance, Nigerian banks, Incentive programmes, Operating environment.**

1. INTRODUCTION

Executive benefits, according to Law Insider (2013) refers benefits and staff welfare related policies, plans, programmes or arrangements in which senior and executive staff of organisations are rewarded with generous remuneration packages in form of financial and non-financial rewards including cash awards, stock options, pensions, retirement benefits, family welfare benefits, deferred compensation, dental, life and accident insurance (whether funded by actual insurance or self-insured by the company), disability, salary continuation, and other employees benefit policies, plans, programmes or arrangements, whether existing currently or subsequently adopted. The study by Marsh and Kleiner (1998) concluded that these benefits represent virtually any form of compensation other than direct wages and paid for in whole or in part by the employer, even if provided by a third party. Several researchers including Amah, Nwuche and Chukwuigwe (2013);

Idemobi, Onyeizugbe, and Akpunonu (2011) stressed the importance of executive staff benefits on organisational productivity by arguing that the more generous these benefits are, the more likelihood of its positive impact in sustaining higher performance level. Most of the benefits being awarded to executive staff do vary and they serve different social, financial and economic needs. Some of the benefits are required by law and they include employer contributions to social security, medical care, unemployment insurance and worker's compensation insurance.

The success and the survival of many organisations are determined by the way their executive management teams are treated and compensated. In response to the changing dynamics in the environment, organisation executive staff benefits, in particular the Chief Executive Officer (CEO) pay, has been steadily increasing since the early 2000s. In most African countries, provision of executive staff benefits in form of medical care, company car, generous retirement benefits, stock options have been on the increase. The executive staff reward system have the capacity to influence the level of executive team commitment and their attitude to work. Benefits are in form of direct and indirect compensations that are given to executive staff employees for carrying out organisational tasks and responsibilities. These benefits focus on maintaining and improving the quality of life for these executive staff by providing additional level of comfort and financial security which is an added focus of motivation that will enable the executives staff deliver on their targets to the organisations stakeholders.

The Nigerian banking environment faces several challenges which can be grouped under internal and the external challenges. The internal challenges borders on practices, processes, policies as well as strategies which have caused many deep routed problems and eventual collapse of some these banks in recent past. These challenges include poor corporate governance, theft and fraudulent practices, high staff attrition, nepotism, poor credit culture, inexperience staff saddle with responsibilities beyond their capacity etc. The external challenges are those ones the environment, mainly financial, government and regulatory agencies have thrown at them. Some of these challenges like security challenges which hampers productive activities, unstable and unpredictable exchange rate which makes planning difficult, government summersaulting policies in certain key areas of the economy like agriculture, import/export and some services which the bank have exposure and a change in government policy renders them at the mercy of their debtors like in oil and gas sector, hence the increasing incidence of bad and uncollectable debts.

The main aim of the study is to further examine the impact of executive staff benefits on organisational performance because the success and survival of any organisation are largely determined by the way their executive staff employees are remunerated. According to Nel, Werner, Haasbroek, Poisat, Sono and Schultz (2008) executive staff employees behave differently in respect to how they are motivated; and different executive staff have different rewards that motivates them. Some executive staff employees are favourably disposed to financial rewards while several others are in favour of non-financial rewards. However, most organisations always find a delicate balance between the two options to remunerate their executive staff. The study by Basu (1966) stressed that benefits and incentives relate to external and internal push factors affecting employees' behaviours towards their organisation in terms of whether to key-in into the programmes of the establishment by being loyal and hardworking or not.

The findings of a report by Koala (2008) reinforced the earlier held view that components of financial benefits that includes overtime, commission, merit pay, leave allowance, bonuses and company's profit sharing goes a long way to motivate executive staff to increase and sustain organisational performance. Other components of financial benefits that includes retirement benefits, health assurance and pension, car, club membership and subsidy meal have similar positive effects on executive employee performance. The non-financial benefits that includes intangible benefits like being saddled with responsibilities, recognition also have positive effects on some executive staff to meet and exceed their performance targets. However, the study by Sigler (2011) served caution notices that there were some undesirable elements of benefit reward schemes and concluded that despite the motivation such rewards provide to the beneficiaries, they can be counter-productive because executive staff employees could deliberately create an atmosphere of accounting manipulations and fraudulent practices to gain short time personal benefits as against the long-term progress of the organisation. They are able to manipulate the processes because they are occupying strategic units and departments of the organisation. In order to address the problems associated with pay compensation as mentioned, Sigler (2011) suggested a regime of mixing the pay packages for executive staff management. Such mixture would enable the shortcoming of one component is off-set by the strength of another. However, the success of such mixture depends on its fair implementation because the key questions lies with the proportion of the mixture and if it is perceived to be unfair, it would have aggravated the existing problem.

2. LITERATURE REVIEW

Alex, Xavier, and Dirk (2017) defined executive benefits as the financial compensation and other non-financial awards received by an executive employee for their services to the organisation. Such compensation is typically a mixture of salary, bonuses, and benefits, which is linked with employees' contributory schemes like the pension schemes, government regulations and tax laws**.** Executive benefit is recognising and appreciating the efforts of their executive staff that has performed meritoriously through meeting and surpassing individual and group targets. Special awards and other intrinsic gestures are extended to them and their immediate family members (Norida, Olurotimi, Rahman, & Norhidayu, 2016).

2.1 EXECUTIVE BENEFITS

Organisations use different benefits singly or as a combination to motivate their executive employees. The use of different types of benefits becomes imperative in a complex organisation with many executive employees, their background, attitudes, likes and dislikes as well as other factors as in departments they coordinate in the organisation, gender sensitivity, experience and qualifications. An organisation with many unmarried executive employees may not have the same benefit packages with another whose executive employees are mostly married. Many single executive employees will prefer more monetary rewards while married executives will want health care and disability leave, pension and life insurance. The benefits adopted by an organisation need to be acceptable to its executive employees for it to be effective in achieving organisational desired goals and objectives.

2.1.1 FINANCIAL AND NON-FINANCIAL BENEFITS

Some of the commonly used benefits are pay for time not worked for like sick leave, vacation, maternity leave, insurance benefits like job-related accidents and illness benefits retirement benefits like pensions, profit sharing plans and employee service benefits like subsidised childcare, school fees, transport, meals. Most organisations have designated units to advice executive employees on those benefits that would be most suitable to them. The schemes can either be mandatory or non-mandatory. Mandatory benefits are those ones that are required and regulated by law and in some instances, separate bodies are created to administer them like employees' pension. The non-mandatory benefits include tuition fees refund and various discounts due to employees.

According to Modigliani and Miller (1963) stock options is part of benefits which executive team members enjoy in a company and it provide opportunities for investors the right, but not obligations to buy or sell stocks at the agreed prices and dates. There are two types of stock options which are stock puts and stock calls. Stock puts is a bet that a stock will probably fall while stock calls is a bet that stock will rise. Stock options also allow a trader to bet on a stock rising or falling as well as enable the trader to choose specific dates when they will either rise or fall which is called the expiration date. Expiration date is important because it helps traders to price on the value of the put and the call which is known as time value which are being used in various options models. The strike price determines whether an option should be exercised and also it is the price that a trader expects the stock to be above or below the expiration date.

Long-term benefits pay remunerates executives based on the organisation's cumulative performance over a specified period. Eckles and Halek (2010) stated that such plan always gives managers some sort of bias toward under-reserving losses incurred in the last year covered by the incentive plan. The organisation also specified how the long-term incentive plans are calculated taking into cognisance the executive management staff total compensation. The longer the number of years an executive member stays with the organisation, the higher the amount payable as long-term benefits to that executive member.

Perquisites relates to benefits that are enjoyed by executive employees as a result of their job position in an organisation. Usman, Akhter and Akhtar (2015) concluded that some perquisites given to executive employees may be taxable or tax free and it is the responsibility of the organisation tax planning unit to advise the concerned executives before deciding on which particular perquisite to benefit. Examples of executive perquisites includes club membership, company chauffeur driven cars, family health insurance, overseas travel. Some organisations institute formal processes for qualifying staff to enjoy these perquisites while several others have no formal qualifying criteria. The award of these executive benefits is then left at management discretion which may cause some disaffection among some top management staff. Many organisations also offer executives supplemental health and welfare benefits. Some of these may be automatic and fully paid (or reimbursed) or provided by the employer. Some organisations may even make a range of choices available to the executives, either within an existing pre-tax payment plan provided to all employees or as a voluntary out-of-pocket, after-tax expense to be paid by the executive.

As the environment becomes more dynamic coupled with technological advancement, many organisations feel encouraged to give flexible working hours to their executive employees without suffering any service disruptions. This is because with adequate communication connectivity, an executive employee may not need be physically present at their offices before delivering on an assigned job. Joe and Langhoff, (2010) were of the opinion that the demands of the current work environment and shifting demographics have required companies to actively consider alternative work schedules**.** Many service industries especially, banking and information technologies have offered flexible work schedules and with the influx of women into the workforce, certain considerations based on gender issues were brought to the fore and subsequently the need for family friendly and work life balance policies, more firms are turning to flexible hours as an option. Organisations are known for sponsoring their executive management membership of prestigious leisure clubs, golf and tennis clubs for relaxation. In some cases, membership of these clubs is restricted to the general public and somehow elitist. It is a common knowledge that valuable transactions and necessary linkages for business patronages are consummated at these club meetings. Also, status cars with drivers are given to certain employees when they attain certain level in the organisation hierarchy. Company cars are those owned by the employer but exclusively used by the executive employee for official and unofficial functions. Such cars are amortised over the specified period usually between three to five years after which it will be due for replacement and the user may be given first option to buy it at the calculated residual value which is far lower than the current market price.

In some instances, executive team members under certain circumstances could also negotiate golden parachute benefits from the onset of their engagement. McMillan and Reisinger (1983) defined golden parachutes as any contractual agreement that will potentially provide the chief executive officer and other executive teams with a payment contingent upon a change in control of the company while Krueger (1985) advanced that golden parachutes is a contract between the employer and executives that provide for additional compensation when there is change in control or ownership of the company. It is a large payment or other financial compensation guaranteed to a company executive if they should be dismissed as a result of a merger or takeover by another entity. It can also be described as a compensation arrangement under which an organisation agrees to pay amounts in excess of the executive's usual compensation if the organisation undergoes a change in ownership or control. They are used by employers as a defensive measure to prevent hostile takeovers under the assumption that the guarantee of additional financial benefits to executives will increase the cost of the acquisition and, thereby, discourage prospective purchasers. Parachute payments can come in the form of cash or property, including the spread on the exercise of a stock option, pension proceeds, insurance or annuity proceeds.

3. ORGANISATIONAL PERFORMANCE

There is no universal acceptable or standardised definition of organisational performance perspectives which vary depending on the context of its use and the nature of products or services involved (Marimuthu, Arokiasamy & Ismail, 2009). Barney (2002) advanced that organisational performance is generally defined as when the organisation generates more revenue than its expenses and the extent to which it uses assets to run the business activities profitably. It also examines the overall financial health of a business over a given period of time which must be consistently stable. According to International Labour Organisation (ILO) (2015) productivity is a relationship between outputs and inputs and it rises when an increase in output occurs with a less than proportionate increase in inputs, or when the same output is produced with fewer inputs. Griffin and Mahon (1997) explained that organisational performance could also be viewed from market-based perspectives at which one will be looking out for annual returns on investment as well as return to shareholders and from operations where the focus will be on product and service quality, marketing effectiveness and customer satisfaction. Atrill (2009) explained that some of the ratios that may be utilised to calculate the firm’s performance indicators like profitability, return on assets (ROA), return on equity (ROE) and return on investments (ROI) express the success of a firm in generating profits or returns from the resources owned. The market-based measure is believed to be more objective because it relies on the feedback and responses from customers and other stakeholders (Griffin & Mahon 1997). The choice of whether to use accounting or market-based calculations for measuring a firm’s performance depends on the sector which the company is operating from as well as the objectives they want to achieve.

4. THEORETICAL FOUNDATIONS

Several theories have been used to explain the relationship between executive employees benefits and organisational performance. The general consensus had been that when organisations encourage and motivate their executive management with different types of benefits, it tends to create dual benefits for individual executive and for organisation to thrive which helps organisation growth and development. This study is anchored on Marginal Productivity Theory and Human Capital Theory.

4.1 MARGINAL PRODUCTIVITY THEORY

The Marginal Productivity Theory is a classical theory of factor pricing that was advocated by a German economist, Von Thunen in 1826. The theory was further developed and discussed by various economists, such as Clark, Walras, Barone, Ricardo, and Marshall. Marginal productivity theory according to Clark (1899) stated that under static conditions, every factor including entrepreneur would get a remuneration equal to marginal product. A producer will be willing to pay a price to a factor only till marginal productivity of that factor will be equal or more than its price. In other words, marginal productivity theory is an approach to explaining the rewards received by the various factors or resources that co-operate in production. The wage or other payment for the services of a unit of a factor is equal to the decrease in the value of commodities produced that would result if any unit of that factor were withdrawn from the productive process, the amounts of all other factors remaining the same. Roberts (1956) stated that the services being rendered by the executive to the organisation is treated like any other input factor of production and the value of this input is equal to the intersection of supply and demand on the labour market for executives. Roberts (1956) further stated that executive pay can be understood as the result of the value of the executive's marginal revenue productivity. In equilibrium, this is equal to the intersection of supply and demand on the market for executives.

The marginal productivity theory is useful for business managers because the concepts of marginal factor cost and marginal revenue product help to determine the optimal number of workers and equipment to use at any point in time. It helps to determine the point when to stop adding more inputs or resources to generate the desire results. A firm maximises profits by continuing to add more inputs until marginal factor cost is equal to marginal revenue product. After this point, then it is unprofitable to add any input. Marginal productivity eventually starts to diminish as firms add more and more inputs so at some point, the extra revenue gained from adding another worker is less than cost. Once a company reaches that point, it should stop adding any more resources which could be human or materials. For every business, turning a profit is a balancing act that requires making sales while limiting costs. If a company's total costs exceed the revenue generated by its sales, it loses money, which means it reduces the firms profitability. Marginal productivity is an economic concept that business managers can use to help determine how much to spend on production to maximise profits and minimise expenses.

Critics of marginal productivity theory assumes that all the units of a factor are homogeneous, so that any one unit is as good as any other. For example, all labourers are not alike and they are of varying efficiency. Also, all the units of land are not similar. Furthermore, the theory assumed that different factors are capable of being substituted for one another, so that, it will be possible to use a little more of land or labour and or capital. However, it is not always possible to substitute labour for capital and vice versa, thus different factors of production are not close substitutes for one another. The theory further assumed that the supply of a factor is fixed and that the reward enjoyed by a factor does affect its supply. The theory approaches the problem from the side of demand only. It is thus a one-sided explanation. Also, the theory is valid only under the assumption of perfect competition and in real life, we know that competition is not perfect, hence the actual rewards paid to the factors of production do not conform to their relative marginal productivities.

4.2 HUMAN CAPITAL THEORY

Human Capital Theory refers to the aggregate stock of competencies, knowledge, experience, social, and personal attributes embodied in the ability to create intrinsic and measurable economic value. The origin of the theory can be traced back to Adam Smith in the 18th century and the modern theory was popularised by Gary Becker, Jacob Mincer and Theodore Schultz. The theorists view human and individual as economic units acting as their own economy. Its basic concept is that investments in individuals can be mathematically measured based on the economic value they are able to contribute to society. Human capital, according to Organisation for Economic Co-operation and Development, OECD (2001) is described as productive wealth embodied in labour, skills and knowledge while Garibaldi (2006) refers it as any stock of knowledge or the innate or acquired characteristics a person has that contributes to his or her economic productivity. Human capital theory suggests that education increases the productivity and earnings of individuals which make education as an investment. The assumptions of human capital theory revolve around the immeasurable nature of its many forms. For example, economic capital can be measured by its ability to produce wages, however, an intrinsic value of human capital exists although it is not always measurable. Also, human capital may be stored but not fully utilised at all times therefore making it difficult to observe and study consistently.

The human capital theorists stated that an executive's productivity is influenced by his accumulated knowledge and skills, that is, his human capital and the more knowledge and skills an executive has, the higher his human capital will be. An executive with a greater quantity of human capital would be better able to perform his job and thus be paid more. The

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market for executives determines the value of this capital as postulated by Agarwal (1981); Carpenter, Sanders, and Gregersen (2001); Combs and Skill (2003); Harris and Helfat (1997). The human capital theory suggests that the human characteristics of an individual executive contribute to executive compensation. The literature that focuses on human capital as a measure of executive compensation typically finds that individual skill, level of education, age and gender, amongst other individual characteristics, account for the differences in compensation between executives. There was consensus of opinions by several other researchers that the theory for executive compensation seem to suggest that the more experienced, educated and highly skilled an individual executive is, the higher his or her compensation would likely be.

Sun, Zhao and Yang (2010) stated that the accumulation of skills and knowledge gained through education and experience is a key element of executive compensation and similarly, Ng and Feldman (2010) concluded that the labour market rewards individuals for acquiring more human capital with access to better jobs, higher earnings and greater incentives to stay. Greve, Benassi and Dag Sti (2010) stated that by summing up the skills and competencies of an individual, it is possible to assess his or her level of human capital, and by calculating the skills and competencies of several workers, it is possible to estimate the level of human capital that an organisation can mobilise to meet its objectives. The skills and experience that derive from accumulated education is therefore an asset at both individual and organisational levels and should therefore be appropriately rewarded.

Critics of human capital theory had advanced that it assumes education increases productivity in the workplace, resulting in higher individual wages, but it provides little insight into the processes through which education and training are translated into higher wages. Also, the theory fails the test of realism due to weaknesses of method like the use of a single theoretical lens and closed system modelling, inappropriate application of mathematical tools, and multi-variate analysis of interdependent variables. The theory imposes a single linear pathway on the complex passage between heterogeneous education and work and it cannot explain how education augments productivity and or why salaries have become more unequal and disproportionate.

Both marginal productivity theory and human capital theory are useful in illustrating executive benefits because, for marginal productivity help the organisation to determine when to either hiring additional executives or giving further benefits that is not supported by the organisation's marginal productivity curve. Also, the organisation employs human capital theory to get the best and most qualitative executives who will add meaningful value to the organisation productivity because the theory enables the organisation to harness knowledge and skill of the executives to achieve maximum productivity for the organisation.

The study is anchored on marginal productivity theory because, through the theory, the management would be more effective to cut further wastages as they are able to determine the marginal point that would not be profitable to the organisation to either employ more executive members or suspend further payment that would not add any value to the organisation productivity while incurring additional costs on men and materials.

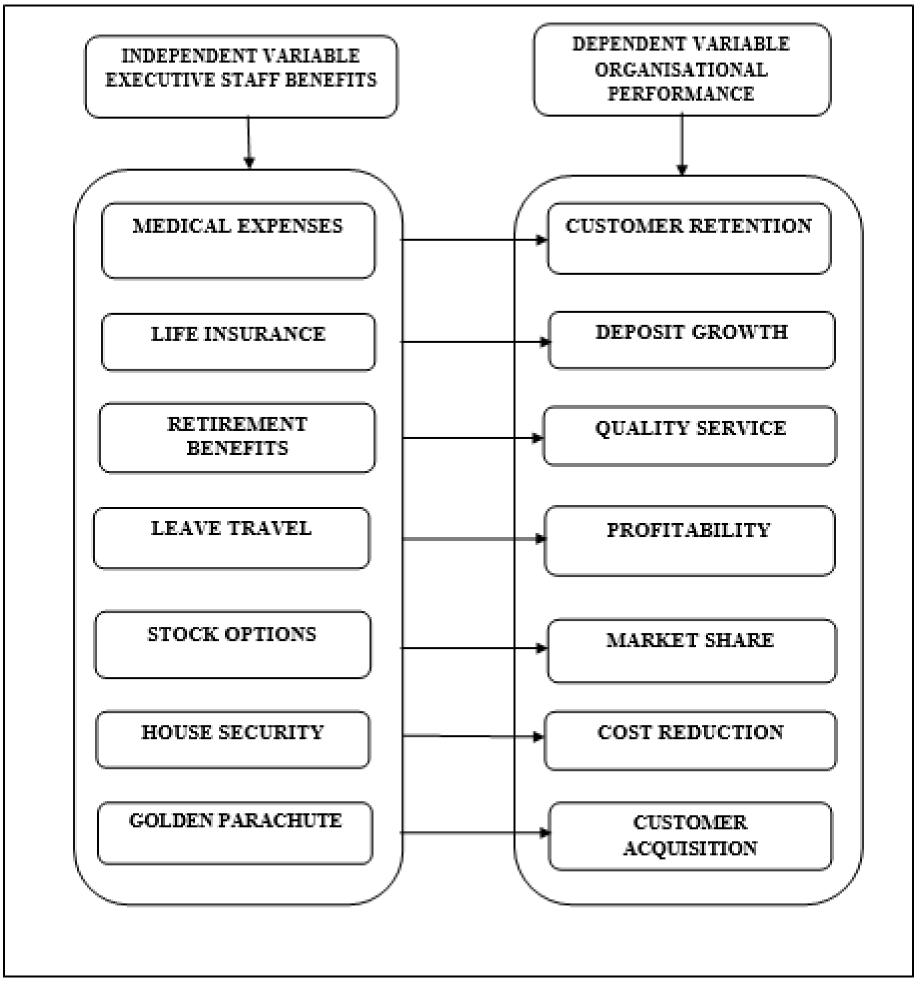
5. MODELLING EXECUTIVE BENEFITS AND ORGANISATIONAL PERFORMANCE

Executive benefits constitute an important part of the compensation packages which employers use to motivate their employees to increase organisational productivity. They are also an addition to other forms of cash payment like wages and salaries that are intended to improve the quality of work life for employees. Erbasi (2012) described benefits in general as remunerations made available to employees in addition to direct wages or salaries such as company car, house allowance, medical insurance, paid holidays, stock options, pension schemes, subsidised meals. It should be known however that some benefits are part of taxable income, while others are not. Several research findings have established the significance and the positive relationship between executive benefits and organisational performance. Studies by Parthasarathy and Bhatthacherjee (2006), Haid and Yurtoglu (2006), Lazarides, Drimpetas and Dimitrios (2008) Nourayi and Mintz (2008), Jeppson, Smith, and Stone (2009); Amah, Nwuche and Chukwuigwe (2013) confirmed the positive relationship and were of the opinion that when organisations institute good beneficial programmes in addition to salaries, they are deliberately creating an environment where competitive spirit among the executive employees will thrive. The dynamic environment has thrown up new competitive challenges as executive benefits being awarded have grown in size, importance and variety. Edgar and Geare (2005); Milkovich, Newman (2008); DeCenzo and Robbins (2010) concluded that executive employee benefits have helped in attracting and retaining quality board members to the organisations.

Organisations should strive to institute formal executive benefits programmes that seeks to take adequate care of these set of employees. According to Amah, Nwuche and Chukwuigwe (2013) the design and implementation of the strategies will have a dual aim of motivating executive employees as well as achieving and sustaining corporate productivity. Such a plan will include the aims and objectives for providing executive benefits and how to satisfy their needs as well as satisfy organisations objectives. Amah et al., (2013) further stated that the organisation's objectives generally will include attracting competent executive management team members, motivating, retaining, improving their morale, providing for their health and security needs, increasing their satisfaction, improving their quality of work life, to be competitive and improve the organisation's image. To achieve the stated objectives, management need to carefully consider the type of benefits that might best suit the organisation, acceptance of such benefits by the executive employees, the total cost involved, the amount available for the provision of benefits and how the results will be evaluated. The benefit programmes so developed must be subject to modification to suit changing circumstances in the society.

Amah (2010) stressed that effective vertical and horizontal communication is necessary to inform executive employees about the available benefits and how they can access them. This has become imperative because some benefits which the organisation has provided for the welfare of these executives may be unknown to them. The information should be very clear, concise and multiple channels of communication should be used for effective dissemination. Amah (2010) further suggested that the value of the executive benefits should be communicated in such a way that it will be appreciated. Amah et al., (2013) explained that there are three objectives of executive benefit programmes. The first is to meet the lowest physical and psychological demands of an executive management team so that they could fully engage themselves in work. The second is to compete with other corporations at an equal level and the third objective is to provide social and welfare services. Armstrong and Murlis (2007) argued that executive employees want to receive more than just a salary from their employers and expect other rewards for coming to work. The extra rewards given has the capacity to motivate and encourage them to perform their best. Armstrong and Murlis (2007) believes that loyalty of the executives can be established and sustained when they get additional higher benefits more than just a salary.

Fig. 1: CONCEPTUAL MODEL



6. CONCLUSIONS AN RECOMMENDATIONS

This study showed the significance of executive staff benefits to the growth and development of organisations. The study also indicated that executive staff benefits and reward should be a key strategy in motivating these categories of employees to increase and sustain organisational productivity. Organisations management are complex and dynamic, hence the need to vary executive staff benefits strategies so as to appeal to all executives within the organisation. Competitive benefits policy has the capacity to attract and retain employees, especially in organisations bedevilled with high staff attrition. Some company executives remain on their jobs because of the benefits they currently enjoy. Management should introduce new benefit packages where they are not existing and should make conscious efforts to review the available and make them more appealing to motivate for improved performance. This paper also establishes positive and significant relationship between executive benefits and organisational performance. Therefore, banks operating in the Nigeria environment should strengthen and consolidate their executive staff benefits programmes with the use of incentive plans that support both short-term and long-term organisational productivity.

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