ISSN: 2251-032X Volume 14, Issue 1, Pages 73 - 97: 2024

Compensation and Employee Performance of Pharmaceutical Firms in Nigeria

NNAMANI, PIUS CHUKWUEMEKA; PROF. UCHE B. UGWUANYI; DR. I.C. EZUGWU

Department of Accountancy,

Faculty of Management Science,

Enugu State University of Science and Technology (ESUT), Enugu, Nigeria.

Abstract

Research Purpose: In the competitive landscape of Nigeria's pharmaceutical industry, understanding the relationship between compensation and employee performance is essential for sustaining profitability and growth. This study investigates the effects of salaries and wages, director's remuneration, and staff training costs on the profit for the year of pharmaceutical firms in Nigeria.

Methodology: The study adopted an ex-post facto design, utilising Ordinary Least Square regression to analyse data obtained from annual reports of pharmaceutical firms from 2013 to 2022. Three research questions were raised, and corresponding hypotheses were formulated to guide the analysis.

Findings: The analysis revealed that salaries and wages significantly affect profit (t-value = 5.335750, p-value = 0.00001). Director's remuneration showed no significant effect on profit (t-value = -0.630389, p-value = 0.5329). Staff training costs significantly impacted profit (t-value = 4.452571, p-value = 0.0001).

Conclusion: Employee compensation, particularly salaries and wages, significantly contributes to the financial performance of pharmaceutical firms in Nigeria. Attractive compensation packages are crucial for motivating employees and driving productivity, thereby ensuring steady and consistent growth.

Recommendations: Pharmaceutical firms should develop and implement effective compensation policies to retain talented employees, positively impacting profitability and share price value.

Key words: *Compensation, Salary and Wages, Director, Remuneration.*

1.0 INTRODUCTION

Employees are valuable resources for any organisation. Labour productivity nowadays has been the main concern of organisations (Jenaibi, 2010). It is customarily accepted that employees discover a valuable source of competitive edge for firms. Employees in each organisation are observed as the greatest pertinent resource and they institute the intellectual and creative makeup of the organisation (Seidu *et al,* 2020). Organisations today face an increasingly competitive and rapidly changing environment branded by a varied labour market, improvement in information technologies, globalisation, deregulation, continuous customer demands (Omuya, 2018). Employees receive different kinds of benefits in the form of wages, salaries and pays. Half of the cash flow of companies is usually equal to compensation, although it is more than half in the service sector. Most individuals with good education are unsatisfied with their job and salary packages and it results in their turnover, so organisations plan compensation plans for them to stop the turnover and to motivate them (Falola, *at al,* 2014). In other words, one can say that compensation motivates employees for better performance. If employees are paid well and earn more than their colleagues, they feel happier at their workplaces. A handsome salary motivates an employee for better performance (Jayachandran & Seikan, 2010).

Many organisations have now recognized that human resources play an important role in gaining a competitive advantage in today's highly competitive global business environment. While all aspects of managing human resources are important, employee retention continues to be an essential Human Resource Management activity that helps organisations in their quest to achieve their goals and objectives (Mello, 2007). As such, researchers and practitioners alike are interested in addressing the key issues and challenges relating to employee retention. Retaining productive employees is critical to running a successful business. Retaining employees saves companies money in training costs and helps maintain an efficient and knowledgeable workforce. Health insurance and retirement packages are benefits that many employees desire from their employers. Companies that offer these benefits have a much better chance of retaining workers than businesses that fail to offer benefit packages. No business can enjoy and sustain success until it deals with the problem of employee turnover efficiently and successfully and this calls for a strategic approach to the management of employees in order to motivate them to stay (Ongori, 2008).

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 (Bob, 2011). The global competition is essential to identify and retain the efficient, competent and knowledgeable employees in the organisation by developing and maintaining an effective compensation strategy for getting the best job performance from the employee (Akter & Moazzam, 2016). Adeniyi (2013) posits that the fundamental tasks in human resources management is compensation management. It is a complex task that occurs periodically, demands accuracy and must not be delayed. Compensation management requires integrating employees' processes and information with business processes and strategies to achieve optimal organisational goals and objectives (Adeniyi 2013). This can be attributed to the fact that compensation management is an essential tool to "integrate individual efforts with strategic business objectives by encouraging employees to do the right things with ever improving efficiency. (Adeniyi, 2013). In other words, compensation management is' a powerful means of focusing attention within an organisation. They send clear messages to all employees of the organisation informing them about expected attitudes and behaviours (Schell & Solomon, 2007). Milkovich and Newsman, (2002) argued that compensation management systems can create and sustain a competitive advantage for organisations. In recent years, the inclusion of non-financial measures has gained some popularity in compensation management, while some schools demonstrate positive effects of incorporating non- financial measures into the compensation management system empirically (Widmier, 2002).

According to Long (2017), companies tend to initiate compensation strategies in the aspects of direct and indirect financial compensation as well as benefits that motivate and ultimately improve performance. The financial compensation such as wages, salaries or performance-related payments is adhered to in many organisations to retain employees and outwit their rivals The employee benefits in the country are designed to protect employees and their families from loss of income due to health problems or other work-related financial disruptions and can improve the employees general quality of life through special programme and services in the workplace (Ali & Raza, 2015). They include additional health coverage that is not included in the provincial plan such as medical, prescription, vision and dental plans, group disability, employee assistance plans, retirement benefit plans, and so on. The provision of various compensation mechanisms has in the short or long run enhanced employee performance which has, in turn, created a competitive environment over the companies that lags concerning offering better compensation strategies (Ali & Raza, 2015).

Furthermore, compensation packages in pharmaceutical firms entail some basic features that tend to make employees perform on their job which includes salaries, bonuses, incentives, allowances, promotion, recognition. However, to avoid wrong perception and

ISSN: 2251-032X Volume 14, Issue 1, Pages 73 - 97: 2024

controversy by the employees, compensation strategy must be clearly communicated to employees with job measurement which will drive the much needed performance in the employees in pharmaceutical firms (Onuorah, *et al*, 2019). External competitiveness attracts talent, and internal equity helps companies to retain talent by ensuring that employees and colleagues making the same contributions obtain the same compensation. Individual equity allows employees to feel that their potential is fully rewarded; thus, they are encouraged (Onuorah et al., 2019). Although compensation means something different to individuals, organisations and society, it is important to all. For individuals, compensation is not only the return of benefits, but also reflects on an individual's capabilities or achievements (Ali, 2009). For organisations, compensation is a cost or expenditure, as well as an important tool to obtain competitive advantages. Within society, compensation not only influences wealth distribution, but also symbolises social equity and justice (Hsin-His, 2011).

Statement of the Problem

The relationship between the organizational compensation system and employees' performance is indispensable, though some surrounding factors may determine the satisfaction one derives from the other. The high inflation rate which has led to high cost of living, low income and purchasing power can be a reason for poor performance. In order to achieve the needed output level, the Nigerian managers faces an uphill task in trying to fashion out a reward system which does not have to necessarily be totally monetary inclined to motivate and bring out the best in employees to whom morale would have been affected by the bad state of socio-political and economic sphere of the country (Casio, 2006).

Over time it has been a case in some organisations that their employees are under-remunerated or that some organisations do not have good compensation administration programs. This could be that employee promotion does not come in time, or that their pay packages are not commensurate with the work they have done for the organisation. At times, this could be a deliberate act by management in order to frustrate the employees or that the management lacks the required managerial capabilities to effectively administer a compensation administration 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 productivity.

Compensation is usually narrowed to cash and as a result, employers only have a tunnelled vision when it comes to the issues of compensation for their employees. Other aspects of compensation which makes up the total compensation package for the employee are not given much attention. Employees themselves fail to recognize the fact that their compensation is a package and not only related to cash. The by-product of the above understanding of compensation is that it is poorly managed and most of the time employees' performance in terms of commitment, morale, productivity, efficiency and so on is adversely affected. Bad and depressed economic condition in Nigeria makes it difficult to fully implement a total compensation system. The employers usually cite poor economic conditions as their excuses. On the other hand, the employee who knows his worth usually cites his contributions to the growth of the organisation as his reason for the demand for a better condition. Most employers of labour in Nigeria disregard labour laws and edicts. Sometimes, this situation leaves the dejected employee with no other condition than to accept what is offered to him, otherwise, he will face unemployment consequences. There were some cases where employees were fired for not accepting paltry compensation (Armstrong & Brown, 2013).

Objectives of the Study

The broad objective of the study is to evaluate the Compensation and Employee Performance of Pharmaceutical Firms in Nigeria. The specific objectives of the study are to:

i. Examine the effect of salaries and wages on the Profit for the Year of Pharmaceutical Firms in Nigeria.

ii. Ascertain the effect of director's remuneration on the Profit for the Year of Pharmaceutical Firms in Nigeria.

iii. Evaluate the effect of staff training costs on the Profit for the Year of Pharmaceutical Firms in Nigeria.

Research Questions

The following research questions guided the study.

i. How does salaries and wages affect the Profit for the Year of Pharmaceutical Firms in Nigeria?

ii. What is the effect of director's remuneration on the Profit for the Year of Pharmaceutical Firms in Nigeria?

iii. What is the effect of staff training costs on the Profit for the Year of Pharmaceutical Firms in Nigeria?

Statement of Hypotheses

The following research null hypotheses are formulated to guide the study.

i. Salaries and wages have no significant effect on the Profit for the Year of Pharmaceutical Firms in Nigeria.

ii. Director's remuneration has no significant effect on the Profit for the Year of Pharmaceutical Firms in Nigeria.

iii. Staff training costs have no significant effect on the Profit for the Year of Pharmaceutical Firms in Nigeria.

Scope of the Study

The coverage of this study is on the Compensation and Employee Performance of Pharmaceutical Firms in Nigeria (2013-2022). The choice of 2013-2022 was because of the double recession experienced in Nigeria which prompted many firms to withhold employment benefits accrued to their workers while many firms paid off their workers during the period. The proxies of employee compensation that were adopted in this work are (i) Salaries and Wages; (ii), Director's Remuneration and (iii), Training Costs; while the performance was proxied by Profit for the Year. The study was carried out in Nigeria and it covered selected pharmaceutical firms listed in the Nigerian Exchange Group (NGX).

2.0 REVIEW OF RELATED LITERATURE

Conceptual Review

Compensation

According to Dessler, (2011) employee compensation means all forms of pay or rewards going to employees and arising from their employment and it may be direct financial payments (Pay in the form of wages, salaries, incentives, commissions, and bonuses) and indirect financial payments (Pay in the form of financial benefits such as insurance). Employee compensation refers to the benefits (cash, vacation) that an employee receives in exchange for the service they provide to their employer. These are generally one of the largest costs or expenses for any organisation. There are many different types of compensation paid to employees. The following are a few examples of the compensation paid to employees: Cash compensation consisting of wages or salaries; retirement plans (employer contributions); employer-paid health insurance; life insurance; paid leave for vacation and sick days and disability insurance.

Compensation is the total cash and non-cash payments that you give to an employee in exchange for the work they do for your business. It is typically one of the biggest expenses for businesses with employees. Compensation is more than an employee's regular paid wages. It also includes many other types of wages and benefits. Compensation includes topics in regard to wage and/or salary programs and structures, for example, salary ranges for job descriptions, merit-based programs, bonus-based programs, commission-based programs, etc. Compensation is payment to an employee in return for their contribution to the organisation, that is, for doing their job. The most common forms of compensation are wages, salaries and tips (McNamara, 2020).

Salary and Wages

Wages and salaries are the remuneration paid or payable to employees for work performed on behalf of an employer or services provided. Normally, an employer is not permitted to withhold the wages or any part thereof, except as permitted or required by law. Employers are required by law to deduct from wages, commonly termed "withhold", income taxes, social contributions and for other purposes, which are then paid directly to tax authorities, social security authority on behalf of the employee. Wages and salaries in cash consist of such amounts payable at regular intervals, such as weekly, monthly or other intervals, including payments by results and piecework payments; plus, allowances, such as those for working overtime; plus amounts paid to employees away from work for short periods (e.g., on holiday, sick leave, etc.); plus ad hoc bonuses and similar payments; plus commissions, gratuities and tips received by employees (Abdul et al, 2014).

Director's Remuneration

Directors' remuneration is the process by which directors of a company are compensated, either through fees, salary, or the use of the company's property, with approval from the shareholders and board of directors. The process of directors' remuneration came about because of shareholder concerns that directors were rewarding themselves large salaries despite showing poor profits or revenue.

Therefore, the process was initiated by which shareholders were able to agree to or reject fees paid to directors in general. This amount is the upper limit that can be paid to the board of directors. The board of directors, in turn, will determine how those fee payments are split up among the directors, including the general director of the company. On the other hand, director's remuneration, meaning the salaries and bonuses paid out to directors, is part of the directors' employment contract signed with the company. The board of directors then has direct control over that remuneration agreement.

Shareholders may sue the directors if they pay excessive amounts that exceed the agreed payment or if they pay themselves a disproportionately large amount of profits instead of distributing it to the stockholders as dividends.

Staff Training Costs

Igbaekemen (2014) affirms that training is a process or strategy of upgrading and expanding the abilities, talent and knowledge of workers. As such, a fruitful training programme must add to the development and improvement of workers at all levels. Training influences employee development such that the workers' state of mind is improved with a view to eliciting their commitment to duties and organisational effectiveness. Training of employees attracts costs. So many organisations such as pharmaceutical firms today spend huge sums of money in training their workforce to achieve better results and promote performance.

Organisational Performance

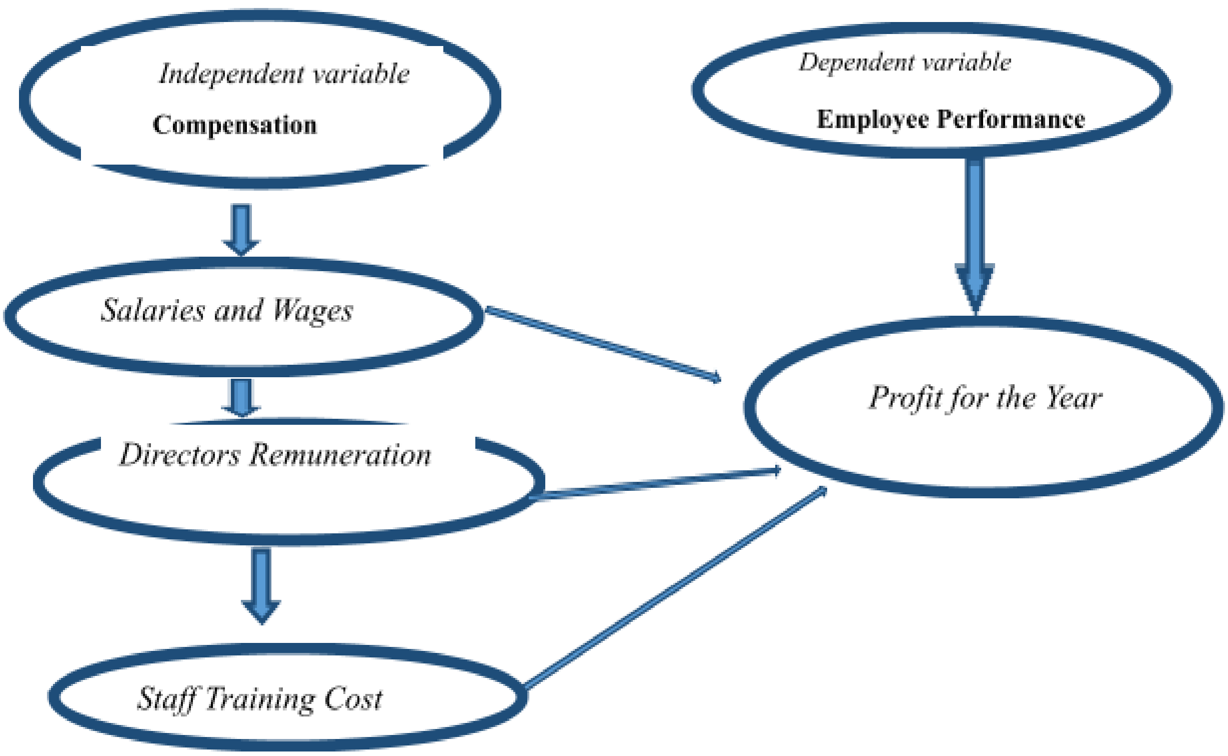
Ibhagui and Olokoyo (2018) defined organisational performance as a method of measuring business success and how business units have met their established goals and objectives over time. Kelman and Hong (2016) and Jenatabadi (2013) described what organisations undertake to achieve stated goals. Smith and Brian (2015) defined organisational performance as a set of financial and non-financial indicators that provide information on the degree of achievement of objectives and results; it is also dynamic and requires judgement and interpretations; and it may be understood differently depending on the person involved, that is, performance can be understood differently from a person within the organisation as a competitor. Broader indices of organisational performance include productivity, quality, consistency, growth, and efficiency. There is no uniform set of performance measures or rationale for determining performance standards. As a result, each organisation develops its own performance measurements based on the industry in which it operates. Performance indicators are essential to analyse what results are being achieved, regardless of which evaluation approach an organisation chooses to adopt. Higher profitability, dividend payments, bonus issuing, cost reduction, service efficiency, and leadership in corporate social responsibility are some of the performance indicators (Chaudhary & Sharma, 2012).

One of the most important concepts in management research is organisational performance. Organisational performance measurement is still primarily focused on financial data for the objectives of coordination and control (Al-Matari *et al,* 2012). According to Berman et al (2015) financial performance measurement is free of subjectivities since it is quantitative and can be validated, as opposed to non-financial indicators that can be interpreted differently. Making the connections between performance strategies, according to Owino *et al* (2015), is a difficult task given the complexity of organisational management and the need to balance the interplay of meeting organisational primary objectives and the pressure to meet or conform to external demands, which would deplete resources that could have been channelled to other productive ventures.

Profit for the Year

Profit is the money that a business brings in. Comparing current profits to profits from previous accounting periods helps you understand the growth of the business. To create accurate financial statements and monitor your business's financial health, you should understand the two types of profits: Profit for the Year and net profit. Profit for the Year is the profit a business makes after subtracting all the costs that are related to manufacturing and selling its products or services. Profit for the Year is a measure of how efficiently an establishment uses labour and supplies for manufacturing goods or offering services to clients. It is an important figure when checking the profitability and financial performance of a business.

Figure 2.1: Conceptual Framework



Source: Author's Conceptualization 2023.

2.2 Theoretical Framework

Equity Theory by Adams (1965)

The theoretical foundation provides an understanding of the concepts of compensation and employee performance and the linkage between the two concepts. The study is anchored on equity theory. The theories explain employee's behaviour, attitudes and perceptions arising out of compensation and employee performance. A linkage between compensation and employee performance is derived from employee's behaviour to various elements of compensation. This is because most empirical studies have relied heavily on these theories as the baseline theory when discussing effectiveness compensation and employee performance (Rishipal & Manish, 2013; Antoncic & Antoncic, 2011, and Adams, 1965). Equity Theory by Adams (1965) is a comparative analysis by an employee of the rewards he receives in relation to those of others who are in a similar position, with equal qualifications and carrying similar tasks in form of effort, time and skills requirement. Out of comparison, an employee develops a perception towards the rewards which in turn influence his behaviour towards work and the organisation.

According to Adams (1965), equity theory focuses on determining whether the distribution of resources is fair to both relational partners. It proposes that individuals who perceive themselves as either under-rewarded or over-rewarded will experience distress, and that this distress could lead to efforts to restore equity within the national cycle. It focuses on determining whether the distribution of resources is fair to both relational parties. Equity is measured by comparing the amount of contributions and benefits of each person within the relationship. Partners do not have to receive equal benefits or make equal contributions, as long as the ratio between these benefits and contributions is similar. Equity theory acknowledges that subtle and variable individual factors affect each person's assessment and perception of their relationship with their relational partners (Adams, 1965). In any case, an employee wants to feel that his contributions and work performance are being rewarded with his pay. If an employee feels underpaid then it will result in the employee feeling hostile towards the organisation and perhaps his co-workers, which may result in the employee not performing well at work anymore. It is the subtle variables that also play an important role in the feeling of equity. Just the idea of recognition for the job performance and the mere act of thanking the employee will cause a feeling of satisfaction and therefore help the employee feel worthwhile and have better outcomes. Adams (1965) proposes assumptions of equity theory as follows: Individuals seek to maximise their outcomes. Groups can maximise collective rewards by developing accepted systems for equitably apportioning rewards and costs among members. When individuals find themselves participating in inequitable relationships, they become distressed. Individuals who perceive that they are in an inequitable relationship attempt to eliminate their distress by restoring equity.

Convincingly, the treatment of employees in a fair manner has been perceived as compensation strategy and employee performance. The theory was related to the study because of the set of variables formed into propositions, that specify the relationship among variables, typically in terms of magnitude or direction (Creswell, 2007). A theory explains how and why the variables are related, thereby acting as a bridge between the variables. The key theories on compensation strategy employee performance that are relevant to the study variables are reviewed in this theory. The concepts of compensation strategy and employee performance are today being supported, developed, and understood using a variety of theoretical frameworks and models of equity theory (Greenberg, 1987).

Empirical Review

Salaries and Wages and Profit for the Year

Abdul-Jaleel and Millan (2017) examined the effect of compensation systems on the work performance of employees (junior staff) of the University of Cape Coast (UCC), Ghana. Both descriptive and inferential statistics were used in analysing the data. Findings from the study show that the junior staff have a positive view on the university's compensation packages as a whole. However, junior staffs' view on the university's compensation packages does not influence employees' work performance directly. It does so only if it boosts their level of satisfaction which in turn boosts their commitment to the university and in the long run increases their work performance.

Seidu *et al*, (2020) sought to explore the impact of compensation taking into consideration elements such as salary, rewards, incentives, and indirect compensations impact on employee's performance in AngloGold Ashanti Obuasi, Ghana. The study used the SPSS version 26 to process the data after all errors were corrected and data coded. Descriptive analysis and multiple regression analysis were employed to analyse and give meanings to the output. The results indicate that salary, rewards, incentives, and indirect compensations have a positive and significant impact on employee performance.

Aliku et al. (2020) aimed at investigating the effect of compensation employees on employee performance in the manufacturing industry and focusing on Lagos State, Nigeria. The data were presented using descriptive statistics such as means, standard deviation, frequencies, and percentages. For advanced analysis, the study used the Pearson correlation method which evaluated the linear relationship between the variables in the study. Generally, the study found that all the independent variables (Salary and Benefits Programmes) have a significant relationship with Employees Performance in the Manufacturing Industry.

Jemima (2021) investigated the effect of compensation and reward system on employee performance at Kenya Revenue Authority/ The study adopted a descriptive survey research design/. A mixed method of quantitative/qualitative approach was used. A multiple linear regression model was used in the study. Pearson's bivariate correlation analysis revealed the extent to which the various elements of compensation (salary, promotion, fringe benefits and recognition) influenced the performance of employees at Kenya Revenue Authority. Descriptive statistics revealed that KRA has not met its revenue targets as indicated by 79% of the respondents. The findings lead to the conclusion that Kenya Revenue Authority has put in place a fair compensation and reward system although the system has not inspired high employee performance to the fullest.

Director's Remuneration and Profit for the Year

Afriyie et al. (2020) investigated the effect of compensation on employee's performance Accra Technical University: Ghana. Descriptive survey design was used for the investigation. Frequency tables were used to present the responses. The main conclusions were that administrators were not attracted by the monetary aspect of compensation but rather management sensitivity to their needs. We also find that housing loans and accommodation are the most crucial needs.

Oboreh, and Arukaroha, (2021). examined the effect of reward on organisational performance in universities in Edo State. Survey research design was employed in the study. The data generated were analysed using frequency tables, percentages and multiple regression analysis. The study found that salary increase, cash bonus, promotion, recognition and career development have significant effects on organisational performance. The study concludes that reward has a significant positive effect on organisational performance in the sampled universities in Edo State.

Okoye (2022) examined compensation and organisational performance, a study of Muoka foam in Lagos state. The study used survey research design due to the nature of the work. Primary and secondary sources of data were used in the study. Correlation analysis was used to analyse the collection questionnaire. From the analyses tested, the study found out that salary increase has a significant effect on organisational performance. Promotion has a significant effect on organisational performance. Recognition has a significant positive effect on organisational performance.

Staff Training Costs and Profit for the Year

Omuya, (2018). sought to evaluate the influence of compensation and reward on employees' performance in public universities in Kenya. Descriptive survey research design was employed. A regression model was used to establish the relevant relationships. The findings also showed that most of the respondents agreed or strongly agreed that employee training has contributed to employee performance in public universities in Kenya. It was also established that most respondents strongly agreed or agreed that good compensation and reward have contributed to employee performance.

Kidagisa and Mukanzi (2021) did a study on the influence of employee compensation on employee performance in selected sugar companies in Western Kenya. Research findings revealed that employee compensation influences employee performance. The research findings contributed to the formulation of human resource practice policies by sugar firms and human resource professionals.

Alliu, et al (2023) focused on employee Compensation Management and Organisational Performance of Selected Deposit Money Banks in Lagos State, Nigeria. The study employed a cross-sectional survey research design. Employee compensation management has a positive significant effect on profitability, indicating that profitability is a determining factor in employee compensation management. This finding also implies that the improvement in profitability triggers an increase in the performance of selected deposit money banks in Lagos State, Nigeria. The overall results provided statistical evidence of a positive correlation between employee compensation management and the organisational performance of the deposit money banks in Lagos State, Nigeria.

Gap in Empirical Review

The empirical study reviewed indicated that several studies have been conducted globally with commendable attempts at providing different results on employee compensation management and performance of firms. None of the empirical studies examined Compensation and Employee Performance of Pharmaceutical Firms in Nigeria (2013-2022). The present study however, tried to provide empirical evidence on the possible link between Compensation and Employee Performance of Pharmaceutical Firms in Nigeria between 2013-2022.

3.0 METHODOLOGY

Research Design

To evaluate the Compensation and Employee Performance of Pharmaceutical Firms in Nigeria, the study will adopt *ex-post facto* research design. As the name implies, *ex-post facto* means "after the fact" or "retrospectively". Thus, it is a systematic empirical study or studies which investigate possible cause-and-effect relationships by observing an existing condition and searching back in time for plausible causal factors. Therefore, it is a form of descriptive research.

Area of the Study

The geographical base of this study is Nigeria and concentrates on pharmaceutical firms. The sector is one major driver of the economy and it occupies a strategic position in the Nigerian economy as a strong source of provider of public revenue. This sector is made up of four listed companies in the Nigerian Exchange Group (NGX). The study covers the period from 2013-2022.

Sources of Data

Basically, secondary sources of data were extensively used in this study. This is due to the nature and demands of the hypotheses we put forward for investigation and empirical validation. The study used only secondary data extracted from the Annual Reports and statement of accounts of the pharmaceutical firms.

Population of the Study

The population consists of all pharmaceutical companies listed on the Nigeria Stock Exchange between 2013 and 2022. The population of the study consists of nine pharmaceutical firms in Nigeria.

Sample Size Determination/Technique

The sample size consists of five pharmaceutical firms listed in Nigeria Exchange Group. The study adopted a cluster sampling technique. It enabled the researcher to sample items of a population that meets up the data availability criteria. The researcher first clustered the pharmaceutical firms that met up with complete data requirements from 2013-2022. The Pharmaceutical sector chosen was because of its importance in the national healthcare delivery, and their survival was of great benefit to the healthcare system and wellbeing of the people of the country. The selected firms were May & Bakers, GlaxoSmithKlein, Fidson, Neimeth, and Pharmadecko.

Model Specification

The basic model estimated is stated thus as adopted from Gimba and Anyanwu, 2022.:

$PFY = \beta + \beta_1 SW_1 + \beta_2 DR_2 + \beta_3 STC_3 + + Ű$

Where;

PFY	=	Profit for the Year
SW	=	Salaries and Wages
DR	=	Director's Remuneration
STC	=	Staff Training Cost
β	=	Constant term (intercept)
μ	=	is the error term.

A-priori Expectation of the Result The explanatory variables are expected to have positive and direct effects on the dependent variables. That is a unit increase in any of the variables is expected to increase profit for the year of pharmaceutical firms. This can be expressed mathematically as a1, a2, a3,> 0.

Description of Variables

Dependent variable: Organisational performance (dependent variable). Organisational performance was measured by Profit for the Year.

Profit for the Year: Profit for the Year is the profit a business makes after subtracting all the costs that are related to manufacturing and selling its products or services. Profit for the Year = Revenue – Cost of Goods Sold (COGS).

Independent Variables:

Wages and salaries cost: This is the amount of money pharmaceutical firms in Nigeria spend in the payment of their staff. Wages and salaries in cash consist of such amounts payable at regular intervals, such as weekly, monthly or other intervals.

Directors' Remuneration: Directors' remuneration is the process by which directors of a company are compensated, either through fees, salary, or the use of the company's property, with approval from the shareholders and board of directors

Staff Training Cost: Training and Development cost refers to the amount of money spent by pharmaceuticals in training their employees.

3.8 Method of Data Analysis

This study adopted both descriptive and inferential statistical analysis. The statistical tool employed in the analysis is the Ordinary Least Squares (OLS) stated in the form of a multiple regression model. The regression analysis was applied to the regression models to measure, explain, and predict the linkage between the variables.

Decision Rule: Reject Ho if the p-value is less than 5% otherwise accept Hi

4.0 DATA PRESENTATION AND ANALYSIS

Data Presentation

Table 4.1: Descriptive Statistics

	PFY	SW	DR	STC
Mean	12594607	331382.1	45232.64	23158.06
Median	5462418.	72789.50	13683.00	8123.000
Maximum	42695383	1730447.	446332.0	65453.00
Minimum	2253389.	26221.00	1200.000	1094.000
Std. Dev.	13475455	424354.7	107180.5	24850.12
Skewness	1.304865	1.568205	3.161420	0.813835
Kurtosis	2.946546	4.871983	11.55686	1.871334
Jarque-Bera	10.22032	20.01208	169.7973	5.884796
Probability	0.006035	0.000045	0.000000	0.052739
Sum	4.53E+08	11929755	1628375.	833690.0
Sum Sq. Dev.	6.36E+15	6.30E+12	4.02E+11	2.16E+10
Observations	50	50	50	50

Source: Author's Compilation and Eviews Output version 9.0

From Table 4.1 the mean (average), maximum values, minimum values, standard deviation and Jarque-Bera (JB) Statistics (normality test) were shown. The results expressed in Table 4.1 helps to provide some insight into the nature of the compensation used in this study. First, it can be observed that on the average, in a 10-year period (2013 -2022), the sampled pharmaceutical. firms used for this study were characterised by positive Profit for the Year = 12594607. This is an indication that most listed pharmaceutical firms in Nigeria have a positive Profit for the Year (PFY)). Similarly, the table also shows that on the average during the period under study that Employee Training Cost was 23158.06. The average for Salary and Wages is 331382.1, the average for Directors' Remuneration is 45232.64, the average for Staff Training Cost is =23158.0. On the other hand, the maximum for Profit for the Year is 42695383 while minimum is 2253389, the Maximum and minimum for Salary and Wages is 1730447, 26221.0, respectively, the maximum and minimum Directors' Remuneration is 446332, 1200.00 while that Staff Training Cost is 65453.00, 1094.00

Table: 4.2 Correlation Analysis Results

	PFY	SW	DR	STC
PFY	1	0.7268107364906831	0.01118682626352193	0.6888118525065667
SW	0.7268107364906831	1	0.2619925217652027	0.3811184733368981
DR	0.01118682626352193	0.2619925217652027	1	-0.1612534777762048
STC	0.6888118525065667	0.3811184733368981	-0.1612534777762048	1

Source: Author's Compilation and Eviews Output version 9.0

Table above indicates, as an outcome of correlation analysis using the collected secondary data, that a positive and significant relationship exists between Salaries and wages, Directors Remuneration, Staff Training Costs and Profit for the Years. The strength of the relationship between these variables did not vary considerably. Wages and Salary has the highest positive relationship/ association with Profit for the Year than the other explanatory variable under study this portends that Wages and Salary could help managers to predict the performance of the pharmaceutical firms.

Test of Hypotheses

Test of Hypothesis One

Ho_1: Salaries and wages have no significant effect on the Profit for the Year of Pharmaceutical Firms in Nigeria

H_{ii}: Salaries and wages have a significant effect on the Profit for the Year of Pharmaceutical Firms in Nigeria

Table 4.3: Pooled Ordinary Least Square (OLS) Regression Result

Dependent Variable: PFY

Method: Panel Least Squares

Date: 08/02/23 Time: 13:52

Sample: 2013 2022

Periods included: 10

Cross-sections included: 5

Total panel (balanced) observations: 50

Variable	Coefficient	Std. Error	t-Statistic	Prob.
SW	**18.00312**	**3.374055**	**5.335750**	**0.0000**
DR	-7.888865	12.51428	-0.630389	0.5329
STC	250.8669	56.34204	4.452571	0.0001
C	1175940.	1857178.	0.633186	0.5311

R-squared	0.730014	Mean dependent var	12594607
Adjusted R-squared	0.704703	S.D. dependent var	13475455
S.E. of regression	7322735.	Akaike info criterion	34.55531
Sum squared resid	1.72E+15	Schwarz criterion	34.73125
Log likelihood	-617.9955	Hannan-Quinn criter.	34.61672
F-statistic	28.84151	Durbin-Watson stat	0.910691

Prob(F-statistic)	0.000000

Source: Author's Compilation and Eviews Output version 9.0

In table 4.3, R-squared and its adjusted R-squared values were (0.730014) and (0.704703) respectively. This is an indication that all the independent variables jointly explain about 70% of the systematic variations in Profit for the year of our quoted Pharmaceutical firms over the ten-year period (2013-2022) while 30% of the systematic variations are captured by the error term. The F-statistics of 28.84151 and its P-value of (0.000000) portrays that fact that the PFY regression model is not well specified.

Salaries and Wages based on the t-value of **5.335750** and P-value of **0.0000**, in table 4.3 was found to have a positive influence on the firm's profit for the year) and this influence is not statistically significant at 5% level of significance as the P-value is within 5% significance level. This result, therefore suggests that we should accept our alternate hypothesis one (H_1) which states that Salaries and wages have a significant effect on the profit for the year of Pharmaceutical Firms in Nigeria.

Test of Hypothesis Two

Ho_2: Director's remuneration has no significant effect on the Profit for the Year of Pharmaceutical Firms in Nigeria.

H_{ii}: Director's remuneration has a significant effect on the Profit for the Year of Pharmaceutical Firms in Nigeria.

Director's remuneration (DR), based on the t-value of -0.630389 and P-value of 0.5329, in table 4.3 was found to have a positive influence on the listed pharmaceutical firms' (profit for the year) and this influence is not statistically significant at 5% level of significance as the P-value is not within 5% significance level. This result, therefore, suggests that we should accept our null hypothesis two (H_{01}) which states that Director's remuneration has no significant effect on the Profit for the Year of Pharmaceutical Firms in Nigeria.

Test of Hypothesis Three

Ho_3: Staff training costs have no significant effect on the Profit for the Year of Pharmaceutical Firms in Nigeria.

Hiii: Staff training costs have a significant effect on the Profit for the Year of Pharmaceutical Firms in Nigeria.

ISSN: 2251-032X Volume 14, Issue 1, Pages 73 - 97: 2024

Staff Training Costs (STC), based on the t-value of 4.452571 and P-value of 0.0001, in table 4.3 was found to have a positive influence on the pharmaceutical firms' (profit for the year) and this influence is statistically significant at 5% level of significance as the P-value is within 5% significance level. This result, therefore, suggests that we should accept our alternate hypothesis three (H_{01}) which states that Staff training costs have a significant effect on the Profit for the Year of Pharmaceutical Firms in Nigeria.

Discussion of Findings

Salaries and wages and Profit for the Year

The result of the hypothesis revealed that Salaries and wages have a significant effect on the Profit for the Year of Pharmaceutical Firms in Nigeria. Evidence for the result is based on the regression result where t-value of 5.335750 and P-value of 0.000. This finding did agree with the result of Seidu Jiang & Korankye, (2020) explored the impact of compensation taking into consideration elements such as salary, rewards, incentives, and indirect compensations impact on employee's performance in AngloGold Ashanti Obuasi, Ghana. The results indicate that salary, rewards, incentives, and indirect compensations have a positive and significant impact on employee performance.

Director's remuneration and Profit for the Year

From hypothesis two, the result indicated that Director's remuneration has no significant effect on the Profit for the Year of Pharmaceutical Firms in Nigeria. The regression result where the t-value of -0.630389 and P-value of 0.5329 affirm this effect. The result is not supported by the result of Aliku et al. (2020) who investigated the effect of compensation employees on employee performance in the manufacturing industry and focusing on Lagos State, Nigeria. Generally, the study found that all the independent variables (Salary and Benefits Programmes) have a significant relationship with Employees Performance in the Manufacturing Industry.

Staff training costs and Profit for the Year

Data for hypothesis three revealed that Staff training costs have a significant effect on the Profit for the Year of Pharmaceutical Firms in Nigeria. This is based on the t-value of 4.452571 and P-value of 0.0001, in table 4.3. This result is in agreement with the result of Alliu, Fatai & Babatunde (2023) whose results provided statistical evidence of a positive correlation between employee compensation management and the organisational performance of the deposit money banks in Lagos State, Nigeria.

Summary of Findings

The following were the findings of the study:

1. Salaries and wages had a significant effect on the Profit for the Year of Pharmaceutical Firms in Nigeria. (This is where the t-value = 5.335750 and P-value = 0.0000.
2. Director's remuneration had no significant effect on the Profit for the Year of Pharmaceutical Firms in Nigeria. (This is where t-value = -0.630389 and P-value = 0.5329).
3. Staff training costs had a significant effect on the Profit for the Year of Pharmaceutical Firms in Nigeria. (This is where the t-value of 4.452571 and P-value of 0.0001)

Conclusion

The regression result indicates that salaries and wages, and staff training cost significantly affect the profit for the year of the pharmaceutical firms in Nigerian pharmaceutical firms in Nigeria while directors' remuneration did not influence the profit for the year. The study concluded that employee compensation contributed significantly to the financial performance of pharmaceutical firms in Nigeria. The study implication is that appealing compensation packages can only sustain continuous growth through motivating and driving people to increased production. The result further indicated that steady and consistent growth can only be sustained through attractive compensation packages to motivate and drive employees to higher productivity.

Recommendations

From the findings of the study, we recommend the followings;

1. The study recommended that pharmaceutical firms should formulate, create, administer and continuously implement good compensation policies that would allow them retain their talented employees. This will impact positively and significantly on their profitability and consequently on their share price value.
2. Organisations management should ensure that their compensation packages are competitive with what is obtainable from their peers and should also be dynamic through periodic reviews.
3. The compensation management structure should include new and enticing ways to retain and motivate employees with a wide range of benefits designed to encourage individual efforts. For instance, pharmaceutical firms may use various methods to support the education of their employees.

Contribution to Knowledge

The study contributed to a deeper understanding of the effect of compensation on the performance of pharmaceutical firms in Nigeria. The study developed a model based on three frameworks: Salaries and Wages, Directors' Remuneration and Staff Training Costs. Whenever the various financial and non-financial compensation packages get staff to be satisfied with their job, it makes them committed as well to the organisation. This is then translated into a significant increase in their work performance.

Suggestion for Further Research

The following areas are believed to be areas where further research can be undertaken;

i. Compensation management and employee job satisfaction: A case of Nigeria.

ii. The impact of board characteristics on firm performance:

References

Abdul, H., Muhammad, R., Hafiz, M.K.Z., Ghazanfar, A. & Muhammad, A. (2014). Impact of compensation on employee performance (empirical evidence from banking sector of Pakistan). *International Journal of Business and Social Science,* 5(2), 302-309.

Abdul-Jaleel S. & Millan A. T. (2017). Effects of compensation on the work performance of junior staff of the university of cape coast, Ghana. *International Journal of Academic Research in Business and Social Sciences.* 7, (9) 244-257.

Adams, J. S. (1963). Toward an understanding of inequity. *Journal of Abnormal Psychology,* 67, 422- 436.

Adeniyi, A. O. (2013). Salary and wages and employee motivation in the Nigerian service industry. *Scottish Journal of Arts, Social Sciences and Scientific Studies, 2(2), 89-98.*

Afriyie, E.O. Twumasi, A. Sarpong,E & Darko. L.O (2020). The Effect of Compensation on Employees' Performance: A Case of a Technical University in Ghana. *International Journal of Managerial Studies and Research* (IJMSR) 8, (6), 44-54

Akter, N. & Moazzam, H. (2016). Effect of compensation on job performance: An empirical study. *International Journal of Engineering Technology, Management and Applied Science.* 4, (8),

Ali, M., & Raza, S. A. (2015). Factors affecting to select Islamic Credit Cards in Pakistan: The TRA *Model. MPRA Paper No. 64037,* University Library of Munich, German.

Ali, P. (2009). Job satisfaction characteristics of higher education faculty by race. Afr. J. Bus. Manage, 4(5): 289-300.

Aliku, I. H., Morka, T. O., Igemohia, F. (2020). Compensation management and employee performance: Manufacturing industry in focus. *Palarch 's Journal of Archaeology of Egypt/Egyptology* 17(7), 8792-8810.

Alliu, F. O. & Babatunde Hamed A. (2023). Employee compensation management and organisational performance of selected Deposit Money Banks in Lagos State, Nigeria. *International Journal of Research and innovation in Social Science* (IJRISS) ISSN No. 2454-6186 | DOI: 10.47772/IJ

Al-Matari, A., Al-Swidi, F. F., & Al-Matari, Y. (2012). The impact of board characteristics on firm performance: Evidence from non-financial listed companies in Kuwaiti Stock Exchange. *International Journal of Accounting and Financial Reporting,* 2(2), 310-332.

Armstrong, M., & Brown, D. (2013). Relating competencies to pay: The UK experience. *Compensation & Benefits Review*, *30*(3), 28-39.

Berman, E. M., Bowman, J. S., West, J. P., & Van-Wart, M. R. (2015). Human resource management in public service: Paradoxes, processes, and problems. Thousand Oaks, CA: Sage Bhatti, K. K., & Qureshi, T. M. (2007). Impact of employee participation on job satisfaction, employee commitment and employee productivity. *International Review of Business Research,* 3, 54 – 68.

Bob, N. (2011). Making employees suggestions count. *Journal of personnel Management* 17, 20 -41.

Cascio, W.F. (2006). Managing Human Resources: Productivity, Quality of Work Life, Profits. McGraw-Hill/Irwin, Avenue of the Americas, New York, NY, 10020.

Chaudhary, N., & Sharma, B. (2012). Impact of employee motivation on performance (productivity) in private organization. International Journal of Business Trends and Technology, 2(4), 32-36.

Creswell, J.C. (2007). The influence of Human resource management on retention of the core employees: An empirical study. (Unpublished PhD *thesis*, Murdock University).

Dessler, G. (2011). Human Resource Management. 12th ed. New Jersey: Prince Hall.

Falola H. O., Ibidunni A. S, Olokundun A. M. (2014). Incentives packages and employees' attitudes to work: a study of selected government parastatals in Ogun State, South-West, Nigeria. *International Journal of Research in Business and Social Science IJRBS*, 3(1), 2147-4478.

Greenberg, R. J. (1987). The Role of employee ownership in the total rewards strategy. Compensation and Benefits Review, 19, 1-4.

Hsin-His, L. (2011). The influence of compensation system design on employee satisfaction. *African Journal of Business Management*. 5(26), 10718-10723

Ibhagui, O. W., & Olokoyo, F. O. (2018). Leverage and firm performance: New evidence on the role of firm size. The North American Journal of Economics and Finance, Elsevier, 45(C), 57-82.

Igbaekenem, B. (2014). Compensation Management Strategies, Journal of Personnel Administration, 18;13-27

Jayachandran, H. S. & Seika, K. (2010). Impact of economic performance on organisational capacity and capability. A case study in airline industry. *International Journal of Business and Management*, 8(17), 112.

Jemima A. O. (2021). Effect of organizational compensation and reward system on employee performance at Kenya revenue authority.

Jenaibi, A.J. (2010). Factors influencing market and entry mode selection: Developing the MEMs model. *Marketing Intelligence and Planning,* 19(5), 351-361.

Jenatabadi, H. S. (2013). Impact of economic performance on organisational capacity and capability. A case study in airline industry. International Journal of Business and Management, 8(17), 112

Kelman, S., & Hong, S. (2016). 'Hard, 'soft, or 'tough love' management: What Promotes successful performance in a cross-organisational collaboration. International Public Management Journal, 19, 141-170.

Kidagisa, F. C., & Mukanzi, C. (2021). Influence of employee compensation on employees' performance at selected sugar companies in western Kenya. *The Strategic Journal of Business & Change Management,* 8 (2), 133 – 144.

Long, R.J. (2017). *Strategic compensation in Canada* (3rd ed.), Toronto: Thomson Nelson.

McNamara, C. (2020). Workers benefits and compensation (Workers Pay). Retrieved on August, 2020 from https://managementhelp.org/payandbenefits/index.htm

Mello, A. (2007). Hourly employee retention in small and medium attractions: the Central Florida example. *International Journal of Hospitality Management,* 22(2), 17-35.

Mikovich, G.T. and Newnaan, J.M (2008) Compensation New Yoke: MC Graw-hill.

Oboreh, L. E. & Arukaroha, J. (2021). Effect of reward on organizational performance in universities in Edo State. *International Journal of Innovative Social Sciences & Humanities Research* 9(2):96-104, April-June, 2021

Okoye, V. C. (2020). Compensation and Organizational Performance, a Study of Muoka Foam Lagos. *International Journal of Business Systems and Economics*, 13(5) 225 – 234

Omuya, J.M (2018). The influence of compensation and rewards on employee performance in public universities in Kenya. *International Journal of Economics, Commerce and Management.* 5 (3), 700-736

Ongori, T.S. (2008). Reward System and performance within Malaysian manufacturing companies. *World Applied Science Journal,* 19(7), 1009-1017.

Onuorah, A. N., Okeke, M. N., & Ikechukwu, I. A. (2019). Compensation Management and Employee Performance in Nigeria. *International Journal of Academic Research in Business and Socal Sciences*, *9*(2), 384–398.

Owino, A., & Kibera, F. (2015). The influence of organisational culture and market Orientation on performance of microfinance institutions in Kenya. *Journal of Business Administration,* 2, 132-138

Rishipal, R.R. & Manish, G. (2013) .Do human resources management practices impact employee satisfaction, commitment or retention? (Unpublished Master's *Thesis*, University of Agder).

Schell, C.M. & Solomon, J.M. (2017). Charismatic leadership and task feedback: A laboratory study of their effects on self-efficacy and task performance. *Leadership Quarterly*, 10(3), 375-396.

Seidu M., Jiang X., & Korankye, B (2020). Exploring the impact of compensation on performance of employees: A case study of AngloGold Ashanti Obuasi, Ghana. *International Research Journal of Advanced Engineering and Science.* 5, (4), 216-225

Smith, G, K., & Brian, H. (2015). Differences in corporate cultures and their relationship to organisations effectiveness. *Leadership Organisation Development,* 8(5). 59.

Widmier, B. (2002). Executive compensation schemes in the banking industry: a comparative study between a developed country and an emerging economy', *Academy of Accounting and Financial Studies Journal*, vol. 13, no.2, pp. 19-33.