IMPACT OF GOVERNANCE AND COMPENSATION PRACTICES ON THE PERFORMANCE OF FINANCIAL SECTOR. A CASE STUDY OF FIRST BANK PLC.

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Abstract
This paper examined the governance and compensation practice on financial sector with particular reference to First bank Plc, Lagos state. To achieve the objectives set for the study, questionnaires were used to elicit the needed information from the target respondents of Fist bank Plc. A study population of 2,836 with a sample size of 351 staff gotten through Taro Yamani sample size determination formula made up the respondents from the study. Two hypotheses were formulated and tested. The statistical technique used was multiple regression analysis. The result shows that a statistically strong and positive relationship exists between transparency and competitive advantage (R square = 0.673 p < 0.05), and that incentives have significant influence on employee performance (R square = 0.801 p < 0.05). This result is statistically significant as the p-value of the results (0.000) is less than 0.05 level of significance set for the study. The study concluded that transparency has a strong and significant impact on competitive advantage and incentives affect employee performance. Therefore, the study recommended that organizational managers should increase transparency that creates trust between employers and employees, helps improve morale, and also lowers job-related stress to gain competitive edge above rivals.

Keywords: Compensation Practices, Financial Sector, Governance, and Performance**.**

1. Introduction

In the age of global competition, it is very essential to identify and retain the efficient, competent and knowledgeable employees in organization by developing and maintaining an effective compensation program for getting the best job performance from the employee (Akter & Moazzam, 2016). Employees are the organization's key resource and the success or failure of organizations center on the ability of the employers to attract, retain, and reward appropriately talented and competent employees. Employees' willingness to stay on the job largely depends on compensation packages of the organization (Armstrong, 2003). In an attempt to ensure employees optimal performance and retention, organizations need to consider a variety of appropriate ways to reward the employees to get the desired results (Falola, Ibidunni & Olokundun, 2014). It has been argued that the degree to which employees are satisfied with their job and their readiness to remain in an organization is a function of compensation packages and reward system of the Organization (Fadugba, 2012).

However, the absence of a structured governance system had resulted in a mismanagement of organization's compensation programs riddled with corporate fraud, dishonesty and a host of numerous corporate scandals. Globalization and information technology has made the governance of firms complex but at the same time relevant, because corporations have become powerful in that information can now be relayed faster than before across the world. Accountability has become more important. The recent developments in corporate governance reveal that the phenomenon now recognize the rights of not only the shareholders, but also of others who are touched by the actions of corporations (Stiglitz, 2006).

A bank's failure to follow good practices in corporate governance and the lack of effective governance of compensation packages are among the most important internal factors which may endanger the solvency of a bank (Adams, 2009). Also, Monika (2012) posits that weak and ineffective corporate governance mechanisms in banks are pointed out as the main factors contributing to the recent financial crisis. The internal factors that needs attention in any organization are the constitution and accountability of board, risk management, management remuneration, and transparency. These factors if properly handled would curtail bank failure.

Corporate governance is being challenged by increasingly fluid and global market places. Recently, accounting scandals and the corporate crisis involved have moved the corporate governance debate to the forefront of public policy. In the aftermath of these crises, financial institutions and banks in particular, are expected to play an active gatekeeper role monitoring the behaviour of their corporate clients (Adams, 2009). This evolution necessarily brings into focus the corporate governance of the monitoring banks themselves, as its also evolves within the rapidly changing financial landscape. Moreover, in order to discourage corruption and fraud in Nigeria, the Securities and Exchange Commission (SEC) in collaboration with the Corporate Affairs Commission (CAC) established codes of best practice on corporate governance to protect shareholders' rights and promote ethical conduct of businesses (Shleifer & Vishny, 1997). Thus, the major issue to be addressed in this study is whether corporate governance principles and compensation practices affect the performance of the financial sector.

Organizational performance comprises the actual output or results of an organization as measured against its intended outputs or goals and objectives. It encompasses three specific areas of firm outcomes: (a) financial performance (profits, return on assets, return on investment, etc.); (b) product market performance (sales, market share, etc.); and (c) shareholder return (total shareholder return, economic value added, etc.). Organization performance has gained increasing attention in recent decades, being pervasive in almost all spheres of the human activity (Richard, 2009). The need to improve the performance of banking sectors has led the researcher to examine the governance and compensation practice in financial sector a study of First Bank, Lagos State, Nigeria. The incidence of high profile corporate failures in recent times, as a result of poor corporate governance culture inherent in organizations which are entities that create economic value have spurred the need for the establishment of codes of corporate governance/best practices. This enhances management performance, increases investor confidence and prevents situations that will reduce shareholders value, waste and inefficiency (Geraldine, John & Effiong, 2017).

An organization that fails to incorporate good corporate governance and compensation practices into its policies would face problems such as; lack of transparency and low employees' incentives. The inability of an organization to lead with transparency allows

for both employee and employer expectations not to be fulfilled which will in turn leads to low competitive edge above competitors. This leads one to question the effect of transparency on competitive advantage in the financial sector. At the time, incentives are a great way to ensure that firm employees stay motivated to do their job to the best of their abilities. Failure to provide employees' incentives usually leads to decrease in job satisfaction which will in turn reduce customers' satisfaction. This too, also question on what extent does employees' incentives affect employees' performance? In order to answer these questions, this paper investigates the impact of governance and compensation practice on performance of financial sector: of First Bank Nigeria PLC.

This paper is structured into five sections, following the introductory section, is section two which is the literature review, methodology is in section three, section four is the findings and discussions and section five is conclusion and recommendations.

2. LITERATURE REVIEW

2.1 Conceptual Literature

2.1.1 Concept of Compensation Practice

Compensation practice is what employees receive in exchange for their contributions to the organization. It is a comprehensive term which includes pay, incentives and benefits offered to the employees. Compensation is a systematic approach to providing monetary value to employees in exchange for work performed (Surya, 2010). Compensation packages entail some basic features that tend to make employees satisfy on their job amongst which includes salaries, bonuses, incentives, allowances, promotion, recognition (Werner, 2001) All these have significant impact on employees' performance (Martineau, Lehman, Matwa, Kathyola & Storey, 2006). However, to avoid wrong perception and controversy by the employees, compensation system must be clearly communicated to employees with job measurement which will drive the much needed performance in the employees (Yamoah, 2013). Hsin-His, (2011) posit that compensation is a significant tool in human resources. An effective compensation system design significantly influences organizational development by revealing external competitiveness, internal equity and individual equity. 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 (Hsin-His, 2011). Although compensation means something different to individuals, organizations and society, it is important to all. For individuals, compensation is not only the return of benefits, but it also reflects on individuals' capabilities or achievements (Ali, 2009). For organizations, 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 symbolizes social equity and justice (Hsin-His, 2011).

2.1.2. Concept of Corporate Governance

The Organization for Economic Cooperation and Development (OECD) (2000) asserts that the distribution of responsibilities and rights among different participants in the corporation such as managers, the board, shareholders and stakeholders are specified by the corporate governance structure. OECD (2000) also gives a summary on corporate governance highlighting that it is about accountability, transparency, responsibility and power distribution within an organization. Fisher (2011) also points out that corporate governance is a set of customs, processes, laws, policies, affecting the way a company is heading for, controlled and administered. Corporate governance characteristics are statutory requirements that protects outside shareholders from expropriation by administrators, insiders or managing shareholders. Where such mechanisms are in non-

existence, difficulties of monitoring are suffered by outside investors while administrators or managers may misuse organizational assets at the expense of small shareholders and this will impact on the long run performance of firms (Rezaee, 2013) Corporate governance is basically concerned with building trust, ensuring accountability and transparency as well as maintaining an effective channel of information disclosure which helps to bridge the gap between information available to directors and the information available to stakeholders thereby helping to resolve the agency problem and foster good performance of firms (Rogers, 2008).

2.1.3. Concept of Transparency

In simplest terms, transparency means having nothing to hide. For a company, this means it allows its processes and transactions observable to outsiders. It also makes necessary disclosures, informs everyone affected about its decisions, and complies with legal requirements. Transparency is a critical component of corporate governance because it ensures that all of a company's actions can be checked at any given time by an outside observer. This makes the processes and transactions verifiable, so if a question does come up about a step, the company can provide a clear answer which would in turn make it to gain edge above its competitors in the industry (Roman, 2014).

2.1.4. Concept of Employee Incentives

Incentives are rewards and benefits used to motivate positive behaviours in workforce. It is designed to attract, engage, and retain talent. Incentives help boost employees' morale and drive engagement which in turn increases the employees' performance (Kellie, 2020).

2.1.5. Concept of Employee's Performance

Employee performance is defined as how an employee fulfills their job duties and executes their required tasks. It refers to the effectiveness, quality, and efficiency of their output. Generally, employee performance can be measured by speed and efficiency, quality and depth, and trust and consistency (Lia, 2019).

2.1.6. Concept of Competitive advantage

Competitive advantage refers to factors that allow a company to produce goods or services better or more cheaply than its rivals. These factors allow the productive entity to generate more sales or superior margins compared to its market rivals. Competitive advantages are attributed to a variety of factors including cost structure, branding, the quality of product offerings, the distribution network, intellectual property and customer service (Alexandra, 2021).

2.2. Theoretical Literature Review

2.2.1. Equity Theory

Buchan, Ball and O'May (2000) on equity theory posits that because employees in organizations expect to be rewarded like other employees for similar levels of input, the distribution of rewards becomes important. Equity theory in itself focuses on determining whether the distribution of resources is fair to both relational partners. The idea of the theory is that it proposes that individuals who perceive themselves as either under-rewarded or over-rewarded will express distress, and this distress leads to efforts to restore equity within the relationship. It is the perceived equity of the effort-reward balance that is important in determining the employees' level of motivation. Aswathappa (2007) opines that the theory emphasizes equity in pay structure of employees' remuneration. employees' perception on how they are being treated by their firms is of prime importance to them. The dictum "a fair day work for a fair pay" denotes a sense of equity felt by employees. When employees perceive inequity, it can result in lower

productivity, high absenteeism or increase turnover. The shortcomings of this theory is that it does not make any predictions about overpayment conditions and how employees or individuals are going to handle those specific conditions.

2.2.2. Ethical Theory

Ethical theory is a build-up on the concept of ethics in general. The term ethics comes from the Greek word "ethos" meaning morals. Morality is the whole of opinions, decisions and actions with which people express what they think is good or right. Business ethics is a study of business activities, decisions and situations where businesses wrongs and rights are addressed. Schofield (2006) notes that ethical theory sometimes focuses not on actions but majorly on consequences. The consequence of actions is measured against values such as happiness, welfare, high productivity and expansion. The cardinal point in this theory is that, it is essential to give the greatest happiness to the greatest number of people. Crane and Matten (2007) observed that business ethics help to identify benefits and problems associated with ethical issues within the firm. The shortcomings of this theory is that it does not clarify how to rank duties, which can create insoluble dilemmas.

2.3. Empirical Literature Review

Babagana & Dungus (2015) examined the effects of staff remuneration on the performance of Ramat Polytechnic Maiduguri students from 1995-2011 in Borno state. Questionnaire was served to 45 respondents who are academic staff of the polytechnic from the five schools within the polytechnic (school of environmental studies, school of engineering and applied science, school of agricultural science and technology, school of management studies, and school of vocational and technical education). The data was analyzed using Pearson's Product Moment correlation and regression analysis using icrosoft excel. The findings showed strong positive relationship between staff remuneration (fringe benefits and staff nature of working conditions) and performance of Ramat Polytechnic Maiduguri students.

Adebayo, Ibrahim & Yussuf (2014) investigated the relationship between corporate governance and the performance of organizations. It adopts quantitative methodological framework through which the primary data collected were analyzed using both Regression analysis and Karl Pearson's correlation techniques to find the relationship between corporate governance and organizational performance on one hand and the degree of relationship between corporate governance and organizational performance. The findings show that large board size, board skill, management skill, longer serving CEOs, size of audit committee, audit committee independence, foreign ownership, institutional ownership, dividend policy and annual general meeting are positively associated with the performance of organizations. Organizations are encouraged to adopt good corporate governance practices to improve their performance and also to protect the interest of the shareholders.

Also, looking at the work of Geraldine, John, & Effiong, J (2017) on Corporate Governance and Organizational Performance: Evidence from the Nigerian Manufacturing Industry. They investigated corporate governance and organizational performance with emphases on the Nigerian manufacturing industry. The survey research design was used and ordinary least regression technique was used in analyzing the data. The finding shows that board size, board composition and audit committee have significant effect on return on capital employed.

Summarily, from the review of the few related literature, it was seen that the absence of a

very specific structured governance system was really missing in all the reviewed articles. This may be the problem of organization's compensation programs that usually riddled with corporate fraud, dishonesty and a host of numerous corporate scandals. However, organizations who fail to integrate corporate governance with specific good compensation practices will not achieve its objective of transparency and fair incentives program for employees which will in turn decreases the organizational performance.

3. METHODOLOGY

3.1. Research design

This study investigated the impact of governance and compensation practice in the financial sector with particular reference to First Bank Nigeria plc. A survey research design were employed for study. This type of research design is used to structure research process for eliciting useful information, especially where data must be collected from a defined population to describe the present condition of the population of 2,836 staff using the variables under study.

3.2 Population of the study

Population refers to an aggregate or totality of all objects, subjects, or member that confirm to a set of specification. To realize the objectives of this paper, the target population was restricted to all staff of First Bank Nigeria Plc in Lagos state Nigeria and they will be contacted to participate in the survey. The bank was selected for the research because of its relevancy to the study and they have more knowledge and information that can assist the researcher better than other banks which will assist in achieving the research objectives.

However, according to the HR department of First Banks Nigeria Plc Marina road Lagos Island the total number of First Bank branches in Lagos state is 141 and total number of staff as at 2021 is 2,836 (Human Resource Department, First Bank Nigeria Plc)

3.3. Sample Size and Sampling Techniques

This research used simple random sampling techniques to select the respondents and this was achieved by using the Taro Yamene's formula. The formula is stated has:

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

$$= \frac{2,836}{1 + 2,836(0.05)^2}$$

$$= \frac{2,836}{1+0.17}$$

$$= \frac{2,836}{8.09}$$

$$n = 351$$

Thus, for the purpose of this research, a sample size of three hundred and fifty-one (351) were chosen from the population of First Bank Nigeria PLC in Lagos state, Nigeria.

3.4. Method of Data Collection Method

Data were generated through primary and secondary sources to meet the objectives of the study. A structured questionnaire is the study's main research instrument. Three hundred and fifty-one copies of Questionnaire were administered to the staff of First Bank Nig Plc in Lagos state Nigeria. Secondary data were generated from journals and article related to governance and compensation practice in the financial sector. The respondents were given one week to complete the questionnaire. The one week given to allow for the filling of the questionnaire was to enable the respondents have enough time to study the questionnaire and fill them properly.

3.5 Model Specification

To realize the objectives of the study, the estimated model is stated below;

$EP= \beta_0+\beta_1 PS+\beta_2 B+\beta_3 RB$

Where:

EP= Employees performance (dependent variable)

$B_1 \ldots \beta_3$= coefficient

B0= constant

PS= profits sharing

B= Bonuses

RB= Retirement benefits

3.6. Research hypotheses

In line with the research objectives of the study, the following hypotheses are stated in null form:

iii. Transparency does not have any significant effect on competitive advantage of First Bank PLC.
iv. Employees' incentives do not significantly affect employee's performance of First Bank PLC.

4. FINDINGS AND DISCUSSIONS

The main objective of this study is to examine the governance and compensation practice in financial sector with particular reference to First bank Plc, Lagos state. Other specific objectives are: 1. To investigate the effect of transparency on competitive advantage and, 2. To determine the impact of incentives on employee performance.

Table 1: Model Summary of Transparency and competitive advantage

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.821	.673	.653	.550

a. Predictors: (Constant), Transparency
b. Dependent variable, competitive advantage

The results of hypothesis one as shown in the table one indicates the influence of transparency on employees' performance. Looking at the Table, the R^2 computed at 0.673 shows that 67.3% variation in competitive advantage can be explained by transparency of the firm. The remaining 32.7% is due to other variables that are not captured in the model.

Table 2: Coefficients of sub variables of transparency on competitive advantage

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std.Error	Beta		
(Constant)	.676	.428		1.581	.000
Timeliness	. 942	.017	.916	55.998	.000
Reliability	.126	.054	.038	2.341	.020
Clear procedures	.060	.044	.022	1.371	.042

Source: Authors printout (2021). SPSS 25 output

a. predictors (constant): timeliness, reliability, clear procedures
b. dependent variable: competitive advantage

Table 2 above indicates that timeliness, reliability, and clear procedures have significant effect on employees perform competitive advantage and since p-value of 0.000, 0.020, and 0.42 was derived respectively at $p< 0.05$. This implies that transparency have significant impact on competitive advantage.

Table 3: Model Summary of employees' incentives and employees' performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.895[a]	.801	.800	.284	.756

Source: SPSS 25 out version 25
a. Predictors: (Constant), employees' incentives
b. Dependent Variable: employees' performance

The results of hypothesis two as shown in the table 3 indicates the effect of employees' incentives on customers' satisfaction. Looking at the Table, the R^2 computed at 0.801 shows that 80.1% variation in employee's performance can be explained by employee's incentives. The remaining 19.9% is due to other variables that are not captured in the model.

Table 4: Regression Coefficients of employees' incentives sub-variables and Employee's Performance.

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std.Error	Beta		

(Constant)	.861	.312		2.756	.006
Timeliness	. 528	.035	.535	15.242	.000
Reliability	.379	.034	.392	11.171	.000
Clear procedures	.055	.049	.021	14.140	.000

Source: SPSS 25 out version 25

a. predictors (constant): profit sharing, bonuses, retirement benefits
b. dependent variable: employees' performance

Table 4 above indicates that profit sharing, bonuses, retirement benefits all have significant effect on employees' performance since p-value of 0.000, 0.000, and 0.000 was derived respectively at $p< 0.05$. This implies that employees' incentives have significant effect on employees' performance.

5. CONCLUSION AND RECOMMENDATIONS

It was discovered from the findings that the adoption of good corporate governance practices enhances transparency of company's operations, which in turn helps organization's to gain edge above its rivals. It also helps to protect the interest of the workers by providing them with incentives used to improve their performance effectively and efficiently. The results show that generally corporate governance and good compensation practice has positive impact on all the performance indicators of an organization. Based on the above conclusion, the following were recommended:

i. Organizational managers should increase transparency that creates trust between employers and employees, helps improve morale, and also lowers job-related stress to gain competitive edge above rivals.
ii. They should also continue to incentivize their workers by sponsoring conferences on leadership with the aim to increase their performance effectively and efficiently.

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