



Ogochukwu Augustine Isimoya

Department of Actuarial Science & Insurance
Faculty of Management Sciences
University of Lagos, Lagos, Nigeria
ogochukwuisimoya@gmail.com

Olubayo Thomas Olajide

Department of Business Administration
Faculty of Management Sciences
University of Lagos, Lagos, Nigeria
bayolajide2005@yahoo.com

Akinwunmi Kunle Onafalujo

Department of Insurance
Faculty of Management Sciences
University of Lagos, Lagos, Nigeria
onafalujo@yahoo.com

Performance Related Pay and Organizational Commitment – evidence from Nigeria

doi: 10.22367/jem.2018.34.03

Accepted by Editor Ewa Ziembra | Received: January 18, 2018 | Revised: March 29, 2018; May 23, 2018; June 15, 2018; July 5, 2018; July 17, 2018; August 14, 2018 | Accepted: September 12, 2018.

Abstract

Aim/purpose – The study examined the causal relationship between Performance Related Pay (PRP) and Organizational Commitment (OC) in the Nigerian insurance industry.

Design/methodology/approach – The study adopted a quantitative research approach to validate the relationship; through the administration of structured self-report questionnaire to the senior staff in Nigerian insurance industry. A sample size of 217 respondents completed the questionnaire and data was quantitatively analyzed using descriptive statistics, Pearson correlation and multiple regression analysis.

Findings – Results of the study show that PRP components, like Merit-Based Pay (MBP) Performance Appraisal (PA) and Supervisor's Support (SS) were correlated moderately and positively with affective OC, at 95% confidence level. In addition, the regression analysis revealed that variances in OC dimensions – affective, continuance and normative-respectively, were explained by the variance in PRP components (MBP, PA, and SS).

Research implications/limitation – The study revealed that PRP is positively correlated with OC in the Nigerian insurance industry. Thus, insurance management should motivationally reward their talented employees to earn their commitment. However, the study only focused on insurance industry.

Originality/value/contribution – Empirically, the study attempted to quantify the causal relationship between PRP and OC in Nigeria. The results of the study suggest that PRP strongly predicts OC in the Nigerian insurance industry.

Keywords: Organizational Commitment (OC), Performance Related Pay (PRP).

JEL Classification: M, M12, M52.

1. Introduction

In this dynamic and globally competitive business environment, organizational reward assumes a strong commitment. Organizational Commitment (OC) is described as a force that binds an individual to a course of action and a psychological attachment to one's job (Mohamed & Ali, 2016). It is a reflection of employees' acceptance of organizational goals and is considered a central variable (Ramogale, 2016) because committed employees are likely to devote higher efforts to work which contributes to their performance. Furthermore, Khan (2015) argued that OC leads to performance and generates sustainable competitive advantage which is a product of motivational reward. Thus, a motivational reward system that is based on employees' skills and capabilities is essential for organizational success in Nigeria. The above is the genesis of Performance Related Pay (PRP) which is a generic term for rewards system in which individuals are rewarded based on their performance (The Association of Chartered Certified Accountants [ACCA], 2013).

Research to date, tend to focus on human resource (HR) practices (employment security, high compensation, self-managed team, etc.) and job characteristics (skill variety, task identity, task significance, autonomy, etc.) as the main determinants of OC (Mahal, 2012; Obi-Nwosu, Joe-Akunne, & Oguegbe, 2013; Tiwari & Saxena, 2012). However, contemporary researchers Rahman, Shahzad, Mustafa, Khan, & Qurashi (2015) and Al- Wahaibi (2016) in their recent studies identified organizational justice, managerial support, job satisfaction as major indicators of OC. Distributive justice, a component of organizational justice, which is concerned with the distribution of outcomes in a work context (wages, social approval, promotion, career development) that is proportional to inputs (education, training experience and efforts) is very important construct in human resource management based on equity principle (Adams,

1965). Despite the above, the extent to which PRP impacts on OC is not apparent in Nigeria. Issues of justice and fairness are key concerns to all employees who often gauge their rewards with their contributions to the organization or the rewards of their counterparts (Heidari & Saeedi, 2012). Furthermore, employees are more satisfied when they feel they are fairly rewarded for their input (Heidari & Saeedi, 2012). Thus, it can be reasonably assumed that perception of distributive and procedural justices may have effects on employees' job satisfaction and OC.

Although in the US and UK, PRP has been practiced since the 20th century (Henemann, 1992), not much is known about PRP in Africa (Maycock , 2009). This paper argued that the current process of minimum wage determination with trade union in Nigeria (Shilongo, 2013) is neither competitive nor motivational (ACCA, 2013) therefore, cannot effectively impact on OC. Thus, this study seeks to proper solution to the following research question: To what extent is PRP a predictor of OC in Nigerian insurance industry? The purpose of this study is to examine the relationship between PRP and OC among the senior staff of Nigerian insurance industry.

The study is further segmented into: Theoretical and relevant empirical literature, which sets out the hypotheses of the study, followed by the research methodology. Then, the results of the empirical research were considered and contributions to knowledge, managerial implications and future research direction were presented.

2. Theoretical framework and empirical studies

The expectancy theory propounded by Vroom (1964) underpinned this study. Although the theory does not suggest what organizational variables motivate workers, it is generally agreed, that the theory is concerned with cognitive antecedents of motivation. Accordingly, Lunenburg (2011) noted that expectancy theory is a cognitive process of motivation. It is based on the notion that employees believe that there are relationships between the efforts they put forth at work, the performance achieved from those efforts, and the reward they receive from the effort and performance. This implies that people will be motivated if they believe that strong effort will lead to good performance and good performance will lead to desired rewards. Thus, individuals will exert more efforts if they expect it will result in an outcome they value. In relation to performance-

-related pay, employees will work harder if they value monetary rewards and believe that those expected rewards, will result from increased efforts (Perry, Engbers, & Jun, 2009).

2.1. Organizational commitment

Organizational commitment is one of the most researched topics in industrial and organizational psychology due to its potential effects on organization and its employees (Kaul & Singh, 2017). It is seen as an attitude which manifests in the employee's psychological attachment to identification and involvement with the organization (Mowday, Porter, & Steers, 1982). It leads to pro-organizational attitudes and behavior, as committed employees are more motivated to take up additional responsibilities and even demonstrate pro-social behavior at work (Kaul & Singh, 2017). Kaul and Singh (2017) further observed that OC is negatively related to turnover, withdrawal cognition and turnover intentions.

From the perspective organizational behavior, OC is broadly classified into three major dimensions (Ismail & Abdullah, 2016). The first, Affective Commitment (AC) is often viewed as an employee emotional attachment to involvement in and psychological identification with an organization (Mc Shane & Von Glinow, 2015; Meyer & Allen, 1991). The second is Continuance Commitment (CC) which relates to employees desires to remain with an organization because of the awareness of risk or cost associated with leaving (Meyer & Allen, 1991), the last the Normative Commitment (NC) is viewed as an employee's wish to remain a member of an organization because he/she ought to. In summary when an employee possesses high levels of commitment in all the three dimensions, such can invoke a strong sense of attachment with the organization (Mc Shane & Von Glinnow, 2015), and negatively disposed to turnover and withdrawal cognition (Kaul & Singh, 2017). What then are the antecedents of OC? Meyer, Stanley, Herscovitch, & Tepohnytsky (2002) identified four categories after a wide meta-analysis. Firstly, OC is related to demographic variables like age, gender, education and length of service in the organization. The second group is work experience such as organizational support, career development, and role conflict and role ambiguity. The third group is availability of alternative jobs, transferability of knowledge and skills. The last antecedent group constitutes individual differences such as external locus of control, autonomy. Anttila (2014) found that age, career development, participation in decision making, a reward

system that takes culture into consideration, are important factors for organization commitment, while perception of insecurity is the most important factor affecting weak OC (Ruokolainen, 2014). According to Kaul & Singh (2017), predictors of OC such as leadership, psychological capital, personnel characteristics, organizational justice, etc., have been extensively studied. However, the impact of PRP on organization commitment remains much unknown particularly in Nigeria. Maycock & Salawudeen (2014) argued that instead of the inflexible reward practices, there is need for equality and fairness in the way staff is rewarded in Nigeria banks.

2.2. Performance Related Pay

Historically, the idea of using incentives to induce and influence performance reaches back to the era of scientific management propounded by F. Taylor (Kelly, 1996). Taylor in his study focused on the issue of ‘soldering of the work’ – concern with the restriction of output. He therefore observed it is the job of management to design incentives to overcome the phenomenon.

Research on PRP is relatively new in Nigeria. For instance, though linking pay to performance is what all employers increasingly desire to achieve (Boachie-Mensah & Dogbe, 2011), newly recruited employees are rewarded financially, on the basis of their entry qualifications and perceived value of their job analysis and evaluation (Boachie-Mensah & Dogbe, 2011). This is based on standardized human resource (HR) policies of pre-determined job grades and salary bands (Baldwin, 2006). Fosh (1998) as cited in Boachie-Mensah & Dogbe (2011) found in her studies on attitudes to income inequalities in East Africa, differences in paper qualifications were the most cited reason for pay differentials. PRP is a compensation scheme that links employee performance with pay. Armstrong (2005) defines it as the process of providing a financial reward to an individual which linked directly to the individual’s group or organizational performance. Equity consideration holds the philosophy that compensation should be fair and equitable, i.e., a balance between what employees contribute and what they get in return. Imbalance would lead to job dissatisfaction, employee turnover and absenteeism (Moragwa, 2013). In Nigeria, Falola, Ibidunni and Olokundun (2014) stated that incentive schemes are put in place by various organizations to compensate and reward employees who perform more than expectation. Incentive could be financial (external rewards), such as wages and salaries, cash bonus, promotion, free dinner, movie tickets, wall plaques etc. or non-

financial (internal rewards), such as autonomy, interesting work, development opportunities, participation in decision-making, etc. In work organizations there are many types of incentive schemes which are forms of PRP. Unison (2017) listed the following piecework, pay by results, organization-wide incentives, PRP, MP, competency based pay and profit related pay.

Merit-Based Pay (MBP). This is a form of reward by which individuals receive permanent pay increases as a function of their individual performance ratings (Heneman & Werner, 2005). As a particular form of PRP, merit pay has been frequently used in organizations (Schwab & Olson, 1990). It is arguably the most popular form of incentive pay (Scott, Shaw & Duffy, 2008) as recent surveys demonstrated that 80-90% organizations use MBP plans (Heneman & Werner, 2005); however, evidence concerning its success remains mixed (Gerhart & Rynes, 2003). MP unlike other forms of PRP permanently increases employee base pay (Park & Sturman, 2009), no wonder its popularity among employees (Scott et al. 2008).

Despite the ability of MBP to motivate employee's performance its effectiveness has been questioned (Schwab & Olson, 1990). Some researchers pointed out that organizations often fail to link MBP to employees' true performance due to measurement error associated with their performance ratings (Schwab & Olson, 1990). The findings of Boachie-Mensah and Dogbe (2011) revealed that the motivational effects of MP are often blunted by biased Performance Appraisal (PA) system.

Performance Appraisal (PA). This is the process by which an individual's work is assessed and evaluated (Bacal, 1999). All organizations face the challenge of how to assess, exploit and grow its human resource to make sure the organization's aim is fulfilled and that employees obtain as much satisfaction as possible from their work (Anderson, 2004). PA is essentially an opportunity for the individual employees, their supervisors and line managers who are concerned with their performance, to engage in a dialogue about their performance and with a view to enhancing their development.

Job PA could be continuous, e.g., daily or weekly, which requires effective communication between the employee and the supervisor. As a process, PA is seen as a key contributor to successful human resource management (Prasad, 2015), which is used for pay review, probationary review, promotion, and identification of development needs (Chuluunkhuu, 2010). The benefits of PA for the individual employees include among others: Constructive feedbacks, employees understanding organizational goals, increased motivation and job satisfaction (Chuluunkhuu, 2010).

Supervisor's Support (SS). This is the extent to which leaders value their employees' contribution and care about their wellbeing (Powell, Lovallo, & Fox, 2011). According to organizational support theory (Eisenberger, Huntington, Hutchison, & Sowa, 1986) supervisor support facilitates changes employees' level of AC. The scholars see SS as employees' views concerning the degree to which their supervisors value their contributions and care for their wellbeing. Thus, leadership style with high supervisory support is likely to bring about higher employee performance and commitment in agreement with Mohamed and Ali (2016) who found that SS leads to high commitment through employee's job satisfaction and motivation.

Table 1 below lists the advantages and disadvantages of PRP as reported by Suff (2001) cited in Suff, Reilly, & Cox (2007).

Table 1. The pros and cons of individual PRP

Advantages	Disadvantages
Provides a direct incentive	Reduces pay equity
Tangible means of recognizing achievement	Contaminating development of performance reviews
Generates a 'performance' culture	May be discriminatory
Improves goals setting	Demonstrates if goal are too hard to achieve
Improves individual performance productivity, quality of work	Religion quality of line manager's assessment
Focuses employees on improvement	Undermines cooperation and teamwork
Rewards best performers	Focuses attention on activities (often short term quantifiable goals) that attract financial reward
Can support organizational change	Raises expectation of continual payout
Identifies poor performance	Does not work well (in terms of motivation) in two inflation climate
Flexibility may help to retain valued staff	Awards may be seen as arbitrary

Source: Suff (2001) cited in Suff, Reilly & Cox (2007).

2.3. Performance-Related Pay and Organizational Commitment

A number of scholars, such as Falola et al. (2014) Osibanjo, Pavithra, & Adeniji (2014) have investigated the relationship that exists between a financial reward system based on incentives and employees' commitment or attitudes to work. An extensive research study titled *Using profit sharing to enhance employee attitudes: A longitudinal examination of the effects on trust and commitment* by Coyle-Shapiro, Morrow, Richardson, & Dunn (2006) found favorable perceptions of profit sharing, which influenced increased organizational com-

mitment while only organizational reciprocity predicted trust in management. Similarly, a positive significant relationship was found between strategic compensation practices and perceived fulfillment of psychological contract (Anvari, Amin, Ahmad, Saliman, & Garmsari, 2011), which, in turn, led to higher OC. This indicates that employees who are not satisfied with their organizations' compensation practices, would manifest withdrawal tendencies such as incessant absenteeism, work dissatisfaction, lower productivity, and high propensity for quitting their jobs. This view is supported in another empirical study conducted by Osibanjo et al. (2014) on compensation management and OC, in developing economies. Data for the study were elicited from 500 workers in Indian manufacturing companies, and the researchers found that benefits have direct link with job stability. Additionally, training and salary package have a strong link with OC. Today, the insurance industry productivity may be low in Nigeria because of employees' perception of distributive injustice, which is a low assessment between the ratio of the efforts (brain power, know how, etc.) and the reward (salary, SS, etc.) they receive compared with what the referent others who are in similar jobs get.

In today's information-based economy, privatization and liberalization (Mahal, 2012) have brought a rapid change in the lives of individuals, work and society. With no assurance of stable employment in the current competitive work environment (Coetzee, 2005), employees have now raised their expectations in areas like a pleasant working environment with fair and just reward compensation system. Thus, the individual's OC depends on his or her perceived balance of reward and input utilities (Milgo, Nanusonge, Kamali, & Makokha, 2014). This implies that, a relationship that provides more rewards than costs (Milgo et al., 2014) will yield enduring mutual attraction and commitment to the organization. Consequently, this study has hypothesized that (i) PRP (Merit-Based Pay – MBP, PA, and SS) does not positively related to AC; (ii) PRP (MBP, PA, and SS) does not positively related to CC; (iii) PRP (MBP, PA, and SS) does not positively related to NC, among senior staff employees in the Nigerian insurance industry.

3. Research methodology

This study adopts a quantitative approach which aims at finding out the relationship between the perception of PRP and OC among the senior staff in the Nigerian insurance industry. The study adopted cross-sectional research design,

usually employed to study the prevalence of a given phenomenon. This design was adjudged appropriate since it would provide a snapshot of the variables in the study at one point in time, Milgo et al. (2014) thus, providing objective information of the prevalence of a given behavioral tendency (Sedgwick, 2014).

The population of this study is made up of all the senior staff employees in the thirty quoted insurance companies in Nigeria (Factbook, 2011). The insurance industry in Nigeria has been faced with excessive skilled employee turnover particularly since the recent recapitalization exercise. Insurance is not perceived as a desirable career because of the tradition of commission-based remuneration (Inseta, 2016). All companies in the industry are confronted with shortage of strategists, underwriters, actuaries, sales executives and information technology (IT) skills (Inseta, 2016). We applied the systematic random sampling on the 30 quoted companies to select 5 participating firms while a non-probability sampling technique was applied to select the sample.

Respondents were judge-mentally chosen from all categories of senior staff (managers and supervisors) from all units and departments of the participating companies based in the Lagos metropolis. The sample size for the study was obtained from the total population of five hundred senior members of staff in the 5 participating companies. We used Cochran's sample size determination formula for categorical data (Bartlett, Kotrlik & Higgins, 2001), i.e.:

$$no = \frac{t^2 \times (p)(q)}{(d)^2}$$

where:

no = required sample size, i.e. Cochran's formula,

t = value for selected alpha level of 0.025 in each tail = 1.96 (p)(q) = estimate of variance = 0.25,

d = acceptable margin of error for mean being estimated, i.e., 0.05.

Thus:

$$no = \frac{(1.96)^2(.5)(.5)}{(0.05)^2} = 384$$

$$\text{For a population of } 500 \quad nl = \frac{no}{1 + no/population} = \frac{384}{1 + 384/500} = 217$$

The calculated sample size of two hundred and seventeen (217) employees using Cochran's formula is well in the acceptable region, as the sample size determination Table for categorical data is two hundred and eighteen (218), for a population of five hundred (500) (Bartlett et al., 2001; Krejcie & Morgan, 1970). However, this study distributed two hundred and twenty (220) questionnaires, and one hundred and seventy-nine (179) were returned, while one hundred and seventy-six (176) were found usable. This is a satisfactory response rate of 80%.

The research instrument is a self-report questionnaire which solicited information on employees' level of commitment as the dependent variable and their perception and belief of the influential power of performance-based pay, as independent variable. Examples of adapted scale items for PRP include:

- my organization provides equitable pay based on performance,
- my organization provides profit-sharing incentive based on firm's annual profits.

With regards to the OC construct, examples are:

- I feel emotionally attached to this company,
- I will be happy to work in this company till I retire.

The measurement instrument was adapted from Meyer & Allen (1997). All statements in the questionnaire have Cronbach Alpha of 0.71 and above.

The quantitative data was analyzed using descriptive statistics, Pearson correlation and multiple linear regression analysis. Descriptive statistics was used to analyze the frequency of the respondents score on items that measured their sociodemographic characteristics. Being a was a quantitative study, Pearson correlation was adopted to show the degree of association between the independent and the dependent variables.

The multiple linear regression model was adopted to test the hypotheses about the cause and effect relationships between PRP components (independent variables) and OC dimensions (dependent variables). The central idea of multiple regression method is that it enables a researcher to test the relationship between a dependent variable and two or more independent variables (Greene, 2003). Multiple linear regression equation was given as:

$$Y_1 = b + b_1 x_1 + b_2 x_2 + b_3 x_3 + \varepsilon,$$

$$Y_2 = c + c_1 x_1 + c_2 x_2 + c_3 x_3 + \varepsilon,$$

$$Y_3 = a + a_1 x_1 + a_2 x_2 + a_3 x_3 + \varepsilon.$$

where:

Y_1 Y_2 Y_3 = Dependent variables, i.e., forms of OC (affective, continuance and normative) and b , c , a are intercepts while x_1 x_2 x_3 are independent variables $x_1 = (\text{MBP})$; $x_2 = (\text{PA})$; $x_3 = (\text{SS})$.

Thus, $Y_1 = b + b_1 \text{MBP} + b_2 \text{PA} + b_3 \text{SS} + \varepsilon$.

4. Research findings

Table 2 below shows the results of the socio-demographic characteristics of the respondents, i.e., 90.9% were within the age range of 20 to 50 years, implying that majority of the workers in the Nigeria insurance industry are youthful and mid-aged. The gender of the respondents had a close proportionate representation as the male were 47.7% while the females were 52.3%. 38.6% of the respondents were very satisfied with their annual income, while only 9% of them were not satisfied at all with their annual pay. However, a large proportion of participants, i.e., 52.3% was averagely satisfied with their annual income. The implication of this finding is that majority, i.e., 61.4% are dissatisfied with their annual incomes. This annual income is based on the fixed pay system. However, with a reward system, based on individuals' performance evaluation, a significant majority of participants, i.e., 81.8% favorably attested to it, while only 18% preferred group-based incentive rewards.

Table 2. Socio-demographic characteristics of respondents

Characteristics		Frequency	Percentage
Gender	Male	84	47.7
	Female	92	52.3
Age	20-35	76	43.2
	36-50	84	47.7
	51-65	16	9.1
Job Tenure	0-5	88	50.0
	6-10	48	27.3
	11-15	24	13.6
	16>	16	9.1
Annual Pay or Income	Very much	68	38.6
	Somewhat	92	52.3
	Not at all	16	9.1
Performance Incentives	Individual	144	81.8
	Group	32	18.2
Type of Pay System	Fixed Salary	128	72.7
	CBF*	44	25.0
	Pierce Rate	0	0
	BBF**	4	2.3

* CBF: Commission-Based with a Fixed salary.

** BBF: Bonus-Based with a Fixed salary.

Source: Author's fieldwork (2018).

Table 3 shows that a Pearson correlation was performed on variables to measure the degree of relationship among the variables. Being a quantitative research, Pearson correlation was adopted to test the relationship between the quantitative continuous variables by showing the means and the standard deviations and the extent of the relationship that exists between variables at a level of 95% confidence interval. Clearly, since all the standard deviations (SD) are small, i.e., $SD < 1$, and the mean values are above 3, as shown in Table 3, it can be inferred that most of the employees agree with the statements. The result of the correlation analysis shows that MP is moderately but positively correlated with the dependent variables, at < 0.05 level of significance. However, SS has a negative correlation with CC.

Table 3. Pearson correlation among variables

Specification	Mean	SD	AC	CC	NC	MBP	PA	SS
Affective Commitment (AC)	3.5568	.74807	1					
Continuance Commitment (CC)	3.0625	.52406	.210*	1				
Normative Commitment (NC)	3.2955	.69749	.343*	.289*	1			
Merit-Based Pay (MBP)	3.2386	.78186	.006	.214*	.286*	1		
Performance Appraisal (PA)	3.3580	.89346	.151*	.043	.219*	.394*	1	
Supervisor's Support (SS)	3.6591	.71332	.398*	-.191*	.072	.323*	.444*	1

* Correlation is significant at the 0.05 level (2-tailed).

Source: Author's fieldwork (2018).

Table 4 shows the results of the regression analysis for performance-related pay (MBP, PA and SS) as predictor of AC. The results in Table 4 show that the multiple R (0.419) indicates statistically significant relationship between the predictor (PRP) and the response variable (AC). The R-squared statistic as explained by the fitted model implies that about 17.5% of the total variation in the measure of AC is explained by the variations in PRP. The ANOVA results for Performance-based pay as a strong predictor of AC is statistically significant with F (12.184) p-value = 0.000, implying that PRP has a positive significant relationship with AC among senior staff employees in the Nigerian insurance industry. However, the regression coefficient, t statistic and p-value for the model shows that MBP ($\beta = -0.134$, $t = -1.834$, $p = 0.068$) exerts a negative and statistically insignificant effect on affective OC. PA ($\beta = 0.10$, $t = 0.151$, $p = 0.880$) exerts a positive and statistically insignificant effect on affective OC but SS ($\beta = 0.459$, $t = -5.575$, $p = 0.000$) exerts a positive and statistically significant effect on affective OC. Therefore, the null hypothesis is rejected.

Table 4. Regression result for AC vs. performance-related pay (MBP, PA, and SS)

Model summary							
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate			
1	.419a	.175	.161	.68526			
Predictors: (Constant), SS, MBP, PA							
ANOVAa							
Model	Sum of Squares	Df	Mean Square	F	Sig.		
Regression	17.164	3	5.721	12.184	.000b		
Residual	80.768	172	.470				
Total	97.932	175					
a) Dependent variable: AC							
b) Predictors: (Constant), SS, MBP, PA Coefficientsa							
Model	Unstandardized coefficients			Standard coefficients	t		
	B	Std. Error	Beta				
(Constant) MBP	2.277	.307		7.427	.000		
PA	-.134	.073	-.140	-1.834	.068		
SS	.010	.068	.012	.151	.880		
	.459	.082	.438	5.575	.000		
Dependent variable: AC							

Source: Author's fieldwork (2018).

In Table 5, the multiple R (0.354) indicates a positive and statistically significant relationship between PRP and the outcome variable (CC). R-Squared (R²) statistic as explained by the fitted model shows that variations in PRP accounts for a 12.5% total variation in CC.

The ANOVA results of PRP as a strong predictor of CC is statistically significant as F (8.209) and p-value = 0.000. The regression coefficient of the components of PRP shows that `

- MBP: $\beta = 0.194$, $t = 3.664$ $p = 0.00$;
- PA $\beta = 0.41$, $t = 0.833$ $p = 0.406$; and
- SS $\beta = -0.232$, $t = -3.898$ $p = 0.000$.

For a test of significance, only PA shows a statistically insignificant relationship with CC. However, the null hypothesis which stated that PRP has no significant relationship with CC was rejected.

Table 5. Regression result for CC vs. performance-related pay (MBP, PA, and SS)

Model summary							
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate			
	.354a	.125	.110	.49440			
Predictors: (Constant), SS, MBP, PA							
ANOVAa							
Model	Sum of Squares	Df	Mean Square	F	Sig.		
Regression	6.020	3	2.007	8.209	.000b		
Residual	42.043	172	.244				
Total	48.062	175					
a) Dependent variable: CC.							
b) Predictors: (Constant), SS, MBP, PA.							
Coefficientsa							
Model	Unstandardized coefficients		Standard coefficients	t	Sig		
	B	Std. Error	Beta				
(Constant)	3.146	.221	.289	14.221	.000		
Merit Based Pay	.194	.053	.069	3.664	.000		
PA SS	.041	.049	-.315	.833	.406		
	-.232	.059		-3.898	.000		
Dependent variable: CC							

Source: Author's fieldwork (2018).

Table 6 regression model shows multiple R (0.316). The R-squared (R²) statistic is 0.100, which indicates that variations in PRP accounts for 10% variations in normative OC. ANOVA results showed that F (6.381) p = 0.000 implying that PRP is a strong predictor variable which has statistically significant relationship with normative OC. The regression coefficient shows:

- MBP: $\beta = 0.224$, t = 3.133 p = 0.002;
- PA: $\beta = 0.121$, t = 1.833 p = 0.069; and
- SS: $\beta = -0.077$, t = -0.954 p = 0.341.

The results show that, although beta coefficients are positive for both MBP and PA, SS has a negative beta coefficient. For a test of significance only MBP (external variable) is statistically significant while the internal variables (PA and SS) are statistically insignificant. Over all, the PRP as a predictor of normative dimension of OC is statistically significant as p-value (6.381, p = 0.000).

Table 6. Regression result for NC vs. performance-related pay (MBP, PA, and SS)

Model summary							
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate			
1	.316a	.100	.084	.66739			
Predictors: (Constant), SS, MBP, PA							
ANOVAa							
Model	Sum of Squares	Df	Mean Square	F	Sig.		
Regression	8.527	3	2.842	6.381	.000b		
Residual	76.610	172	.445				
Total	85.136	175					
a) Dependent variable: NC							
b) Predictors: (Constant), SS, MBP, PA							
Coefficientsa							
Model	Unstandardized coefficients		Standard coefficients	t	Sig		
	B	Std. Error	Beta				
(Constant) MBP	2.445	.229		8.188	.000		
PA	.224	.071	.251	3.133	.002		
SS	.121	.066	.155	1.833	.069		
	-.077	.080	-.078	-.954	.341		
Dependent variable: NC							

Source: Author's fieldwork (2018).

5. Discussion

This study examined the effect of PRP on OC. The result of the study suggests that senior staff employees of the insurance industry in Nigeria maintain a diverse view of OC in consideration of the PRP components, i.e., MBP, PA and SS, as they affect their jobs. In contrast to earlier studies which had focused solely on AC (Anvari et al., 2011; Milgo et al., 2014; Ul Haq, Jindong, Hussain, & Anjum, 2014), this study investigated the relationship between PRP components (MBP, PA, SS) and OC (Affective, Continuance and Normative). Null hypothesis one, was rejected as there was a significant positive relationship between MBP, PA and SS and AC. Similarly, hypotheses two and three were also not supported as PRP components showed positive correlation with both continuance and normative OC dimensions, as the R-squared (R²) statistic model confirmed. This is in conformity with the findings of the studies by Ul Haq et al. (2014) and Anvari et al. (2014). While the former examined the PRP factors affecting the three dimensions of OC, the latter focused on the relationship between strategic compensation practices and affective OC. In this study, except for MBP, the other PRP components, i.e., PA and SS were found to be negatively

related to CC. So far, limited studies have been conducted particularly with regards to performance-related pay and CC. The external variable (MBP) is positively related with CC, though; other internal variables (PA and SS) were negatively related in the present study. However, PRP as a predictor of CC is statistically significant (Table 5). The implication is that, although the external variable (monetary rewards) influences CC, it is not strong enough to get employees to be fully committed to the organization and their jobs. This result is in line with the findings of previous researchers who had found that, supportive supervisors (Wayne, Shore, & Liden, 1997); clarity of responsibilities, a say in setting the goals of the organization (Hutchison & Garstka, 1996) and fairness of dealings (Fasolo, 1995) were some other factors that influence OC.

Finally, the results concerning PRP components and NC were somewhat curious. SS and effective PA indicated dominant effects on NC over MBP. Although previous studies had suggested that compensation has a significant relationship with OC (Anvari et al., 2011; Milgo et al., 2014), in this study, only SS had a negative coefficient but a statistically insignificant relationship with the normative facet of OC. The internal variables (SS and PA) were statistically insignificant ($p = 0.069$ & 0.341) while the external variable (MBP) was statistically significantly ($p = 0.002$) related to and positively correlated with, NC. It can therefore be assumed that employees have an obligation to reciprocate the good gesture of SS and effective PA through NC. Thus, they choose to remain because they have a sense of obligation that they ought to remain based on the good gestures of their employers.

6. Conclusions

This study has argued that the current process of wage determination through governmental regulation or trade unions negotiation with employers of labor is neither competitive nor motivational and therefore does not effectively impact on OC in Nigeria. Although, little attention has been paid to the relationship between PRP and the different facets of OC, verified within a single study in Nigeria, this study has been able to provide evidence that PRP components (MP, PA and SS) are potent organizational tools for nurturing different forms or (bases) of OC. The result of this study is similar to those of earlier researches conducted in Pakistan and Malaysia, where Ul Hag et al. (2014) had found that rewards and SS influence OC. Anvari et al. (2011) had also found a link between strategic compensation practices and organizational AC. Besides, it is worthy of

note that two most recent empirical studies Khalid & Afib (2017) and Korir and Kipkebut (2016) confirm that salary or financial reward is significantly linked to organization commitment in both Asia and Africa.

The study has demonstrated that the combination of PRP components (MBP, PA & SS) significantly influence affective, continuance and normative facets of OC. It can, therefore, be concluded that highly committed employees are more productive, have high satisfaction and less likely to leave the organization than employees with low commitment (Dixit & Bhati, 2012). Thus, increase in OC will help the Nigerian insurance companies to retain their valued staff and enhance their performance. These findings suggest that for senior employees in the Nigerian insurance industry to be wholly committed, there must be interplay between the internal and external motivational variables in the workplace. Historically, monetary compensation has been the most used and accepted means to motivate and encourage employees to perform better (Pink, 2011). Earlier, Kerr (1975) argues that higher monetary compensation will lead to increased performance and productivity. Moreover, Eisenberg (1992) claims that external rewards are enhance individuals' subsequent creative performance. However, Bhattacharya and Mukherjee (2009) observed that 21st century employees are searching for something beyond monetary rewards. Moreover, nowadays, according to Dahlqvist & Matsson (2013) it is not possible to retain employees only by paying high wages and offering attractive incentives. Since individuals have different personal drives, designing an optimal reward scheme seem impossible. Rewards must be defined to include both external and internal rewards: one type cannot be promoted at the expense of the other. Both types of rewards are important according to the needs and situations (Ajmal, Bashir, Abrar, Khan, & Saqib, 2015). Consequently; managers should consider which external and internal reward factors to be included in the reward system to enhance employee desirable outcomes (Dahlqvist & Matsson, 2013). The research therefore provides an insight into Human Resource management in the insurance industry in Nigeria.

The study contributes to an understanding of the nature of the relationship between PRP and OC. It will hopefully be helpful to the insurance industry in Nigeria, as it can help management to create a reward system which can satisfy the senior staff and earn their commitment also.

Although the findings raised important considerations about PRP and different forms of OC, there are serious limitations worth noting regarding the study. For instance, a major limitation is the adoption of the cross-sectional research design for the study and the choice of non-probability judgmental sampling techniques for gathering data. Also, the scope of the study is limited. Future researchers can expand the study by including other Human Resource (HR) practices such as work-life balance and career development, to determine their combined effects on OC in Nigeria.

References

- Adams, J. S. (1965). Inequity in social exchange. *Advances in Experimental Social Psychology*, 2, 267-299. doi: 0.1016/S0065-2601(08)60108-2
- Ajmal, A., Bashir, M., Abrar, M., Khan, M. M., & Saqib, S. (2015). The effects of external and internal rewards on employee's attitudes; mediating role of perceived organisational support. *Journal of Service Science and Management*, 8(4), 461-470. doi: 10.4236/jssm.2015.84047
- Al-Wahaibi, S. S. O. (2016). Factors influencing organisational commitment: A review of recent study. *International Journal of Academic Research in Business and Social Sciences*, 6(7), 241-246. doi: 10.6007/IJARBSS/v6-i7/2244
- Anderson, V. (2004). *Research methods in human resource management*. London: CIPD.
- Anttila, E. (2014). *Components of organisational commitment. A case study consisting of line manager, from Finnish industrial company*. Master's thesis at the School of Education, University of Tempere. Retrieved from <http://tampub.uta.fi/bitstream/handle/10024/96724/GRADU-1424344150.pdf;sequence=1>
- Anvari, R., Amin, S. M., Ahmad, U. N. U., Seliman, S., & Garmsari, M. (2011). The relationship between strategic compensation practices and affective organizational commitment. *Interdisciplinary Journal of Research in Business*, 1(2), 44-55.
- Armstrong, M. (2005). *A handbook of human resource management* (5th ed.). Ohio: Kogan Page.
- Bacal, R. (1999). *Performance management*. New York-London: McGraw-Hill.
- Baldwin, S. (2006). *Organisational justice*. Falmer, Brighton: Institute for Employment Studies. Retrieved from <http://www.employment-studies.co.uk/system/files/resources/files/mp73.pdf>
- Bartlett, J. E. II, Kotrtik, J. W., & Higgins, C. C. (2001, Spring) Organizational research: Determining appropriate sample size in survey research. *Information Technology Learning and Performance Journal*, 19(1), 43-50.
- Bhattacharya, S., & Mukherjee, P. (2009) Rewards as a key to employee engagement: A comparative study on IT professionals. *ASBM Journal of Management*, 2(1), 160-175.

- Boachie-Mensah, F., & Dogbe, O. D. (2011). Performance based pay as a motivational tool for achieving organisational performance: An explanatory case study. *International Journal of Business and Management*, 6(12), 270-283. doi: 10.5539/ijbm.v6n12p270
- Chuluunkhuu, E. (2010). Effectiveness of performance appraisal. Master's thesis at National College of Ireland. Retrieved from <http://trap.ncirl.ie/573/1/ehkhjinchlunkhuu.pdf>
- Coetzee, M. (2005). The fairness of affirmative action: An organizational justice perspective. PhD dissertation at University of Pretoria. Retrieved from <https://repository.up.ac.za/bitstream/handle/2263/23942/complete.pdf?sequence=1>
- Coyle-Shapiro, J. A. M., Morrow, P. C., Richardson, R., & Dunn, S. R. (2006). Using profit sharing to enhance employee attitudes: A longitudinal examination of the effects on trust and commitment. *Human Resource Management (US)*, 41(4), 423-439. doi: 10.1002/hrm.10052
- Dahlqvist, A., & Matsson, A. (2013). The impact of external and internal rewards on employees' motivation: A case study on insurance company. Master's thesis at Lund University. Supervisor: Rikard Larsson. Retrieved from <http://lup.lub.lu.se/luur/download?func=downloadFile&recordOId=3957900&fileOId=3957901>
- Dixit, V., & Bhati, M. (2012). A study about employee commitment and its impact on sustained productivity in Indian auto-component industry. *European Journal of Business and Social Sciences*, 1(6), 34-51.
- Eisenberg, R. (1992, April). Learned industriousness. *Psychological Review*, 99(2), 248-267.
- Eisenberger, R., Huntington, R., Hutchison, S., & Sowa, D. (1986). Perceived organizational support. *Journal of Applied Psychology*, 71(3), 500-507.
- Factbook. (2011). The Nigerian stock exchange golden jubilee (1960-2010). Retrieved from <http://www.nigerianstockexchange.com>
- Falola, H. O., Ibidunni, H. S., & Olukundun, 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), 63-74.
- Fasolo, P. (1995) Procedural justice and perceived organizational support: Hypothesized effects on job performance. In R. Cropanzano & K.M. Kacmar (Eds.), *Organizational politics, justice and support: Managing the social climate of work organizations*. Westport, CT: Qworum Books, 185-195.
- Fosh, P. (1998). Attitudes of East-African white-collar workers to income inequalities. *International Labour Journal Review*, 117(1), 99-109.
- Gerhart, B. & Rynes, S. L. (2003). *Compensation: Theory, evidence and strategic implication*. Thousand Oaks, CA: Sage.
- Greene, W. H. (2003). *Econometric analysis* (5th ed). Upper Saddle River, NJ: Pearson Education.

- Heidari, S. A., & Saeedi, N. (2012). Studying the role of organisational justice on job satisfaction (case study: An Iranian company). *Journal of Basic and Applied Scientific Research*, 2(7), 6459-6465.
- Henemann, R. L. (1992). *Merit-pay: Linking pay increases to performance ratings*. New York: Addison Wesley.
- Henemann, R. L., & Werner, J. M. (2005). *Merit pay: Linking pay to performance in a changing world* (2nd ed). Greenwich, CT: Information Age Publishing.
- Hutchison, S., & Garstka, M. L. (1996). Sources of perceived organizational support: Goal setting and feedback. *Journal of Applied Social Psychology*, 26(15), 1351-1366. doi: /10.1111/j.1559-1816.1996.tb00075.x
- Inseta. (2016). Status of skills in the insurance industry. Part 2: Focus on the short term insurance sector. Johannesburg: Author. Retrieved from http://www.inseta.org.za/downloads/Phase_2_Short_term_insurance_Final_2.pdf
- Ismail, A. & Abdullah, A. A. (2016). Administration of rewards for individual performance as a prediction of organisational commitment. Economic review. *Journal of Economics and Business*, 14(2), 7-17.
- Kaul, S., & Singh, A. (2017). Organisational justice as an enhancer of organisational commitment. *The International Journal of Indian Psychology*, 4(2/89), 52-70.
- Kelly, A. (1996). Performance related pay: What makes a successful scheme? Master's thesis at Dublin City University Business School. Retrieved from http://doras.dcu.ie/19558/1/Aisling_Kelly_20130930132918.pdf
- Kerr, S. (1975). On the folly of reward A, while hoping for B. *Academy of Management Journal*, 18, 769-783. doi: 10.2307/255378
- Khalid, K., & Aftab, S. (2017, August). Employee internal and external rewards as stimulus of increased organisational commitment: A study of higher education institutions in Pakistan. *International Journal of Law Humanities and Social Science*, 1(4), 9-24.
- Khan, M. T. (2015). Development of human capital through institution of Islamic Waqf. *International Journal of Information, Business and Management*, 7(3), 36-50.
- Korir, I., & Kipkebut, D. (2016, August). The effect of reward management on employees commitment in the universities in Nakuru country – Kenya. *Journal of Human Resource Management*, 4(4), 37-48.
- Krejcie, R. V., & Morgan, D. W. (1970). Determining sample size for research activities. *Educational and Psychological Measurement*, 30, 607-610. doi: 10.1177/001316447003000308
- Lunenburg, F. C. (2011) Expectancy theory of motivation: Motivating by altering expectations. *International Journal of Management Business and Administration*, 15(1), 1-6.
- Mahal, P. K. (2012). HR practices as determinants of organisational commitment and employee retention. *The IUP Journal of Management Research*, 11(4), 37-49.

- Maycock , E. A. (2009). An investigation into performance based pay in Nigeria financial institutions. Doctoral thesis, University of Bedfordshire. Retrieved from https://www.researchgate.net/profile/Eno_Maycock/publication/277843385_An_investigation_into_performance_based_pay_in_Nigerian_financial_institutions/links/5616872d08ae2467f6864bd1/An-investigation-into-performance-based-pay-in-Nigerian-financial-institutions.pdf
- Maycock, E. A., & Salawudeen, I. (2014). A critical examination of premier bank's reward strategy and its impact on employees' perception of equity. *The International Journal of Business and Management*, 2(11), 80-93.
- Mc Shane, S. L., & Von Glinow, M. A. (2015). *Organisational behavior. Emerging knowledge and practice for the real world*. Retrieved from https://www.academia.edu/29097775/Mc_Shane_von_Glinow_Organizational_Behavior_ebook_Copy
- Meyer, J. P., & Allen, N. J. (1991). A three-component conceptualisation of organisational commitment. *Human Resource Management Review*, 1(1), 61-89. doi: 10.1016/1053-4822(91)90011-Z
- Meyer, J. P., & Allen, N. J. (1997) *Commitment in the workplace: Theory, research and application*. Thousand Oaks, CA: Sage Publications. doi: 10.4135/9781452231556
- Meyer, J. P., Stanley, D. J., Herscovitch, L., & Topolnytsky, L. (2002). Affective, continuance and normative commitment to the organisation: A meta-analysis of antecedents, correlates and consequences. *Journal of Vocational Behaviour*, 61(1), 20-52. doi: 10.1006/jvbe.2001.1842
- Milgo, A. C., Namusonge, G., Kanali, C., & Makokha, E. N. (2014). Reward and compensation as a determinant of employee commitment: A survey of KTDA tea factories in Kenya. *European Journal of Business and Management*, 6(15), 117-125.
- Mohamed, S. A., & Ali, M. (2016, February). The importance of supervisor support for employees' affective commitment: An analysis of job satisfaction. *International Journal of Scientific and Research Publications*, 6(2), 435-439.
- Moragwa, O. I. (2013). *Determinants of compensation systems among commercial banks in Kenya*. Master's thesis at School of Business, University of Nairobi. Supervisor: Prof. Peter K'Obonyo. Retrieved from http://erepository.uonbi.ac.ke/bitstream/handle/11295/58889/Ombasa_Determinants%20of%20compensation%20systems%20among%20commercial%20banks%20in%20Kenya.pdf?sequence=3&isAllowed=y
- Mowday, S. T., Porter, L. W., & Steers, R. M. (1982). *Employee-organisational linkages: The psychology of commitment, absenteeism and turnover*. New York: Academic Press.
- Obi-Nwosu, H., Joe-Akunne, C. O., & Oguegbe, T. M. (2013). Job characteristics as predictors of organisational commitment among private sector workers in Anambra state, Nigeria. *International Journal of Asian Social Science*, 3(2), 482-491.
- Osibanjo, A. O., Pavithra, S., & Adeniji, A. A. (2014). Compensation management and organizational commitment in developing economies: Indian perspective. *Acme Intellecets International Journal of Research in Management, Social Sciences & Technology*, 8(8), 1-15.

- Park, S., & Sturman, M. C. (2009). *The relative effects of merit pay, bonuses and long term incentives on future job performance (CRI 2009-009)*. Ithaca, NY: Cornell University, ILR School. Retrieved from <https://digitalcommons.ilr.cornell.edu/cgi/viewcontent.cgi?article=1008&context=cri>
- Perry, J. L., Engbers, T. A., & Jun, S. Y. (2009, January–February). Back to the future? Performance-related pay empirical research and the perils of persistence. *Public Administration Review*, 69(1), 1-31.
- Pink, D. H. (2011). *Drive: The surprising truth about what motivates us*. New York: Riverhead Books.
- Powell, T. C., Lovallo, D., & Fox, C. R. (2011). Behavioral strategy. *Journal of Strategic Management*, 32(13), 1369-1366. doi: 10.1002/smj.968
- Prasad, P. (2015). Performance appraisal: An empirical study to understand job satisfaction and motivation of personal through the system. *International Journal of Engineering and Applied Sciences (IJEAS)*, 2(4), 118-125.
- Rahman, A., Shahzad, N., Mustafa, K., Khan, M. F., & Quarashi, F. (2015). Effects of organisation justice on organisational commitment. *International Journal of Economics and Financial Issues*, 6(3), 188-196.
- Ramogale, M. A. (2016). The relationship between organisational commitment, job satisfaction and turnover intention in the department of rural development and land reform, Limpopo province. Master's thesis at the University of Limpopo, Supervisor: Prof. C. Pietersen. Retrieved from http://ulspace.ul.ac.za/bitstream/handle/10386/1815/ramogale_ma-2016.pdf?sequence=1&isAllowed=y
- Reilly, P., (Ed.), (2001). *The new reward II. Issues in developing a modern remuneration system* (IRS Research Network, report 419). Brighton: Institute for Employment Studies. Retrieved from <https://www.employment-studies.co.uk/system/files/resources/files/419.pdf>
- Ruokolainen, M. (2014). *Do organisational and job related factors relate to organisational commitment? A mixed methodology study of the associations*. Academic dissertation, University of Jyvaskyla, Finland. Retrieved from https://jyx.jyu.fi/bitstream/handle/123456789/42027/978-951-39-4510-7_2011.pdf?sequence=1
- Schwab, D. P., & Olson, C. A. (1990). Merit pay practices: Implications for pay-performance relationships. *Industrial and Labour Relations Review*, 43, 2375-2555. doi: 10.1177/001979399004300314
- Scott, K. L., Shaw, J. D., & Duffy, M. K. (2008). Merit pay raises and organisation based self-esteem. *Journal of Organisational Behaviour*, 29, 967-980. doi: 10.1002/job.539
- Sedgwick, P. (2014). Cross-sectional studies: Advantages and disadvantages. Retrieved from <https://www.bmjjournals.org/content/348/bmj.g2276>. doi: 10.1136/bmj.g2276
- Shilongo, H. N. (2013). The impact of performance related pay on employees – a case study of the performance incentive bonus scheme at the motor vehicle accident fund. Master's thesis of Graduate School of Business at the Polytechnic of Namibia. Supervisor: Prof. Grafton Whyte. Retrieved from: <http://ir.nust.na/bitstream/handle/10628/424/Shilongo.%20The%20impact%20of%20performance%20related%20pay%20on%20employees.%20MVAF.pdf?sequence=1&isAllowed=y>

- Suff, P., Reilly, P., & Cox, A. (2007). *Paying for performance: New trends in performance-related pay*. Brighton, UK: Institute for Employment Studies, University of Sussex. Retrieved from <https://www.employment-studies.co.uk/system/files/resources/files/mp78.pdf>
- The Association of Chartered Certified Accountants [ACCA]. (2013). South Africa (SA) technical. Retrieved from www.accaglobal.com/en/student/technical-articles-in-student-accountant.html
- Tiwari, P., & Saxena, K. (2012). Human resource management practices: A comprehensive review. *Pakistan Business Review*, 13, 669-705. Retrieved from https://pbr.iobm.edu.pk/wp-content/uploads/.../120103_HRM-Practices-Tiwari-37.pdf
- Ul Haq, M. A., Jindong, Y., Hussain, N., & Anjum, Z. Z. (2014). Factors affecting organizational commitment among bank officers in Pakistan. *IOSR Journal of Business and Management*, 16(4), 18-24.
- Unison. (2017). *Performance related pay*. London: Author. Retrieved from <https://www.unison.org.uk/content/uploads/2017/05/Performance-related-pay.pdf>
- Vroom, V. H. (1964) *Work and motivation*. San Francisco: Jossey-Bass.
- Wayne, S. J., Shore, L. M., & Liden, R. C. (1997, February). Perceived organizational support and leader member exchange: A social exchange perspective. *Academy of Management Journal*, 40(1), 82-111. doi: 10.2307/257021