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Ensuring Competitive Advantage in the Nigerian Service Sector through Performance Base Pay

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ABSTRACT

The contemporary 21st century business environment is facing increased dynamism, which consequently is resulting in a dramatic change and stiff competition among organizations, jockeying for position in order to gain substantial market share. These changes and competitive spirit among participants in the private sector have not only created opportunity for companies to thrive, but have also driven the economy to lane one among developing economies of the World. There is no gainsaying that sustainable competitive advantage is achieved through organizations' resources, that is why Hoffman (2001) strongly asserts that, competitive advantage is achieved through effective combination of both tangible and intangible resources, assets, including firm management skills, organisational process, information and knowledge it controls. Similarly, Barney (1991) added that in achieving sustainable competitive advantage, firm must motivate its human resources through effective human resources practise such as training and development, recruitment, selection, and of course a fair reward system as seen in performance based pay.

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Introduction

Background and Justification

Gomez-mejia, Balkin and Cardy (2004) believe that when pay is tie to performance, it pushes employee to doing everything possible to achieve on target, and in doing so, it stifles their talent and creativity and consequently employee's interest converges with that of organization. Pay for performance according Gomez-mejia et al is conceived based on the underlying assumption that, individual employee and work team differ in what and how well they contribute to an organization; also that overall performance is largely dependent on the performance of individuals and group, and that attracting, retaining, motivating and ensuring fairness is dependent on how companies integrate reward system to performance.

Proponents of performance based pay are strong about its propensity for sustainable competitive advantage. That is why Milkovich (2006) posits that, performance based pay (PBP) system has the potential of influencing employee work attitude, behaviour, and consequently enhances the productivity of the organisation. It is undoubtedly the reasons for recent paradigm shift to this pay policy in Nigeria. Proponents also assumed that motivation through fair and just reward tend to attract employee commitment and loyalty.

However, in spite the proponents expression of sentiments on the effectiveness of PBP in achieving sustainable competitive advantage, the subject like most HR concepts is bewildered with some inadequacies and challenges as critiqued by those who opposed to this pay practice, saying that, performance based pay system lack discrete measurement standard as it is impossible to single out completely or attribute effective performance to individual's effort. Lavy (2007) Strongly believes that PBP tense up the workplace and creates unfair and unhealthy rivalry among employees within the organisation culminating into a negative effect on employee motivation and unintended consequence. Kathryn, (2012) argues that PBP could lead to

ineffectiveness if workers disagree with the employers on the performance standard and if jobs are designed for teams as it is the case in the organized private sector. From the dimension of industrial relation, PBP is said to encourage unilateral discretion thereby negating the sanctity of bilateral agreement and concept of equity in pay administration, with serious indictment of perceived foes and consequently resulting in suspicions and industrial disharmony (anonymous). Equidistantly, organisation, may a lack the financial resources to fund the performance based pay policy adequately during the time of economic recession,

Despite the above criticism however, studies conducted in the past have enforced both the opponent and exponent perspective. Typical here is the study of Lazear (2000), who analyzed the responses of 3000 employees of Safelight Glass Corporation to new contract that link pay to number of output and found out that there is a slight improvement in quality after the introduction of PBP. Sprinkle (2000), in a laboratory experiment also studied the effect of incentive system such as overtime pay on performance and found that there is a positive performance effect due to such incentive system.

It is apparent that from the above studies and other numerous research studies on PBP in the human resource management literature, very little research on the subject has included samples from non-Western societies or developing countries, particularly in the service industry where PBP is highly enshrined. This paper having articulated the gap seeks to focus on the hotels in Nigeria and their survival challenges in spite the adoption of PBP

Research Questions

Having x-rayed the divergent opinions on the concept and its consequential impact in practice, the following questions must be answered;

1. What pay policy has the most significant impact on employee motivation?

2. Does performance based pay system leads to an unfair competition among employees as allay by critics or comparative competitive advantage as claimed by its exponents?

3. Which pay policy is preferred by staff of selected hotels and why?

Objective of the Study

The general objective of this study is to determine the impact of performance base pay system on sustainable competitive advantage in the service sector. The basic specific objectives are highlighted below as follows;

1. To determine the pay policy with the most significant impact on employee motivation.

2. To ascertain whether pay based on performance leads to unhealthy competition among employees as purported.

3. To determine whether performance based pay system contribute significantly to ensuring competitive advantage.

4. To establish the perception and preference of pay policy by employees that form the sample frame and why?

Basic Assumptions

For the purpose of proffering better understanding to issues raised above the paper shall ascertain whether:

1: Performance based pay system significantly contribute to the achievement of

a sustainable competitive advantage.

2: Performance Based pay significantly encourages rivalry rather than commitment among employee.

Conceptual Framework

Just like most concepts in the field of business are multidimensional and yet the same, so is performance based pay. According to Hannay and Shelton, (2008), Ilhamie et al (2009), Prasad (2007) and Margaret et al (2008), Performance Based Pay is synonymous with merit pay system, competency based pay and result based pay system.

The most comprehensive meaning of Performance Based Pay system was given by Armstrong (2005) who views performance based pay as “a process of providing financial reward to individual, which is linked directly to individual, group or organizational performance”. Noteworthy to say that pay reward might not necessarily tie to cash as stated by Armstrong (2005), but may include non-monetary reward such as recognition (Schuler 2006).

Performance based pay is often associated with provision of additional rewards to basic pay, assigning higher responsibilities based on the contribution made by the employee or group of employees (Gomez et al ,2003; Milkovich and Newman , 2007). It is described as an alternative method of payment that rewards employee for their skills, behaviour and work attitude (Jahja and Kleiner 1997). Performance based pay system is hinged on a widely held believe that, employees should be rewarded based on effort and which is consistent with Classicist tenet: Fredrick Winslow Taylor's piece rate and Gantt's 50cent motivational bonus as well as behavioural Science theories that contents that effective motivation is a function of relationship between performance and rewards (Steadman et al 2001).

Argument For or Against Performance Based Pay System

Pay represents by far the most important and contentious element in the employment relationship, not only to the job holder but also to the employer and government. To the employer, because it represents a significant part of his costs, is increasingly important to his employees' performance and to competitiveness, and affects his ability to recruit and retain labour force of quality. Whilst the employee is affected by it socially, psychologically as well as economically which is fundamental to his standard of living and is a measure of the value of his services or performance. From the government

point of view, it affects aspects of macro-economic stability such as employment, inflation, purchasing power and socio-economic development in general. Because of this multiple effect of pay, divergent views do exist on which pay policy can effectively yield the desired objective.

The proponents of performance based pay argue that, it provides an opportunity to improve productivity of the organisation, motivate employee to pursue professional development opportunities that previously offered little in the way of additional benefits for individual. It helps to project a clear message of which outcome is valued by society and by how much improvement in quantity of new applicants. PBP has also found to offer higher and competitive pay for strong performer to deliberately tempt him/her away for what might be attractive elsewhere. This managerial instrument helps to bring workers that are more able into the workforce since PBP upholds one of the basic ingredients of compensation of equity and fairness. According to Lazear, (2000), the effect from performance-based pay is similar to gains available from motivation if not greater. Financial incentives could also have desirable consequence for the retention of high performer in the organisation and turnover of low achievers over time (Besley and Machin, 2006). Sisson and Storey (2000) also see it as a way of creating organisation culture driving by ideology.

Suffice it to say that performance based pay has overthrown the traditional job based evaluated grade structures associated with Taylorism and collective manners of setting reward favoured by union, resulting to the sinking to oblivion of the traditional bureaucratic organizational structure, paving way for a new dawn of people oriented organizations whose hallmark is meeting the competitive reality of today's business environment. The critics of performance-based pay however argue against its effectiveness on the following reason; that employer might be tempted to observe the ability of employee from previous performance measurement and make an assessment of the difficulty of the work. When employee anticipate a change in the bonus distribution to them, it will likely result into a reduction in the effort of the employee, to mislead the employer that the job is more difficult than it is in reality. Other criticism is on the fact that Employees can work harder initially to give an impression that they are high performers and then reduce the performance level in the long run thereby leading to a greater uncertainty regarding employee ability and true performance, as this is common in public sectors, and may not necessarily motivate younger, untested employees. Fear is allaying in some quota that career strengthening effect and ability of employees in organisation might be fading in an organization that internalizes PBP. It is management focused, since it excludes trade unions, hence pave way for mere individualized employment relationships that is unilateral and discretionary (Pauwee, 2004). Sibbens (2000) sees it as impetus for the global trend of downsizing workforce on the bases of non-performance, while Heary 2000 believes it is an inherently deficient ethics that uphold rivalry and heighten tension instead of team spirit. Whichever opinion is shared, it must be borne in mind that no managerial instrument and practice is completely right or wrong in its entirety, but its usefulness lies in the art of management where application and success does not depend on rule of thumb, rather on the creativity and ingenuity of the user.

Achieving Competitive Advantage through Organizational Resource

According to Hoffman (2000), Day and Wersley (1998), the two sources of competitive advantages are; superior skills (which are the distinctive capabilities of personnels, that set them apart from the talents of other competing firms) and

superiors resources which are more tangible requirements that enable a firm to exert its capabilities in the area of cost. Hunt and Morgan (1995) categorize organizational resources as financial, physical, legal, human, organizational information and relationships goodwill. Prahalad and Hamel (1990) suggest that firm's ability to provide the right blend of these resources and competencies gives it a distinctive advantage over other competitors.

Having observed that sustainable competitive advantage is based on internal competence, it is interesting to note that relational resources which is intangible asset though external to the firm may contribute to the value generation, profitability and thus to sustainable competitive advantage. Relational asset are those bonds between a firm and customer and/or channels member e.g. business intimate relationship with consumers that allows them to produced highly customized products and services. This therefore underscores the importance of well-motivated workforce. There is no gainsaying that employees are that interface that connects organization to its prospects (Vem and Dakung 2012). When competitive advantage is the essence, motivation through PBS is the basis.

Methodology

In this study, the survey research design is adopted. Population for the research consists of the staff of some selected hotels in Jos metropolis, Plateau State. Six hotels were selected bearing in mind the following yardsticks; that the hotels have physical presence in Jos metropolis and that the hotels were not involved in the current restructuring, merger and acquisition. This is geared towards ensuring that distorted data is avoided and that the selected hotels serve as a reasonable representation of the sector in Plateau State, since they operate under a relatively similar operating condition.

A more realistic sample size of 216 was arrived at considering the population of 470 participants drawn from the 55 hotels considered in the study. Yamane (1967) provides a simplified formula at 5% level of significant.

Since the focus is on employees, a set of question was developed and administered to them. Their responses formed the solid bases upon which the findings and conclusions were drawn. Research adopted Likert 5 point scale for closed ended questionnaire. Other questions were structured in a way to convey clarity to the respondent. Simple percentage is used for ease of presentation and analyses of data.

Analysis of Findings

The result presented below is a product of responses from the questionnaires items in the 216 administered to the employees of selected hotels that constitute the frame for this study. Out of the questionnaires administered 150 were retrieved and analysed as thus;

Table 1: Pay Policy and Motivation

Pay policy option	Frequency	Percentage (%)
Job based pay	22	14.7
Performance based pay	101	67.3
Membership based pay	6	4
Individual based pay	5	3.3
Elitism (executive) pay	11	7.3
Egalitarianism (equal) pay	0	0
Below the market based pay	5	3.3
Above the market pay	0	0
Total	150	100

The table above reveals that, 101 respondent representing 67.3% are of the opinion that employees are motivated by

performance based pay system, 14.7% thinks job based pay motivate them more, Whilst 11 respondent representing 7.3% are in favour of elitism pay policy as a motivator. Others are 4% and 3.3% for both IBP and BMBP. From the analysis it can be concluded that performance based pay system motivates employees the most.

Table 2. Paying For Performance and Sustainable Competitive Advantage

Option	Number of Respondent	Percentage (%)
Strongly Agree	36	24.00
Agree	64	42.67
Neutral	0	0
Disagree	26	17.33
Strongly Disagree	24	16.00
Total	150	100

From the above table it can be seen that majority of the respondents, that is 24% and 42.67% strongly agreed and agreed respectively that paying employee for performance will help achieve a sustainable competitive advantage, whilst only 17 % and 16% disagree and strongly disagree respectively on the effectiveness of pbp in ensuring sustainable competitive advantage. this claim is further substantiated in table 2 below.

Table 3: Pay Policy and Performance of Hotels

Options	Pay policy option	Number of Hotels adopts that policy	Average Performance from 2007-2012 # 000
A	Job based pay	10	5000
B	Performance based pay	5	10,000
C	Membership based pay	0	0
C	Skills based pay	3	1000
E	Elitism (executive) pay	7	3000
F	Egalitarianism (equal) pay	0	0
G	Below market based pay	20	4000
H	Above market compensation	0	0

The analysis above indicates that, ten hotels with an average performance of 5million naira adopt job based pay, five use performance based pay system hence resulting in average annual return of 10 million naira, whilst the least competitive option can be apparently seen in the option g where 20 responding hotels shared an average performance of 4 million naira only per annum within the period of study.

Table 4: Performance Based Pay and Unhealthy Rivalry among Workers

Option	Number of Respondent	Percentage (%)
Strongly Agree	32	21.3
Agree	46	30.7
Neutral	0	0
Disagree	34	22.7
Strongly Disagree	38	25.3
Total	150	100

Field Survey 2012

The data above using a rating scale shows that 72 respondents representing 48% disagree on the assertion that performance based pay cause rivalry among workers. whilst 78 respondents representing 52% feel that performance based pay causes rivalry among employee and erode the profit of hotels. from the above it can be inferred that performance based pay causes unhealthy rivalry among workers as evident by the 52%

of respondents that either agree or strongly agree with the assertion.

Having factually established the strategic role of pbp in ensuring competitive advantage, research went further to determine the perception of employee in term of criteria that determine effectiveness of a pay instrument using the six points criteria below.

From table 5 above, research considered certain criteria to determine the perception of employees on pbp as used in the industry listed in a-f. based on the summary, the average 78.4% low rating as against 21.6% high rating of the instrument is a clear indication that more need to be done to reduce the bias mind of employee regarding the objectivity of the users.

Discussion of findings

The paper focused on the following objective; to determine the pay policy with the most significant impact on employee motivation, ascertain whether pay based on performance bring about an unfair competition among employees, determine whether performance based pay system contribute significantly to ensuring competitive advantage as well as establishing empirically the perception about the pay policy by employees that form the sample frame.

Table 5. Employees' Perception of Reward system based on PBP criteria in the Hospitality Sector

Criteria	Very High	High	Low	Very low	% High	% Low
Objectivity	10	25	65	50	16.7	83.3
Clarity of Measure	21	26	33	70	31.3	68.7
Relatedness with Appraisal System	13	15	70	52	18.7	81.3
Promptness of feedback	10	11	69	60	14	86
Understandability of standard	19	31	56	44	33.3	66.7
Relatedness to your ability	11	12	67	60	15.3	84.7
					AVG %	AVG %
					21.6	78.4

Field Survey 2012

In line with the results analysed above, response from the sample shows that employees have high preference for real performance based pay compared to other pay policies, as explained in the strong hegemony in table 1 above. on pay policy and competitive advantage, research affirmed that pbp enhances competitive advantage among the players in the hospitality industry. this assertion is evident in the responses in tables 2 and 3. whilst table 2 superficially identified pbp as a competitive drive, table 3 went further to substantiate that claim, explaining the extent to which pay policies adopted affect the bottom lines in business. in reflection to the third objective of this study, it is apparent that pbp has significant impact on companies' performance. furthermore, research also reveals in table 4 a slightly high rivalry among employee when pbp is used, though the gap in the responses is not overwhelming to warrant the usage of the phrase "unhealthy rivalry", rather it might suffice to describe the competition as one which spurs the need for achievement as seen in the mcllelland's "nach". the resulting effect explains the superlative differences in performance as witnessed earlier in table 3. a result of analysis in table 5 indicates the perception of employees in line with the criteria for determination of an effective performance based pay. outcome indicates a wide gap between what the employee thought it should be and what it is in terms of objectivity, clarity of measure, relatedness with appraisal system, promptness feedback, clarity of standard, and relatedness to employee ability. the gap in expectation has so many hr implications in the

areas of; empowerment and participation, managements' perception about their subordinate as explained in the mcgregor douglas' theory "x" where employees' potentials are underrated, hence the need not to be involved in critical decisions. equidistantly, the gap also portrays an ideal tradition of bureaucratic system where policies are made for employees to implement without any latitude for discretion. one might wonder why this approach in an industry that is characterized by stiff competition, where survival depends on meeting the needs of customers. this is contrary to the thought that portrays strategic role of employee in the interface between organization and customers, with employees regarded as the mirror that reflects the positive side of the organization. how can sustainable competitive advantage be achieved when employees are disconnected from the organization on critical policy like pay?

Conclusion

Study has established that employees' paycheaque, however does not only affect them socially, economically and psychologically, but has a broad based implication on firm's competitive positioning in a given industry. for this reason, organization with the desire for growth must not mishandle this crucial hr issue that bothers on employee well-being considering the negative impact not only on the workforce but ultimately on firm's performance if poorly implemented. and since people are the fulcrum for sustainable competitive advantage, it is a cliché to be rigid on pay policy in the midst of multiple choices. meeting their minimum expectations through fair pay policy like pbp will not only retain them but will ensure that an organization is positioned and sustained on a lane one in its chosen line of business.

Recommendations

Having considered the significant role of pbp in ensuring competitive advantage, in the hospitality industry in nigeria, there is increasing need to perfect the strategy to add value to players in the industry. based on the aforementioned analysis, some weak areas were identified in the application and needed to be strengthen, hence the following recommendations.

1. The perceived rivalry among colleagues can be overcome by instilling objectivity in performance based pay. objectivity in pay administration translates into equity, which is the extent to how employees perceived pay determinants as commensurate to their efforts either individually or collectively. managerial bias is also curtailed when objectivity which is the fulcrum in pbp is instilled in pay administration.
2. Regarding the application of pbp in table 5, there is urgent need of bridging the gap between perception and set standard. management need to tie pbp to organizations' strategic pathway, which must require the integration of all hr options that are pay related as well as infusing such culture among members for the purpose of internalizing and sustenance of practice.
3. PBP should be adopted as a strategic competitive tool; this is owed to the fact that the five (5) out of forty five (45) hotels in the study who practice real performance based pay seem to enjoy better deal than others as seen in table 3.

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