

# Innovations

## Assessing the Effect of Indirect Compensation on Employees Performance in the Transmission Company of Nigeria, Abuja

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**Abstract :** *The aim of this study is to examine the effect of indirect compensation on implementation mechanisms in the Transmission Company of Nigeria. The sustainability of men in every society cannot be divorced from the compensation gotten from service rendered. Regrettably however, most public organisations in Nigeria have fallen below the standard expectation of compensation, judging from the prevailing economic situation, which has seen inflation climbing up to 28.5%. As such, it is not surprising that the public space is inundated with agitations for improved compensation. This article identified leave allowance, life insurance, daily feeding and free transport facility as the bone of contention for improved compensation in the Transmission Company of Nigeria. Extracting responses from a sample of 214 respondents through a structured questionnaire, the study showed a significantly high implementation of indirect financial compensation in the Transmission Company of Nigeria. Data was analysed using regression analysis via the statistical package of social sciences (SPSS). Findings from the study showed that Leave allowance (LAW) = .78-0.63, Life insurance (LIN) = .78-0.9, Daily feeding (DF) = .78-0.24 and Free transport facility (FTF) = .78-0.14 all have a significant effect on employees performance in the Transmission Company of Nigeria. The study recommends that management should consider other forms of indirect compensation such as taking care of the personal needs of employees like child care services and domestic partner benefits to promote productivity of employees.*

**Keywords:** *Compensation, indirect compensation, insurance, transportation, feeding, leave*

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## Introduction

It has been argued that the degree to which employees are satisfied with their job and their readiness to remain in an organisation is a function of compensation packages (Osibanjo, 2012 in Emejulu, Chikezie and Nwaneka, 2017). Findings from empirical literatures shows that employees who are cared for by their organisation not only have higher levels of commitment, but that they are more conscious about their responsibilities, have greater involvement in the organisation, and are more innovative and productive (Farrell, and Rusbolt 1981; Eisenberger, Fasolo & Davis-LaMastro, 1990 cited in Yeboah 2013). It has also been emphasised in most HRM literature that a robust model for business success involves connecting compensation to individual and organisational performance. Organisations that align their strategic expectations with compensation plans inspire and drive outstanding employee performance (“Performance & compensation”, n.d.).

The Transmission Company Nigeria has not attained optimum efficiency due to its lacklustre performance (Okere, 2016), though, strategic reorganisations through reform actions covering recruitment policy, standard training, personnel development, fair remuneration and allowances of staff, promotion and deployment, empowerment of staff, welfare incentives and medical care, and among others, to foster performance have been embarked by TCN in Nigeria (Naankiel, Christopher, & Olofu, 2012; Van der Spuy & Röntsch, 2008).

As remarked by Berman (2015), performance of public institutions is attained when its programmes and policies connect with and meet the expectations and challenges the people, community, and nation are facing, and such performance attainment relies on the professionalism and competencies of employees (Pynes, 2008). As emphasised in literature, the development of effective, competent, and hugely performing workforce to enhance performance in the public sector is necessary and contingent on the design and implementation of effective compensatory strategy (Abubakar, Panguil, & Othman, 2016).

Empirical studies have talked about the effect of compensation on employee's productivity. These scholars argued with much emphasis on the inability of many organisations to implement compensation policies that provides for good and equitable remuneration, strategies of ensuring good compensation management, theories of compensation management, and types, policies that improves productivity and efficiency (See Chiekezie, Emejulu, and Nwanneka, 2017; Okwudili and Ogbu, 2017; Yen, Chen and Liu, 2014; Uwimpuhwe, Mushabe, and Kajugoro, 2018).

But certainly, no attention has been paid to issues of indirect financial compensation in the Transmission Company of Nigeria. Evidence from HRM literature suggests that Indirect compensation includes non-monetary benefits provided to workers, such as pension funds, mobile phones, company cars, health and life insurance, overtime

pay, and annual leave, health insurance, social security, child care, and more. In view of the foregoing, the objective of this study is to assess the effect of indirect compensation policy on employee's performance in the Transmission Company of Nigeria.

### **Objectives of the Study**

The main objective of the study is to determine the effect of indirect compensation on employee's performance in the Transmission Company of Nigeria. The following hypotheses were deduced.

### **Research Hypotheses**

- i.  $H_{O1}$ : Leave allowance has no significant effect on employees performance in transmission company of Nigeria
- ii.  $H_{O2}$ : Life insurance has no significant effect on employees performance in transmission company of Nigeria
- iii.  $H_{O3}$ : Daily feeding has no significant effect on employees performance in Transmission Company of Nigeria
- iv.  $H_{O4}$ : Free transport facility has no significant effect on employees performance in Transmission Company of Nigeria

### **Literature Review**

#### **Indirect Compensation**

Dessler (2011), cited in Mashal and Abu (2014), describe indirect compensation, as non-monetary and monetary reward that employees receive for staying on a employees of an organisation. Indirect remuneration include; supplemental pay, employee services, fringe perks, and other additional compensation.

Similarly, Mashal and Abu (2014), quoting Chhabra (2001), recognised the categories of Indirect Compensation as comprising 'fringe benefits' such as housing, food aid, medical allowances, child care centers, and so forth. Stated differently, indirect remuneration refers to the benefits that organisations provide to their staff in exchange for their involvement, attendance, or membership. The primary goal of indirect pay, often known as fringe perks, is to draw in, inspire, and keep qualified employees within the organisation.

Explaining further, Peoplehum, (2022) clarified that indirect compensation includes non-monetary benefits provided to workers, such as pension funds, mobile phones, company cars, health and life insurance, overtime pay, and annual leave. Quite emphatically, he also explained that indirect compensation includes everything from legally obligated health insurance to social security, child care, and more. It was also emphasised that employers can include standard contractual, non-monetary features covering annual leave, as well as valuable benefits such as healthcare. Also,

indirect compensation has been further categorised to consist of two components - Indirect financial compensation and non-financial compensation. The former covers contractual obligations such as temporary leaves of absence, benefits, and retirement's plans. Non-financial indirect compensation also includes rewards or benefits that don't affect an employee's pay, like gift cards, paid parking, travelling concessions, etc. These are differences between direct and indirect compensation (Peoplehum, 2022).

According to HRM literature, the goal of indirect compensation is to benefit employees within an organisation. By offering extra or non-financial compensation, a company demonstrates to its workforce how much it values its employees and how willing it is to go above and beyond the call of duty in order to meet their needs. Before accepting a job offer, candidate typically list benefits as one of their top priorities. Because of this, employees place a high value on indirect remuneration. It boosts morale and retention rates by making them feel more involved, motivated, and valued. Businesses that offer indirect compensation draw in the kind of bright, committed, and diligent workers who can most effectively represent the business (Peoplehum, 2022).

Giving prospective employees a competitive edge over other businesses they might be considering is another crucial objective of indirect pay. Furthermore, a larger indirect pay package can signal to a prospective hire that the organization not only wants him or her, but will also take good care of them as an employee (Peoplehum, 2022). This conclusion has been reached in the majority of HRM literatures. Unlike direct compensation, which is money paid to employees directly for their services, starting with their wage, indirect compensation is not the same as direct compensation. Indirect compensation, as opposed to direct payment to an employee, is computed as an addition to the basic salary.

## **Theoretical Discuss**

### **Leave policy**

Leave policy over the years has become quite popular among formal organisations. The reasons might be unconnected to its widespread usage and application. Its usage is not just routine, but backed by statute which forms part of employee's welfare scheme. Scholars like Gatimu and Wangari, (2017) in their terse statement, described it as the time that an employee spends away from work, most times on a voluntary basis. Similarly, Kadiri, Dunmade, Woli-Jimoh, Isiaka, Ajayi and Adeyemi, (2021 cited Bhatia (2009), describes the leave policy is an organizational document that outlines the guidelines for managing an employee's leave. It went on to define leave as the quantity of days that an employee may take off from work without facing

repercussions from their employer. According to worldwide best practices, an organization's employment terms and conditions specify how many leave days an employee is entitled to (Givati & Troiano, 2012 referenced in Kadiri et al, 2021). Employers are responsible for paying employees for the allotted time off, and workers may request leave in accordance with the policies and guidelines of the company. A leave policy, according to Hans and Grahn (2017), is a management authorization that permits workers to relieve themselves of work-related stress so they can attend to their own needs as well as those of their families. It is expected of employees to return to work after a leave of absence with a renewed sense of organization and agility, thereby enhancing their performance at work.

### **Life Insurance**

Life Insurance has been described as an insurance policy offered to a group setting especially by the employer to its employees as a benefit. A life insurance or life assurance contract is an agreement between an insurance company and a policyholder in which the insurance company promises to pay a certain amount of money in the event of the policyholder's disability or death. Under group plans, the insurance contract is between the insurance company and the employer (Sahoo & Das, 2011 cited in Micheni, 2021).

### **Daily Feeding**

Among the numerous strategies organisations use to motivate their employee, daily feeding appears to be the least popular, due to the perception that food is a basic need that the worker first meets when he receives his basic pay. According to Turin and Camoglu's (2014) analysis of the history of workplace eating, the custom of providing employees with food, or "food at work," is rooted in long-standing customs, particularly in relation to military feeding practices, which were known to have negative health impacts from malnourishment or imbalance. Scholarly investigation on this topic was made public in 1946 by International Work Organization (IWO) in a book named "Feeding at Industry," which examined employee eating in large companies in the United States, Canada, and England. In order to give employees the energy they need to perform their jobs more effectively, these programs first distribute a range of free snacks. They are then expanded by giving away free food to staff members' families in an effort to promote overall health over time, particularly in developing nations. (Wanjek, 2005 cited in Turin and Camoglu, 2014)

### **Transport Allowance**

Transport allowance or commuter benefit is a type of special allowance a company or employer provides to employees to compensate for their travel from their residence to the workplace (Clear tax, 2024). Also it has been described as a type of compensation employers provides to cover employees travel expenses incurred when traveling on a business purpose. It helps with employees travel cost, such as lodging, meals, and other incidentals when on the job (Bonfaccio, 2024). Transportation allowances have been used as policy tools to address transportation-related issues like air pollution and traffic congestion since they were first introduced in the 1970s. They encompass, in the broadest sense, a variety of actions intended to increase the effectiveness of travel demand (Bueno, Gomez, Peters, Vassallo, 2001). It is aimed at influencing employees travel behavior, including benefits for driving, using public transportation (e.g., monthly passes, universal passes, or vouchers) (Dill and Wardell, 2007; Bueno, Gomez, Peters, Vassallo, 2001).

### **Impact of Indirect Compensation on Performance**

According to Tsai, Yu, and Shih-Yi (2005), indirect compensation helps organizations attract and retain highly competitive employees, who are seen as strategic resources in gaining a competitive advantage. One can expect that through benefit offerings, the organization's overall attractiveness can be increased as well as the loyalty and satisfaction of that employee. The impact of indirect compensation on employee performance cannot be overstated. It will therefore boost worker motivation and output. Stated differently, indirect remuneration serves as a moderating factor and enhances the positive impact of labor input on an organization's production by promoting and retaining top talent.

Bond & Galinsky (2006) state that when an organization offers some of the previously listed advantages, it shows that they think the expenditures are worthwhile in order to improve performance, retention, and recruiting. It also highlights the significance of companies offering suitable ancillary benefits to their staff members in addition to paying salaries and wages and ensuring that the terms of their service agreements are followed. De Nissi & Griffin (2001) noted that a well-rounded remuneration plan that includes fringe benefits boosts employee morale, improves the quality of goods and services offered at competitive pricing, and increases profit. The importance of performance was also emphasized. Performance is an economic indicator of effectiveness that compares the quantity of inputs utilized to produce an outcome with the amount of output generated by an industry, system, or individual. Enterprises globally have recognized the significance of performance in both competing and surviving in the marketplace..

## **Theoretical Frame Work**

### **Equity Theory**

Equity theory, considered one of the justice theories, equity theory was first developed in the 1960s by J. Stacy Adams, a workplace and behavioral psychologist, who asserted that employees seek to maintain equity between the inputs that they bring to a job and the outcomes that they receive from it against the perceived inputs and outcomes of others (Gill & Stone, 2010). The theory focuses on determining whether the distribution of resources is fair to both relational partners. Equity is measured by comparing the ratio of contributions (or costs) and benefits (or rewards) for each person (Adams, 1963). Some literatures have also explained that equity theory states that employees wish to maintain a fair ratio between their input (performance) and the received output (rewards and compensation) compared to the others. If there is a difference or if it is found that the employee's inputs are greater than the outputs, it leads to their demotivation ("Theories of compensation". n.d).

In other words, the theory presupposes that there should be equity or the uniformity in the pay structure of an employee's remuneration. If the employee feels he is not being paid fairly for the amount of work he does in a day will result in lower productivity, increased turnover and high absenteeism ("Theories of compensation". n.d). Studies have also suggested that for remuneration to be equitable, it should comply with three types of equity: Internal Equity, External Equity, and Individual Equity

Despite the inclination of the theory towards fairness and justice. The theory has come under serious scrutiny. Criticism has been directed toward both the assumptions and practical application of equity theory by scholars, such as Leventhal who assert that Equity Theory is too unidimensional, ignores procedure, and overestimates how important the concept of fairness is in social interactions (Leventhal, & National Science Foundation, 1977). Scholars have questioned the simplicity of the model, arguing that a number of demographic and psychological variables affect people's perceptions of fairness and interactions with others. (Huseman, Hatfield, Miles, 1987). Critics have also argued that people might perceive equity/inequity not only in terms of the specific inputs and outcomes of a relationship, but also in terms of the overarching system that determines those inputs and outputs (Huseman, Hatfield, Miles, 1987). Thus, in a business setting, one might feel that his or her compensation is equitable to other employees', but one might view the entire compensation system as unfair.

Despite the numerous objections raised against it, the theory is still applicable in a few critical areas of HRM practice. According to studies, the equity theory in organizations introduced the idea of social comparison, in which workers assess

their own input/output ratios by contrasting them with those of their peers (Carrell, Dittrich, 1978). The financial pay, bonuses, benefits, and flexible work schedules are examples of outcomes that affect employees' motivation, output, and contentment. Workers who perceive inequality will attempt to lessen input/output, or quitting the company (Carrell, Dittrich, 1978). Studies have also shown that workers will alter the caliber of their work depending on how much they believe they should be paid (Andrews, 1967). These perceptions of inequality are views of organizational justice, or more specifically, injustice (Andrews, 1967).

**Research Methodology**

The primary method used to gather the data for this study was observation of primary and secondary data sources, specifically questionnaires and interviews. The qualitative method was used to gather documentary evidence, such as official records, books, journals, magazines, online sources, newspapers, and other relevant written records. The respondents were surveyed using a structured questionnaire, commonly referred to as a fixed response questionnaire. The implementation of a fixed response questionnaire allowed for easier data processing and calculation of the instrument's validity and reliability indices. The primary data collection methods used in this study was survey approaches, including questionnaires, interviews, and documentary studies. The study extracts response from 214 respondents who are staff of the Transmission Company Nigeria. The Transmission Company of Nigeria is a public sector organisation within the Nigeria power sector value chain whose role is critical in meeting the energy needs of Nigerians. The study accessed the extent of implementation of indirect financial compensation that covers the following areas: daily feeding, life insurance benefit, transport facility, including retirement plan. Data for this study was analysed descriptively using simple percentages.

**Data Presentation and Analysis**

**Regression Analysis**

Model Summary						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	.821 <sup>a</sup>	.849	.846	.39946		
a. Predictors: (Constant), LAW, LIN, DF, FTF						
ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	213.184	4	53.296	333.999	.000 <sup>b</sup>



	Residual	37.977	238	.160		
	Total	251.161	242			
a. Dependent Variable: IMM						
b. Predictors: (Constant), LAW, LIN, DF, FTF						
<b>Coefficients<sup>a</sup></b>						
		Unstandardized Coefficients		Standardized Coefficients		
	Model	B	Std. Error	Beta	t	Sig.
1	(Constant)	-.039	.095		-.405	.686
	LAW	-.396	.100	-.383	-3.950	.000
	LIN	.793	.054	.725	14.814	.000
	DF	.496	.164	.444	3.021	.003
	FTF	.170	.117	.149	1.453	.002
a. Dependent Variable: IMM						

The model summary values in the table above revealed,  $R = 0.821$  which is the correlation indices of non-monetary compensation on implementation mechanism in the transmission company of Nigeria. This implies that indirect compensation (independent variable) which was measured using the leave allowance, life insurance, daily feeding and free transport facility correlated with implementation mechanism (dependent variable). The estimate of the strength of this relationship is revealed in the  $R^2=0.849$  termed the "coefficient of determination which indicates the proportion of variance in the implementation mechanism that is accounted for by indirect compensation.

The  $R^2$  of 0.849 is suggesting that about 84.9% of the variability of the implementation strategy can be "explained" by the relationship with non-monetary compensation. Only just 15.1% of the variability is yet unexplained, suggesting that there must be 1 or more other relevant factors that are related to performance.

Also in this table is the ANOVA table, which reports how well the regression equation fits the data (i.e., predicts the dependent variable). This table indicates that the regression model significantly predicts the dependent variable. The  $p < 0.05$  and indicates that, overall, the regression model statistically significantly predicts the outcome variable at  $R=0.721$ ,  $R^2=0.749$ ,  $f(4,242) = 333.999$ ,  $p < 0.05$ . This implies that indirect compensation has significant influence on implementation mechanism.

The Coefficients table shows the required statistics to forecast changes in implementation mechanism from indirect compensation, and also determine if indirect compensation contributes statistically to the model. The values in the "B" column under the "Unstandardized Coefficients" column revealed that

implementation mechanism =  $0.039+0.396+0.793+0.496+0.170$  (leave allowance, life insurance, daily feeding and free transport facility).

**Decision:** the level of significance below 0.05 connotes a statistical confidence of above 95%. Therefore, indirect compensation has a significant effect on implementation mechanism. This means that the null hypotheses (Ho) were rejected and the alternate hypotheses were accepted.

### **Discussion of Findings**

The study shows a positive correlation between leave allowance and performance in the Transmission Company of Nigeria. It was also noted by respondents that life insurance lead to improved performance, as the staff are aware that in case of injury they will be adequately compensated. It was also noted by respondents that daily feeding will spur performance. The respondents acknowledge that transport allowance will also improve employees performance. According to scholars like Aguinis, Gottfredson & Joo, (2012); Holland, Sheehan & De Cieri, (2007), compensation has become a strategic resource for competitive advantage. Consequently, they concluded that for firm to gain a competitive market advantage the focus should be on fringe benefits (Aiman-Smith, Bauer & Cable 2001; D'Annunzio-Green, 2008; Tornikoski, 2011).

### **Conclusion**

Over the year's most public organization in Nigeria have fallen below expectations, thereby leading to public outcry about their inability to meet their objectives. However, with the ever-growing criticism of the opaque and ponderous nature of government activity, attention has been shifted to the lack of capacity by government officials to meet their objectives which have been attributed to poor compensation. For instance, this study showcased that the implementation of indirect financial compensation in terms of paid leave allowance, personnel insurance, daily employee feeding, and free transport facility, has significant impact on employee's performance in the Transmission Company of Nigeria. In the forgoing regards, it has become quite auspicious for government to ensure that compensatory issues inform indirect compensation are given adequate attention to stem the unwholesome tide of inefficiency and lack of productivity in the Transmission company of Nigeria TCN.

### **Recommendations**

The study's conclusions have some significant policy recommendations that affect the compensation package offered by Transmission Company of Nigeria. The recommendations of the policy can likewise be applied to other Nigerian public

sector organizations. The study's aims are taken into consideration while presenting the policy implications.

To encourage employee productivity, management should think about providing for employees' personal needs, such as benefits for domestic partners and child care. To maintain consistency and foster employee trust, the company's benefits should be awarded equally every time.

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