



Executive Compensation Packages and Customer Acquisition of Selected Deposit Money Banks in Lagos State Nigeria

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Abstract

Executive compensation is a major strategy being employed by deposit money banks to achieve steady growth in their customer acquisition efforts. The banks face series of challenges including inability to achieve consistent service excellence which had negatively impacted on new customer acquisition. The study examined the effect of executive compensation package on customer acquisition of selected deposit money banks in Lagos State, Nigeria. The study employed cross sectional survey research design where four hundred and twenty-nine copies of the research instruments were administered to purposively selected respondents who were senior and executive staff of the selected banks. The result of multiple regression analysis revealed that base salary ($B = 0.217$, $p = 0.000$) and recognition ($B = 0.123$, $p = 0.012$) have positive and significant effect on customer acquisition while supplementary benefits ($B = 0.017$, $p = 0.568$) and executive bonus ($B = 0.044$, $p = 0.175$) have positive, but insignificant effect on customer acquisition. The study concluded that executive compensation has positive effect on customer of selected deposit money banks in Lagos State, Nigeria. It was recommended that attractive compensation management should be instituted to ensure that executive staff are adequately remunerated to facilitate their performance with less distractions.

Keywords: Executive compensation; Base salary; Customer acquisition; Deposit money banks; Executive bonus; Recognition; Supplemental benefits.



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1. Introduction

Deposit money banks (DMBs) are facing several challenges as they perform their responsibilities. Some of these encounters are precarious and negatively affects the growth and long-term survival. According to [Zubair and Irem \(2018\)](#); [Zirra et al. \(2019\)](#), poor executive compensation packages is responsible for various organisational problems including consistent decline in customer acquisition. In most cases, the disenchantment of the executive staff often contributes to their reduced performance especially in the area of new customer acquisition and thus, aggravating already precarious situations. The lack of ability of the executive staff to be alive to their responsibilities has contributed to other challenges that made it impossible to achieve steady and consistent customer acquisition. Such by-products of challenges increasingly manifest in staff attritions, wastages of resources and increasing cost of operations.

According to [Tien et al. \(2014\)](#); [Blanco-Mazagatos et al. \(2016\)](#), executive staff play in play important role to ensure that their organisations achieves steady growth in customer acquisition. This role is essential because most service sector institutions especially banks rely on large customer base for profitable operations. Organisations with large customer base would be in a better position to consummate more business transactions for the growth of the institution. In order to solve the problem of inadequate customer acquisition, deposit money banks designed and implementation a strong executive compensation programmes which comprises attractive salary and benefits packages to reward the executives justly and regularly. This study therefore examines the effect of executive compensation packages and customer acquisition of the selected deposit money banks in Lagos, Nigeria.

2. Literature Review

This section discusses executive compensation packages (base salary, supplementary benefits, executive bonus, and recognition) and customer acquisition.

2.1. Executive Compensation

The financial compensation and other non-financial awards that is given to an executive employee for his services to the organization is called executive compensation. Such remuneration is usually a combination of salary, benefits and bonuses ([Alex et al., 2017](#)). An important part of executive compensation is to recognise and appreciate

the labors of their executive staff who have performed well by not just meeting but surpassing individual and corporate goals (Norida *et al.*, 2016). According to Boxall and Purcell (2016), executive compensation is an essential part of organisational development because executive staff play strategic role in the management of an organisation. All efficacious organisations depend on proficient services put in by executive staff, hence in order to guarantee stable and dedicated management of resources, it is necessary for organisations to get their composition and welfare issues right from the start. Shariful *et al.* (2013), noted that executive staff who are inadequately remunerated may be less motivated to carry out their duties in the best interest of the organization. Executive compensation packages to be discussed are: base salary, supplementary benefits, executive bonus, and recognition.

Salary according to USLegal (2019) is the monetary payment that employees receive for carrying out tasks in organisations and it can be remunerated on hourly, daily, weekly or monthly basis. It is the cost of obtaining and keeping employees for carrying out the tasks in the organization (Sule *et al.*, 2015). According to Heathfield (2019), the payment of salary payment is viewed as one of the fixed cost of organisations and it is very essential in the management of every organization whether in public sector establishments or private. The details and agreements are usually exemplified in an employment contract between the employees and the organisation. There are diverse factors according to Yusuf and Abubakar (2014) that determine the payment of salary payment in both private and public sectors which includes but not limited to education level, nature and the of professional qualifications acquired, years of experience of an employee, religious predispositions, exceptional considerations for gender issues, and societal factors. Amoatema and Kyeremeh (2016), add that it is necessary to compare market rates for people carrying out works that are similar and in similar industries in the same region.

Supplemental benefits are the benefits remunerated to workers in addition to the basic salary to boost their performance and commitment to the organisation (David and Karl, 2018). This disbursements can be intrinsic (non-monetary) or extrinsic (monetary). Supplemental benefits are occasionally called fringe benefits which includes several types of non-salary payment given to workers in addition to their usual salary. According to Itoya and Nwabuzo (2017), these benefits help in redefining what the needs of the workforce are in the organization. Employees are more likely to take their job seriously in order to earn additional payments different from what they are actually qualified to enjoy according to the contract.

Executive bonus pay is the added imbursement made available to executive staff based for exerting extra energy in performing organizational tasks. It is one of the best salary administration packages adopted by most progressive organisations at global level. Employers have the privilege of knowing their best and worst performing executive staff in the organization (David and Karl, 2018). According to Olubusayo *et al.* (2014), employers pay their executive staff diverse bonuses for several reasons: to motivate them, retain the services of treasured workers, make the organization attractive to prospective employees, be competitive in terms of payment and benefits when matched with their peers and get greater performance from workers by linking bonus payment with performance on the job. Executive pay system enhances organisational productivity and simultaneously provides motivations to workers who are underperforming to strive to improve on their performance in order to benefit from the bonus system.

Employee recognition is the non-monetary compensation given to employees in organisations to show how much the organisation values and treasure their contributions to the success of the organisation Amoatema and Kyeremeh (2016). Employee recognition programmes covers a wide range of activities like an unprompted and private thank you to wide and official programmes to encourage and recognize good performance and behaviour of outstanding employees. Recognition programmes are intended to inspire repeat actions, by highlighting the behaviour the organisation would want to see being repeated by employees. When workers are appreciated and recognized for good job done, they feel more positive about themselves and the organization and will be more willing to exert more energy in the work they do or go extra mile for the organization (Robins and Pals, 2002). Schlechter *et al.* (2015), add that non-financial rewards such as recognition and other intrinsic rewards are essential for organizational success.

2.2. Customer Acquisition

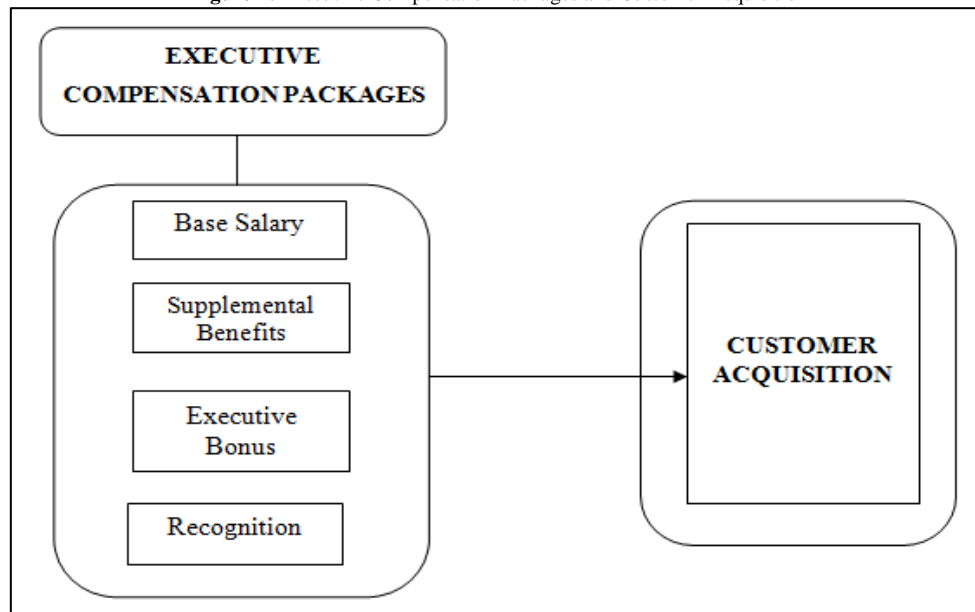
Customer acquisition refers to strategies and processes which organisations embark to persuade consumers to purchase or subscribe to their goods or services (Haripersad and Sookdeo, 2018). Molly (2015) regarded customer acquisition as a conscious process of converting new consumers for business relationships or persuading existing prospects into a new relationship. Organisations uses different strategies to acquire new customers, however, they are always conscious about the cost of acquiring these customers to ensure that the cost per each new customer acquired is profitable to the organisation (Paul and Trehan, 2011). The goal of the acquisition process is to create systematic and sustainable strategies that will enable organisations enlist new customers on a continuous basis through combination of efforts of different units and departments within the firm. According to Rob (2013), many firms start operations with very few clients, and gradually acquire steady customers over a period of time through different business strategies such as product differentiation, product quality, aggressive marketing, advertisement, price differentiation, sponsoring an events and in the long run, building a base of devoted customers.

The entrance of technology and enhanced communications have made customer acquisition less stressful because of the power of persuasion embedded in it, the longer range it covers and its relative inexpensiveness. There are now improved and quicker procedures of getting acquisition job done (innovation methods, virtual reality, real time online processing, electronic marketing, requests and approvals, and alternative work patterns) which have greatly enhanced acquisition efforts. Further, the use of internet on advertisements, social media platforms like Twitter, WhatsApp, Instagram, Facebook and other medium of communications with large following of people (potential customers) will be of help to deposit money banks in their acquisition efforts (Ennew *et al.*, 2013). Some

of the factors that enhance customer acquisition includes meeting and surpassing prospects, excellent service, empathy, defined target market to focus attention, leverage on high quality audio-visual campaigns, distribution of giveaways for potential customers to see and believe on the practicality of the campaign programmes (Ahmad *et al.*, 2018).

2.3. Research Conceptual Model

Figure-1. Executive Compensation Packages and Customer Acquisition



The figure above presents the conceptual model based upon the review of literature and it shows the effect of executive compensation packages (base salary, supplemental benefits, executive bonus and recognition) on customer acquisition.

3. Theoretical Review

The theoretical perspective of this study is anchored on efficiency wage theory. This theory proposes that if organizations pay wages above the equilibrium level, they can become more productive and function more efficiently (Schlicht, 2010). Wage increment can lead to increased labour productivity. Consequently if organizations raise their wages, some or all of the higher wage costs could be recovered through improved staff retention and greater labour productivity. A wage that is above equilibrium is efficient and organizations voluntarily pay such wages to retain productive employees thereby increasing organizational profits. The theory also expounded the psychological nature of people where their desires and wants play major roles in defining an individual behavior at any point in time (Dube, 2015). Efficiency wage theory has direct link with customer acquisitions because when employees' wages are increased, it often has positive effect on their performance through higher drive to meet target thresholds set by the organisation. However, government actions and labour unions can make wages to surpass labour market equilibrium.

4. Methodology

The study adopted cross sectional survey research design. A purposive sampling technique was used with a sample size of 429 respondents made up of senior and executive staff of the selected banks. A structured partly adapted and self-administered questionnaire was used for data collection. There were 398 respondents, representing 92.7%. SPSS version 26 was used to analyse the descriptive and inferential statistics. The hypotheses were tested using multiple regression, Pearson correlation and hierarchical regression approaches.

5. Data Analysis, Results and Discussion

The population of the study consist of four hundred and twenty-nine respondents and same number of questionnaire copies were used to sample respondents. A total of three hundred and ninety-eight copies were returned, which represents 92.8% response rate.

5.1. Test of Hypotheses

H₀₁: Executive compensation has no significant effect on Customer acquisition of selected deposit money banks in Lagos State, Nigeria.

Table-1. Results of multiple regression analysis on effect of Executive Compensation on Customers Acquisition

Coefficients ^a									
N	Variables	B	Beta	T	Sig	R ²	Adj. R ²	F _(4,392)	F Sig ²
392	Constant	16.087		10.716	0.000	.106	.097	11.549	.000
	Base salary	0.217	0.219	4.231	0.000				
	Supplementary benefits	0.017	0.031	0.571	0.568				
	Executive Bonus	0.044	0.075	1.359	0.175				
	Recognition	0.123	0.135	2.522	0.012				

a. Dependent Variable: Customer Acquisition

b. Predictors: (Constant): Base Salary, Supplementary Benefits, Executive Bonus, Recognition

Table 1 presents the result of multiple regression analysis for the effect of executive compensation (base salary, supplemental benefits, executive bonus and recognition) on customer acquisition at the deposit money banks in Lagos State, Nigeria. The results revealed that base salary ($B = 0.217, p = 0.000$) and recognition ($B = 0.123, p = 0.012$) have positive and significant effect on customer acquisition. This means that attractive base salary is an important factor to achieve steady and consistent customer acquisition at the banks. It also revealed that there was a strong correlation between good salary packages and customer acquisition accomplishments. Also, recognition dimension is vital in customer acquisition programmes. Most deposit banks have various non-cash intrinsic awards being given to high performers which ultimately boost the psyche of the recipients to replicate the extraordinary performance to earn deserved appreciation and recognition from the management. However, supplementary benefit ($B = 0.017, p = 0.568$) and executive bonus ($B = 0.044, p = 0.175$) have positive, but insignificant effect on customer acquisition. Possible reasons that could be adduced to the bonus component is that bonus payment is not guaranteed and any staff that fails to achieve the prescribed bonus milestones, will not receive any payment. This is in contrast position when compared with salary which is usually regular and consistent. Also, reasons that could be adduced for the insignificant benefit is that if the attached benefits are not competitive and motivating enough, then it would not drive customer acquisition efforts with the zeal it requires for it to succeed.

Further analysis of the multiple regression revealed that the adjusted coefficient of determination, R^2 was 0.097 which indicated that all the elements of executive compensation of base salary, supplemental benefits, executive bonus and recognition accounted for 9.7% variance in the customer acquisition at the selected deposit money banks. The p-value of 0.000 implies that the multiple regression model is significant at the 95%. However, the remaining unexplained 90.3% variance could be attributed to other factors like work environment, internal and external factors as well as government policies that were not considered in this study. The results also indicated that there was a collective positive significant effect of executive compensation sub-variables on customer acquisition at the deposit money banks ($F_{(4,392)} = 11.549, p < 0.000, R^2 = 0.106$), which implied that the combination of executive compensation sub-variables was statistically significant in explaining changes in customer acquisition. Additionally, the collinearity statistics tests (Variance Inflation Factor and Tolerance Factor) shows that the predictor variables have VIF range between 0.00 to 0.91 and tolerance factor of less than 0.1.

The regression model that was established to predict the effect of executive compensation on customer acquisition at the deposit money banks is summarised as follows:

$$CA = 16.087 + 0.217BS + 0.123RE \dots\dots\dots (1)$$

Where:

CA = Customer acquisition

BS = Base salary

RE = Recognition

According to the regression equation established, holding all factors (base salary, supplemental benefits, executive bonus and recognition) at constant at zero, the rate of customer acquisition at the deposit money banks will be 16.087 which means that without the influence of the predictor variables, the customer acquisition would be 16.087. From the model, an improvement in base salary would results to 0.217 times improvement in customer acquisition at the deposit money banks. The model also showed the effect of positive impact of recognition will lead to 0.123 improvement in customer acquisition at the banks. This revealed further that, awarding attractive base salary to executive staff has the greatest influence on the customer acquisition at the deposit money banks ($B = 0.217; t = 4.231; p = 0.000$) followed by recognition ($B = 0.123; t = 2.522; p = 0.012$) which also influences customer acquisition at the deposit money banks Thus, the findings in general indicate that executive compensation have positive effect on customer acquisition at the deposit money banks.

6. Discussions of Findings

The overall result of the multiple regression indicated that there was a collective positive significant effect of executive compensation on customer acquisition at the deposit money banks. The findings corroborated the studies on executive compensation management by [Abayomi and Ziska \(2014\)](#); [Adeoye \(2015\)](#); [Ahmed \(2014\)](#) affirming that inadequate base salary structure contributed to poor customer acquisition which led to diverse organisation glitches like attrition of workers, poor service delivery and declining profitability. Researchers ([Akmal, 2014](#); [Nicoleta, 2013](#)) stressed the importance of attractive base salary to drive customer acquisition. They stated that unattractive basic salary structure of executive employees at the deposit banks have been a main challenge deterring

(Dube, 2015), them from performing efficiently in their duties. The base salary is a critical yardstick in measuring employee compensations because other employee entitlements are based on certain percentages of base salary, hence when the base salary is low, it will have similar effect on calculations for health, insurance, housing, transportation and other benefits.

The study of Okeke *et al.* (2017) supported earlier literatures which emphasised that attractive salary packages motivates executive staff to increase organisational performance. The findings by Schlechter *et al.* (2015); Calvin and Bongani (2017); Francis and Ophelia (2011) stressed the critical role which bonus awards play in customer acquisition. They concluded that inadequate management of executive bonus systems and unappealing bonus system are major challenges in organizations. This view was supported by Lalin *et al.* (2013) by adding that organisations need to be dynamic in the management of their bonus packages

7. Conclusion and Recommendations

The study focused on effect of executive compensation packages on customer acquisition at the deposit money banks and the results revealed that executive compensation (base salary, supplemental benefits, executive bonus and recognition) have significant and positive effect on customer acquisition. The result concluded that customer acquisition was important to operations of deposit money banks because the higher the number of customers the banks have, the more likely it would translate to consummating higher number and volume of transactions which often guarantees higher incomes and profitability. The study recommended that robust compensation packages should be made available to senior and executive staff to encourage focused commitment. Such compensation strategies should include both financial and non-financial compensations so as to have wider appeal to large segment of the executive workforce.

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