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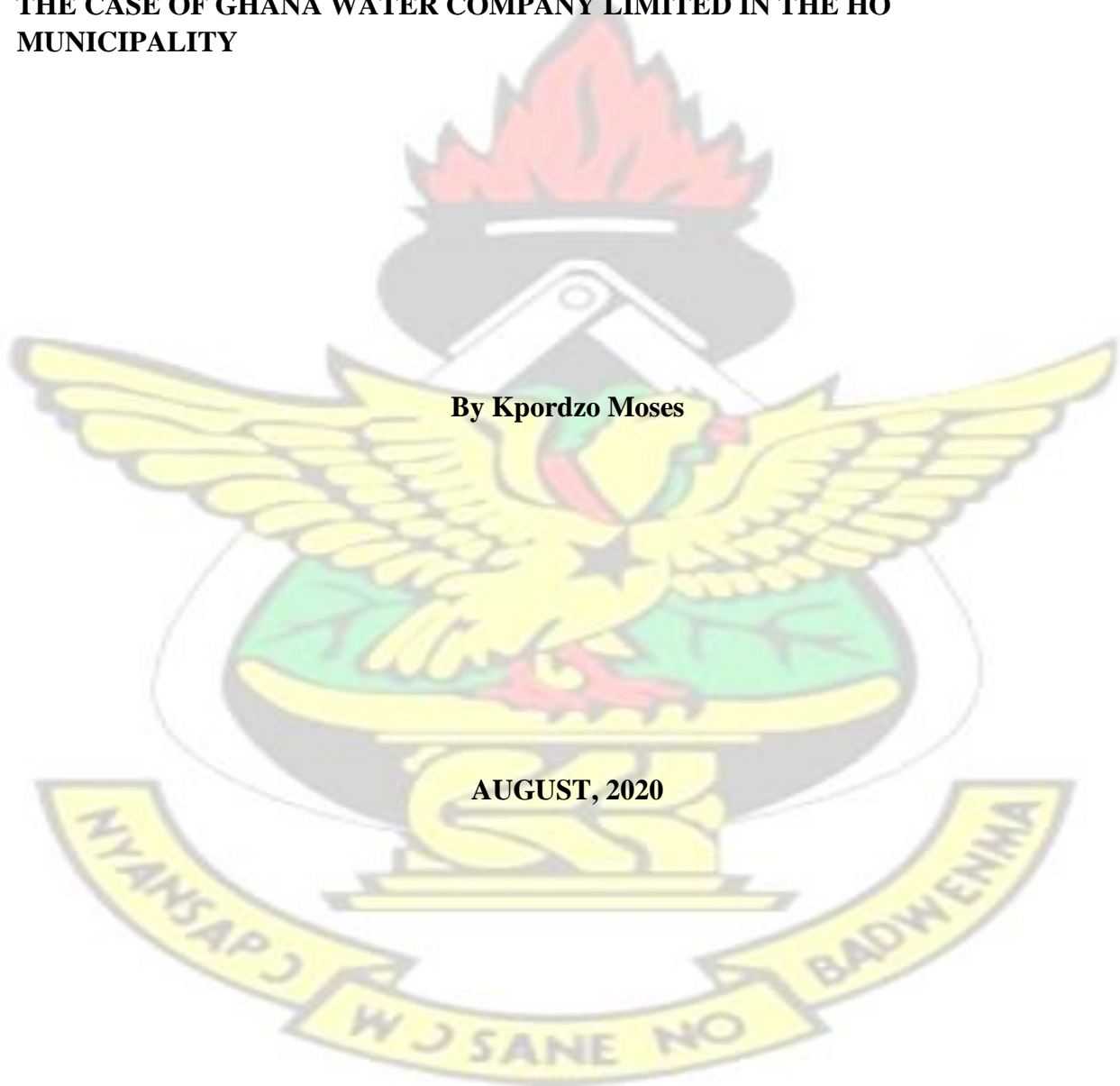
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EFFECTS OF REMUNERATION ON FINANCIAL PERFORMANCE:

**THE CASE OF GHANA WATER COMPANY LIMITED IN THE HO
MUNICIPALITY**

By Kpordzo Moses

AUGUST, 2020



**EFFECTS OF REMUNERATION ON FINANCIAL PERFORMANCE:
THE CASE OF GHANA WATER COMPANY LIMITED IN THE HO MUNICIPALITY**

By
Kpordzo Moses, M.Sc. Accounting and Finance

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A thesis submitted to the Institute of Distance Learning, Kwame Nkrumah University of Science and Technology in partial fulfillment of the requirements for the degree of

MASTER OF SCIENCE IN ACCOUNTING AND FINANCE

NOVEMBER, 2020



DECLARATION

'I hereby declare that this submission is my own work towards the "Master of Science in Accounting and Finance" Degree and that, to the best of my knowledge, it contains no material previously published by another person nor materials which has been accepted for the award of any other degree of the University, except where due acknowledgement has been made in the text'.

Moses Kpordzo
.....

PG7237419

Signature

Date

Certified by

Mr. C. T. Dodor
.....

Supervisor

Signature

Date

Certified by

Prof. K. O. Boateng
.....

Director, IDL

Signature

Date

ABSTRACT

This study investigates the effect of staff remuneration on financial performance using the Ho Municipal Directorate of the Ghana Water Company Limited (GWCL) as the case study. The research uses the staff perception of the capacity of the Municipal Directorate to generate revenue more than its expenditures as a proxy for financial performance. The study has specifically sought to examine the components of staff remuneration and identify some relevant factors that influence remuneration and financial performance of the company. It finally, estimates the effects of staff remuneration on its financial performance using the probit model. The study has found that one of the most important factors that affect remuneration of the employees are the failure to meet revenue generating targets, increased cost expenditure and lack of funds. Further, the results have shown that the longer the years an individual staff works with the company the greater it costs the company and so it has a negative effect on the financial performance. Moreover, the company's assets and capacity to increase revenue collection has a positive effect on its financial performance. This means that if the company increases its assets and capacity of revenue collection, this could increase its financial performance. In the same way, challenges with revenue generation could lead to a significant negative effect on its financial performance. Nonetheless, when revenue targets are met, the financial performance of the company increases significantly. Finally, the study recommends that the management should focus on resolving the issues of giving more training to the staff on revenue generation as well as educating the public on prompt payment of bills. The company is also urged to motivate its staff and provide them with all required logistics for revenue collection in order to enhance the value of revenue generated, which can lead to improving staff remuneration and financial performance of the company.

DEDICATION

I dedicate this work to the Lord Almighty:

My lovely wife, Mrs. Lena Dikro Kpordzo and Dr. Maxwell Akple for their encouragement and support, as well as staff and colleagues of the Directorate of Finance, Ho Technical University.



ACKNOWLEDGEMENT

I would like to express my deepest appreciation to Dr. Maxwell Akple a Senior Lecturer and Dean of Graduate School, Ho Technical University, who has the attitude and substance of a genius; he continually and convincingly conveyed a spirit of adventure in regard to research and an excitement in regard to learning. Without his guidance and persistent help, this dissertation would not have been possible,

I would like to thank my Supervisor, Mr. Christian Thywill Dodor who relentlessly read through each chapter and passed his comments and remarks till a finished work was produced.

Finally to my dear colleagues who supported in diverse ways to make this a reality.

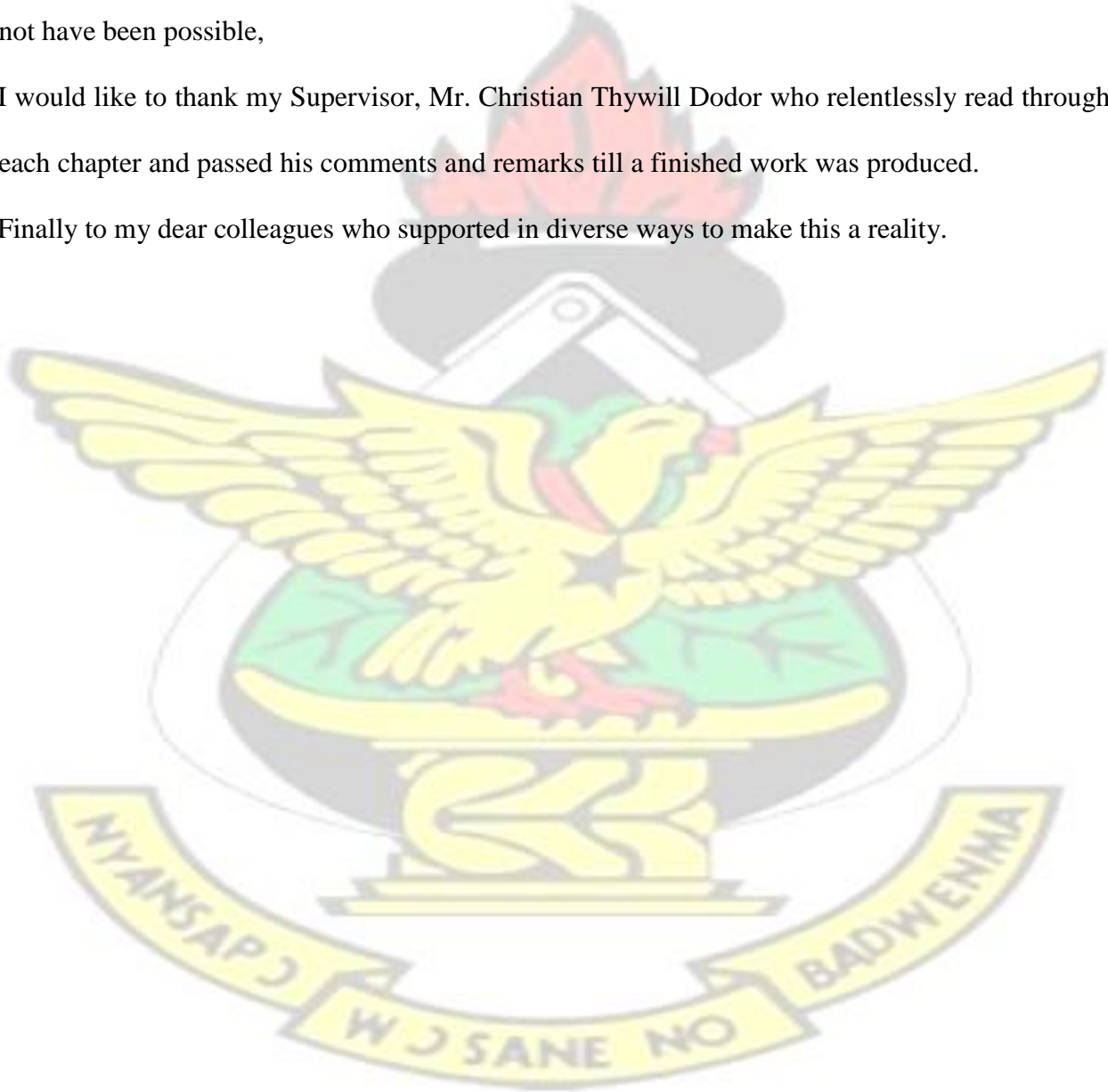


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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

In the recent times the public utility service providers of many countries have been experiencing the challenge rising from societal demands in the face of resource constraints (Battilana and Lee, 2014; Doherty et al., 2014). Also, the rate of improving revenue generation which normally reflects the efficacy of their financial performance has not been impressive in the Ghana's public sector. The case is not different from the Ghana Water Company Limited in the current era of Ghana's development process, where population and urban settlements are rising. Constitutionally, Ghana Water Company Limited is mandated to deliver services of supplying safe and clean water to the residents of the country. Hence, staff motivation in the form of remunerations including compensations as well as financial performance of the company in terms of revenue generation capacity is very vital for efficient delivery of their services. It, is therefore, necessary to examine the effects of remuneration on the financial performance using the Ghana Water Company Limited as case study.

Remuneration can be seen as a form of compensation and can be generally described as both financial and non-financial payments and rewards to the employees of an organization. These rewards might comprise basic fixed salary, bonuses and incentives in cash or kind (Bezuidenhout, 2016). Remunerations can therefore be linked to employees' performance as form of incentive that motivate them to generate more revenue for the state by delivering improved quality services to the public. This assertion is in line with the

agency theory that the goals and effects of management of an organization might accurately fall in line with those of the government policies if adequate remuneration packages including incentives, percentage shares options, bonuses, dividends among others are attached (Otieno, 2012). Thus, it is important to relate all forms of remunerations to financial performance of the company such that the employees, particularly the managers, should not receive excessive remunerations irrespective of the financial problems of their companies (Colvin, 2008).

Similarly in Ghana, though various forms of restructuring policies have been put in place in the Ghana Water Company Limited to improve and expand safe and clean water supply services throughout the country, the services provided by the company have virtually not improved. Thus, despite, all the efforts to improve Ghana Water Company Limited's financial performance, various past studies have demonstrated rising water tariffs and changes in revenue generation systems in Ghana over decades do not yield improvement in water supply services but results in inefficient revenue generation, high remuneration of employees and inability of the company to recover its cost of production (Boakye and Nyieku, 2010). This study, therefore seeks to understand how the Ghana Water Company Limited's remuneration system impacts its employees efforts to increase their revenue generating capacity and for as a result enhances its financial performance. The study in this respect examines the effects of staff remuneration system of the Ghana Water Company Limited on its financial performance using the Ho Municipal office as a case study. The study uses changes in remuneration and compensation packages as indicators to find out

whether it significantly improved revenue generation of the company. It has also considered the components of the remuneration system of the Ghana Water Company Limited and enumerated some determinants of remuneration and financial performance of the company. Additionally, it looks at the effects of staff remuneration on financial performance of the company.

1.2 PROBLEM STATEMENT

It has been a well-known maxim that provision of safe and clean water is a vital commodity which virtually has no substitute. Though, water production and supply companies play a very important task of supplying a commodity that never lacks demand, some often than not runs into a loss. The situation has been attributed to poor billing and payment system of the utility companies in less developed countries. This suggest low revenue generation which has been restraining the efforts of water utility companies from sustainably expanding capacity of supply. This is not different from the case of the Ghana Water Company Limited such that it has adversely affected its revenue generation (Sualihu et al., 2017) whereas the remuneration packages of the staff seem unwavering. However, the linkage between staff remuneration and financial performance with respect to revenue generation of the Ghana Water Company Limited in the Ho Municipality has not been well understood. This study, therefore, seek to contribute to the available literature on the issue by investigating the effects of remuneration on financial performance of the Ho Municipal directorate of the Ghana Water Company Limited.

In many cases employee remuneration based on performance is seen as incentive structure normally adopted by companies and governments as a form of motivation for increasing productivity and performance. Available literature also suggests that companies that use profit sharing approach such that the employee feel to have a share, owning the plans and set targets of the company, experienced increased employee productivity and performance (Schulz, 1997; Kuo et al., 2013). This is to avoid the occurrence of situations where employees, particularly senior executives incurring losses reward themselves with high remuneration packages as pointed out by some scholars (e.g. Jensen and Murphy, 2010; De Wet, 2013). However, it has not been extensively documented how remuneration systems as applied by a public utility service provider like the Ghana Water Company Limited influence its financial performance, for instance motivating the management and the staff to augment their revenue generation base.

Further, similar empirical analysis on the issues on the linkages between staff remuneration are very limited in Ghana and therefore have not been well addressed in the past literature. Meanwhile, the available literature suggests that an appropriately structured remuneration or pay system of a company can serve as guide to directing individual employee's efforts to the business objectives of the organization and could assist the firm to achieve a higher status of financial performance (Gómez-Mejía and Welbourne, 1998). Nonetheless, it is not well understood how the Ghana Water Company Limited's compensation or remuneration system directs its employees efforts to increase their revenue generating capacity and thus, enhancing its financial performance. Hence, this study explore the effects of staff remuneration system of the Ghana Water Company Limited on its financial

performance. It investigates whether the changes in remuneration and compensation packages has significantly improved revenue generation of the company and vice versa.

1.3 RESEARCH OBJECTIVES

The primary objective of this study is to investigate the effect of staff remuneration on financial performance using the Ghana Water Company Limited in the Ho Municipality as the case study. It uses the outputs of the revenue generation capacity of the municipal directorate of the company as a proxy for its financial performance. The specific objectives of the study are to:

- i. Explore the components of the remuneration system in the Ghana Water Company Limited
- ii. Identify factors that determine remuneration and financial performance of the Ghana Water Company Limited
- iii. Establish the effects of staff remuneration on financial performance of the company.

1.4 RESEARCH QUESTIONS

The main question addressed in this study is what are the effects of staff remuneration on financial performance of the Ghana Water Company Limited in the Ho Municipality? It uses the outputs of the revenue generation capacity of the Municipal Directorate of the company as a proxy for its financial performance. It answers the following specific questions:

- i. What are the components of the remuneration system of the Ghana Water Company Limited?

- ii. What are the factors that determine staff remuneration and financial performance of the Ghana Water Company Limited?
- iii. What are the effects of staff remuneration on financial performance of the company?

1.5 SIGNIFICANCE OF THE STUDY

This study is significant for the following reasons:

- i. This study has some implications for formulating public policy in line with encouraging pay for performance in the delivery of public utility services. This in respect to the limited resources for public spending on provision of public utilities, particularly safe and clean water.
- ii. The findings on the determinants of staff remuneration and financial performance in terms of revenue generation capacity can serve as step for improving the systems of revenue generation for sustainable service delivery to the public.
- iii. Besides, a clear understanding of the linkages between staff remuneration (compensation) and financial performance is critical for policy makers and the public spending institutions as guide in making budgetary allocations for public utility service providers, specifically the Ghana Water Company Limited

1.6 RESEARCH METHODS

This study applied a number of approaches to achieve its objectives. Primary data were collected using different structured questionnaires admitted to staff of the Ghana Water

Company Limited at the Ho Municipal Directorate. Two distinct questionnaires were employed, one for all management staff and other for the subordinates.

Secondary data on level of revenue generated and sum of compensation (remuneration) received by the staff of the Municipal Office were also collected so as to conduct some trend analysis between the variables. In general, descriptive statistical analyses including means and percentages among others are used for the analysis. The results are presented in tables and graphs (figures). Few statistical tests are also conducted to establish significant differences between designated categories. Additionally, regression analysis has been used to estimate the effect of remuneration on the revenue generation (a proxy for financial performance). These will be achieved by using various appropriate statistical software for data analysis.

1.7 SCOPE AND LIMITATIONS OF THE STUDY

The geographical area of the study is the Ho Municipality. The research is focused on 1.

The managerial staff of the Ghana Water Company Limited office of the Ho Municipality.

2. Other full time staff which include revenue collectors, security service providers, cleaners, engineers and meter readers among others.

3. The questionnaire administration for data collection also covered regular casual workers and temporal service providers who are at post for at least 6 months.

This research faces few limitations comprising lack of enough funding and the limited time of few months dedicated for this study. Exasperatingly, the related literature on the topic, since most past studies focused on managerial or executive officers' compensation

(remuneration) on financial performance of a firm, there is scarce information on the current topic, particularly effects of remuneration on financial performance or revenue generation of public utility companies in Ghana.,

Also, there were some challenges in the administration of the questionnaires as well as in collection of relevant secondary data from the Ho Municipality office of the Ghana Water Company Limited. Other challenges include low rate of response and reluctant of respondents to give right information which might have some influence on both the data collected and the results. Despite the above stated limitations, they do not compromise on the results and the findings of the study.

1.8 ORGANISATION OF THE STUDY

This study is organized into five chapters. Chapter One is made up of introduction which provides an overview of the study as a preamble to the current research. This Chapter One presents the background, the problem statement, the objectives and the research questions. It also discusses scope, limitations and the organization of the study.

Chapter Two embraces reviews of relevant literature which serve as the basis for issues discussed and analyzed in this research. It explores available literature to get familiarized with the extant body of knowledge on the topic in order to state the perspectives and the framework for analysis of this study concisely.

In Chapter Three the research methods adopted to address the questions raised in this study and thus, to achieve the objectives of this study are clearly outlined. Chapter Three, therefore explains the methodology, the sampling techniques and the data collection procedures as well as sources of other forms of data used in generating the results in this

thesis. The fourth chapter presents research results and discussions of findings in response to each of the research questions and objectives. Finally, Chapter Five summarizes the main findings and draws conclusions on the objectives of the study. It also provides some policy recommendations.

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CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

Remuneration usually involves incentives such as bonuses, performance bonuses, overtime pay, incentives for achievement and gain on productivity. This may also provide nonfinancial benefits including an industry-paid vehicle, in some cases stock grants, industry-paid accommodation, as well as other non-financial, but exempted tax items of earnings. Remuneration strategy is a formal policy aimed at helping a company optimize the gains on the resources invested. The primary objective for the most important purposes is to encourage the right kind of individual employees to the fullest extent possible. Authors have suggested that remuneration structures often provide details to observers about some very obvious corporate attributes (Akewushola & Saka) and thus could indicate to a potential employee how the community, traditions, and ideals of an institutions are like (Kyalo, 2015). As per (Calvin, 2017) further indicates that "remuneration mechanisms are interested in attracting the right people for the job because they express very much about the ideology, beliefs, and activities of an institution. Hence, companies should look more closely at existing remuneration packages and update them to encourage certain labour market applicants that they think are quite talented and therefore can help them achieve their targets.

2.1 DEFINITION OF KEY CONCEPTS

What is Remuneration?

Remuneration is a form of reward or benefit earned by a person or worker as reward for their efforts on the job they do for an institution or company. This encompasses the basic salary a worker earns, among other methods of payment that amass through their employment, including spending account contributions, incentives, and stock grants established by (Khalid & Rehman, 2014). Remuneration metrics include: basic salary, pensions, insurance schemes, retirement plans, money transfers for travel, work bonuses and liability scholarships (Alwaki, 2018). Remuneration may also be referred to as financial or fiscal income in the form of wage rates, bonuses, promotions, incentives, opportunities and benefits received or awarded by the employer or company to an employee or category of employees due to services provided by the employee(s), contribution to the company or job award (Hwang et al., 2015; Smith & Shields, 2013).

(Ali 2010) thus describes remuneration as "the mixture of all cash bonuses as well as the extra benefits package which a worker receives from a corporation that is the overall benefits of a worker." Fulton et' al (Fulton, Shearer, Chabra, & Higgins, 2001) relate to remuneration as a diverse financial and non-financial rewards given to individual workers in return for their services performed to them. As per Fulton et' al, it is factored into the price of salaries and benefits for workers like paid holidays, pensions, parental leave, free transport facilities, social security benefits, etc. 'Pay' according to Fulton et' al describe remuneration for employees who do labour or hard job. Incomes therefore are paid to reimburse the unqualified personnel for their services provided to the organization.

Income as well might be dependent on factors as rates per hour, regular, weekly, or perhaps monthly.

Remuneration is the total sum of financial and non-financial compensation that a company provides to a worker in exchange for the job done as necessary. It is based on actual analysis into the importance of reasonable job opportunities in the industry, worker inputs and achievements, the existence of workers with specialized skills in the company, the company's willingness to attract and keep a specific worker for the quality they are considered to contribute to the employment contract and the competitiveness of the organization or the resources available in a non-profit or public sector organization environment, therefore, a company's willingness to pay business rate wages.

2.2 TYPES OF REMUNERATION

According to Gary (2011), grouped remuneration into Direct forms and Indirect forms:

2.2.1 Direct Remuneration

Gary (2011) clarified direct remuneration as being usually restricted to the straight cash incentives that workers receive for the work they provide as workers of a particular institution on an annual, trans-monthly, or constant weekly basis. This also is in the shape of stock option payments, whereby the institution's workers are given the chance to own securities in the company in which they serve. At the close of each year they have the opportunity to acquire more shared interest on their stocks.

2.2.2 Indirect Remunerations

Indirect remuneration as indirect monetary and non-monetary benefits are given to employees to continue their jobs with the organization which is an integral part of each and every worker's rewards (Gary, 2011). Synonyms, such as additional benefits, workplace programmes, additional rewards and additional pay are used. In relation to the different forms of direct pay, per (Armstrong, 2009), Indirect rewards or Staff incentives are components of remuneration provided. These also include things not exclusively remunerated, including seasonal vacations. Administrators utilizes it primarily to promote its recruiting initiative or to impact the ability of workers wanting to work for a corporation, to encourage their retention or to build stronger engagement, to increase loyalty, to minimize truancy in particular and to boost the institution's intensity by implementing a robust system in this field (Gary, 2011; Noe, 1996).

Indirect Remuneration, according to Chhabra (2001), includes 'extra benefits' provided by multiple workplace programmes and rewards such as accommodation, food subsidy, medical care, crèche and so on. It includes bonuses offered to workers by organizations for their affiliation, commitment, or involvement in the organization. Many individuals often mark these as 'secret payroll' due to the extreme higher costs of fringe benefits. Generally, incentives account for about 40 % of overall wage costs per worker. The essential aim of the additional benefits or supplemental remuneration is to retain, sustain and empower productive human capital. Nonetheless, it can be derived from the above publications that the majority of scholars who may have studied in this area consent on the meaning of the concept remuneration and perhaps focus on the types of reward discussed in this study.

Some may even be divided into defined pay and adjustable pay. Those are terms which apply to the principle of direct and indirect reward; also sometimes called secondary and tertiary remuneration.

Byars & Rue (2008) established the following as some standard indirect remuneration in present day organizations: Paid Vacations, Employees Remuneration, Social Security, Retirement Plans, and Paid Vacations.

□ **Paid Vacations**

Occasions like Christmas Day, New Year, Independence Day, Labour Day and so on are taken as paid vacations. One fairly new idea is the mobile holiday which is practiced at the worker's or company's convenience. A further recent term is called family time days off. Within this companies provide workers with pay for any number of days to respond to personal matters. Usually those days may be reserved at the choice of the worker. Under this context, regular leave days could also be regarded as paid vacations, at the company's choice and worker's demand.

□ **Employees Remuneration**

It is designed to shield workers from lost wages and to offset additional expenses due to work-related accidents or sickness. The laws provide for compensation of lost wages, medical bills, some form of recovery, surviving death insurance and impairment dip-sum packages.

□ **Social Security**

It is an insurance plan operated by the Government. As per the law, both company and the worker must contribute into the scheme, and up to a required amount a certain portion of the worker's wages is charged. It is measured on the average annual income how much is charged by company and worker. It is created primarily to give workers economic protection upon their retiring.

□ **Retirement Plans**

Social security and pensions policies, which are given to people that have retired, reflect payments made in past services. Throughout the duration of working, personal arrangements may be financed directly by the organization, or exclusively by the company and the worker. The common type of pension plan is the defined contribution scheme. Under this, the company undertakes to include a payout at the worker's departure date calculated by a predetermined equation. Other major type of pension scheme is the specified –contribution plan which involves a defined or expected maximum contribution rather than an established gain.

□ **Paid Vacations**

Usually, before even being qualified for paid vacation, a worker must fulfill a certain duration of work criteria. Additionally, the space available for paid holidays mainly depends on the duration of work performed by the worker. Except for vacation decisions which directly affect in the same way, vacation policies can vary across worker groups.

Some companies require workers to take vacations by day or week, and not in less than one day divisions. Institutions may provide a broad variety of extra benefits, such as nutritional

care, fitness centers, wellness and a first aid services, legal and financial counsel, and offer reductions in relation to the substantial benefits already addressed for worker motivation.

2.2.3 Sources of remuneration or compensation

In this study, sources of remuneration could be regarded as elements that affect the company. These elements determine the success of productivity in the company.

Few of these include: size of business, age of business, cash flows, economic and financial factors related to it.

□ Size of business

Calder et' al (2000) clarify that the size of an organization influences its business resources, behaviors, expectations and activities that are essential to the efficiency and profitability of the business. The bigger the business, the further beneficial it is to obtain capital for the product. A large organization would have modern facilities, ample resources, more workers and greater increased efficiency. Alternative, small companies will require less capital and human capacity to fund their investments, while large corporations may need additional capital and employees to prepare and fund their investments, making them more flexible. According to Moynihan & Pandey, (2005) a company's size can be determined by the number of staff, the type of innovation, the amount of revenue invested in it. These determine the level of remuneration or compensation.

□ Age of business

Through a monetary economics perspective, cash flows has traditionally been seen as an essential variable because it is related to the capacity of a company to satisfy the demands of different shareholders (Jensen, 1986). As Michael & William, (1976) demonstrated, it may offer a high returns to some current shareholders as financial control improves, although its threat often boosts as it creates financial difficulties at the expense of the organization.

Pointed out by Li & Simerly, (2002) the assumptions about financial performance are critical mostly because of the ability to actually optimize returns on capital, but also for the effect of these actions on the potential of a company to cope with its competitive world.

□ Cash flow, economic and financial factors

According to Mohd, (2005), such circumstances led to the decline or performance of business activities as external factors. Such variables are defined by Kuratko & Hodgetts (2004) to have the volume of rivals on the industry and the strategic tactics they have used.

As stated by Calvin, (2017), once the company has achieved significant advantage over the competitor, the company's output would be higher. When the company outweighs the economic factors, this will cause major damages which may result in the company failing.

2.2.4 Theory of remuneration

A number of theories has identified in the literature that explain remuneration, particularly with respect to the top management of organisations. Nonetheless, many previous studies

that discuss issues on remuneration have used multiple theories to explain remuneration (Sun et al., 2010). Among the available theories, three of them have been accorded much greater attention in the literature. These include the agency theory, the managerial power theory and the stewardship theory. However, with respect to the context of this study, the theoretical basis analysis is found in the agency theory. The implication is that the multiple indicators influence the relationship between performance-based remuneration and the overall financial performance of an organisation. This because an agency relationship is usually defined as a contractual agreement by which one or more agencies, often referred to as the principals, engage another party or parties, known as the agents, to perform a specific service on their behalf (Boshkoska 2015; De Wet 2013; Kuo et al. 2013). The implication is that the managers of the agents of a company (agencies), would not act on the behalf of the organisation they represent in all cases if their interests are not fully in line with the company they represent. This theory points out that managers are unlikely to maximise the wealth of a firm, even in cases where the manager is the only shareholder. Meanwhile, Bryant and Davis (2012), however, argue that the agency problem can be controlled by incentivising managers, as agents, to act in line with the interests of the company. One of these methods is the use of performance-based remuneration (Boshkoska 2015). Companies thus incur agency costs in the form of, for example, incentive schemes to motivate managers to run the company in the best interest of the shareholders and to maximise shareholder wealth in a sustainable manner (De Wet 2013). The agency theory, therefore suggest that remuneration policies should be based on a long-term value creation in a company, which is this cases represented by the financial performance of the company (Dyl, 1988).

2.2.5 Relationship between remuneration and financial performance of organization

A Company's financial performance success is calculated in terms of innovation and productivity (Krauter & Sousa, 2009), thus maximizing equity capital thereby maintaining investor interests (Fraley & Spieker, 2003). Due to the concept of agency there is often a dispute between stakeholders and managers and the source of the dispute is clearly financial allocation (Steen, Josefsen, & Bøhren, 2009). Much of the pay-for-performance principle is related to the attraction gap (Simerly, Li, & Bass, 2000). The principle is based on the philosophy that the combination of main leadership remuneration and business success leads to balance the Stockholder and leadership targets and inspires management to boost their results in a constructive manner. The corporate structure is primarily dependent on the quality and efficacy of financial decisions, objectives assessment, and activity management to achieve the desired goals. These are all operating management roles (Othman, Ponirin, & Ghani, 2009). Therefore, the firm's success standard is in line with its management ' efficiency.

Management success depends on several factors such as, target description (Marketing Innovators, 2005), employment terms for agencies (Trevizan, Cozman, & de Barros, 2007; Wang et al., 2004), political participation (Cao, Lemmon, Pan, & Tian, 2009), and remuneration etc. Scholars' viewpoints and conclusions are universally agreed about the company's growth, the significant impact of target and project conditions, and the detrimental effect of political appointments and rewards. Though, contradictory findings are noticed for the impact of remuneration on efficiency. A research on the effect of corporate management on company productivity was conducted by (Yasser, Entebang, &

Mansor, 2011), the researchers analyzed the function of the governing board as part of major management. They examined the effect of the team structure on productivity, and its importance. Studies also discovered evidence that such factors perform a substantial role in the company's economic productivity. Yet has not been studied what exactly motivates the management to perform better.

Remuneration consists of factors contributing directly to the incentive, employer commitment and eventually performance success (Edvinsson & Camp, 2005). Regular pay or cash flow to employees regardless of results. This portion of the remuneration is dependent on the management's discretion and knowledge (Yik, Lee, & Ng, 2002) and also on organization's capacity. But businesses with better pay rates attract highly skilled workers who have a meaningful impact on the success of the organization (Lee, Lev, & Yeo, 2007).

Dynamic pay: this aspect of remuneration varies from time to time, based on the financial performance of the business and the country economy. It has the following features;

- Rewards: It is the non-cash component of remuneration such as healthcare, travel, home, and others. The aim of this component is to attract and keep the extremely talented workers (Abdullah, 2006) and is now regarded as important as the constant wage.
- Bonuses: These incentives are offered as a compensation for promoting judgmentmaking and accountability (Marketing Innovators, 2005). This portion of the remuneration is focused on the firm's income production and the people's commitment to those profits is compensated with rewards (Indjejikian & Nanda,

2002).

2.3 RELATION BETWEEN EXECUTIVES' (MANAGERS) REMUNERATION AND COMPANY PERFORMANCE

Firms according to (Chandra, Styles, & Wilkinson, 2009) which offer their managers the right incentives will in the right conditions exceed their colleagues. Nevertheless, it is suggested that brief-term compensation packages to managers, while production-related, were partly accountable for the universal economic downturn arising from the fall of financial institutions share value (Fahlenbrach & Stulz, 2011). Workers that are rewarded by cash and material benefits could also be compelled to defraud the institution (Gill, Prowse, & Vlassopoulos, 2013). Colvin stresses that every method of remuneration must contribute to a financial performance of the company, since many executives receive disproportionate benefits and rewards, in a way of equity awards, which eventually result to financial difficulties of their businesses (Calvin, 2017). Oberheim and others reiterated that International investors (Oberheim et al., 2009) are outraged upon receiving complaints indicating that top executives of setback-making institution were compensated with large overall pay benefits. Several researchers reported similar reactions to disproportionate managerial compensation all over the world.

As shown by Kirsten & Du Toit, (2018), the relationship between financial performance as well as the organization and top executives are significant since they are obstructed by compensation benefits preferred by the organization. Despite countless studies conducted in the past, no definite indication of relationship between managers remuneration and financial performance rather contradictory outcomes Kirsten & Du Toit, (2018).

2.4 OVERVIEW OF MANDATES OF GHANA WATER COMPANY LIMITED

The Ghana Water Company Limited (GWCL) was established in 1965 under a Parliament Act (Act 310) as a legal public utility body, in accordance with the guidelines of the World Health organization (WHO). GWCL was to take responsibility for: water supply and sanitation in both rural and urban areas. Surveys and devises (GWCL, 2018).

The company has the following mandates as per (GWCL, 2018):

- Abstracting, storing and providing urban and rural areas with drinking water;
- Planning and construction of water supply systems in Ghana's urban communities
- Carrying out research and engineering surveys of water and related subjects;
- Contracting the design, development, reconstruction and expansion of existing and new infrastructures for water supply;
- Providing quality service to customers as regards the quantity and consistency of water supplied;
- Periodic tabling of rate reform requests to the Public Utilities Regulatory Commission.

2.5 REVENUE GENERATION AND COST RECOVERING SYSTEM OF THE GHANA WATER COMPANY LIMITED

Per GWCL, (2018), stated unless “we are to continue our activities, GWCL will at least recoup its costs”. Nonetheless, over the years, the accepted tariffs were not representative of the full cost. This has contributed to GWCL's inability to collect adequate revenue to

fund the much needed capital improvement programmes, resulting in an unfulfilling quality of service.

Domestic consumption represented 58 percent of the total water volume delivered. Business, commercial and MDA use was 17% and 4.3% respectively, and 16.5%. Domestic clients made up around 85 per cent of the total number of clients in terms of user power but allocated only 46 per cent of overall billing (GWCL, 2018).

Developing countries have commonly used the cost of a first component as a public tariff or lifeline, so that the vulnerable can get at least minimum amount of clean water at a discounted price. Many economic proposals about the effect of tariffs on capital centered on this subject, whether it ultimately benefits the vulnerable.

□ Water sold to ocean going vessels (by Ghana Ports and Harbor Authority)

Ghana Ports and Harbor Authority is responsible for the procurement, development, management, maintenance and operation of Ghana's two major ports-in Tema and Takoradi. GHAPHA specified tariffs, costs and duties for services rendered by the authority under (PNDCL 160) of section 75 of 1986 within the parameters set by the Ministry. GHAPHA, as a result of its recycling program, provides GWCL's safe drinking water to ships docking at Tema and Takoradi ports, and then billing its consumers in US dollars (GWCL, 2018).

□ Sachet Water Producers

Sachet water has gone up from isolation to becoming one of the most common sources of potable water. There is enough data that about 85 per cent of these Sachet water suppliers have complete access to GWCL water.

□ Water Purchase from Independent Water Producers

Regardless of the new policy of the Government of Ghana (GoG) / Ministry of Finance (MoF) on foreign lending to finance infrastructure growth, the use of the Public Private Partnership (PPP) system for the construction of infrastructure projects in Ghana is being facilitated. GWCL has effectively launched its maiden PPP project for which the company supplies water to GWCL in bulk at a rate agreed (GWCL, 2018).

2.6 FACTORS INFLUENCING REVENUE GENERATION OF UTILITY COMPANIES

According to Wambui, (2011), the effectiveness of the revenue generation is characterized as the total amount received by the company compared to the total amount charged in a specified period. This is a vital performance measure of the company because it provides an example of the efficiency of the income control scheme in place and the amount of money available to the company as a result. It also represents the commitment of the consumers to pay, which is strongly associated to overall satisfaction.

Efficient charging and settlement systems and high billing and collections rates are critical resources for increasing utility revenue base, ensuring economic stability and stabilization, and thereby recording changes in delivered services. Service providers would need to understand that the effects of effective procurement strategies on their activities are almost instantaneous and will in fact almost instantly increase the utility's service accounts. It is in this context that we cannot exaggerate the value of adequacy in revenue. Bill settlement rates can be increased by either implementing tougher payment practices or by increasing the standard of service, which, in essence, improves the ability of consumers to pay their bills.

□ Personnel and revenue production

Reasonable levels of personnel or staffing and efficient distribution of tasks constitute significant challenges for most service providers. In several water systems in developing countries, staffing costs represent a greater cost factor than generally acknowledged, extracting money from rehabilitation and other required operational costs and placing costs on clients (GWCL, 2018; Wambui, 2011). However, a crucial efficiency area for facilities is the effective usage of human capital. Two main metrics are used for evaluating the efficacy of the use of human capital in operating utilities.

□ Interventions to boost collection in utilities

As recognized by Wambui,(2011) and Weaver, (2008), service-level initiatives addressing minimized commercial damages need to be implemented to deliver revenue improvements that will lead to the continuous improvement of the services. Effective accounting activity must guarantee that bills are raised annually and should be volumetric-based, so that consumers pay for what they buy. It is compulsory for the service provider to follow all of its consumer links 100 percent metering. Service companies must understand that there can be significant increases in revenue sources with an efficient collection mechanism that relies on these concepts. Nevertheless, to ensure that these activities remain successful, companies must provide modified, reliable and standardized customer information such that the billing feature can be applied effectively.

It is therefore vital to subcontract such critical operations in the hands of companies that have established capabilities in these sectors, such as payment and collection, which in turn allowed the company to concentrate on the more relevant roles and core activities for improving the efficiency of services. It can be achieved either by service contracts implemented for this reason only or by other ways of outsourcing where the entire service responsibility is subcontracted to a third party (GIZ, 2009).

Also, it is necessary to use performance incentives to improve procurement practices, by explicitly relating remuneration to increased efficiency as accomplished by water supply and sanitation workers. If the policies are implemented, team members are adequately compensated or acknowledged as being part of the best working group. These societal pressure programmes build genuine competition for optimized sales efficiency and total revenue growth for the utility company boards.

2.7 FACTORS INFLUENCING FINANCIAL PERFORMANCE OF UTILITY COMPANIES

The company financial standing analysis according to Anitha, (2018), gives a total valuation of the solvency of the company that is used for various viable and financial commitments. It is require preceding to receiving a financial threat on the capability of utility company to satisfy its responsibilities in the prospective future, this threat may occur in different ways. It is also significant to recognize that the credit development could not be restricted to financial assessment. Adequate assessment demand a larger structure, including in depth analysis of basic business requirement, as well as making decisions

concerning the company financial reasonable standing and evaluation management and its structure. Several determiners will have influence on main elements projecting financial structures. Macro-economic should be considered as a threat elements that could influence the major variables behind the business operations (Anitha, 2018). These personal and nonnumerical factors with their expertise characterize the impression on financial declarations and impending essential performance on plans of the company.

The following factors however influence financial performance of utility companies:

□ Insignificant Effect of Firm Size on Financial Performance

Company size and financial accountability per (Niresk & Thirunavukkarasu, 2014) explored the consequences of the company size on the accountability of production firms. The research revealed that calculated arrangement evaluated through the scopes of managers involvement, useful assimilation, planned direction and planned mechanism are important and definitely connected to company financial performance. Nonetheless, company size was not located to satisfy the connection among planned scopes and company financial performance.

□ Leverage and Financial Performance

Financial leverage and financial performance signified the use of equity and debt to secure the resources of a company (Anitha, 2018). These major options for a company to finance its savings are debt and equity. The company, conversely, might fund its assets by using favorite capital. The degree of concern on the debt is constant despite the company's rate.

The leverage accepted by the company shall benefit more on constant rate outside the projected costs. A rise in debt raises financial leverage.

Financial leverage ratios regulates the danger of equity costs. Methods for the capital arrangement comprise market value-based procedures, semi- market value based measures, and book value based measures (Damouri, Khanagha, & Kaffash, 2013).

□ **Liquidity and Financial Performance**

Resolutions concerning the controlling of properties should not encounter with the basic aim of the company to augment stockholder treasure. A crucial aspect of this treasure management is the consideration of an optimum level of liquidity; signifying the ability of the company to achieve its short-term responsibilities. Liquidity plays significant role in effective implementation of a lucrative company. Accordingly, signs of liquidity and productivity have main advantage to both stockholders and prospective investors (Anitha, 2018; Eljelly, 2004).

Liquidity management shows a precarious aspect in the company's success operation for safeguarding future prospects. Presently, production companies worldwide, are largely anxious with emerging approaches to deal with their day-to-day duties and processes for achieving their objectives.

2.8 Empirical review

A number of studies have examined the determinants of executive remuneration and the relationship between executive remuneration and organisation's performance. For instance, it has been found that all methods of remuneration contribute to a financial

performance of an organisation, since many executives receive disproportionate benefits and rewards, in a way of equity awards, which eventually result in the financial difficulties they found themselves (Calvin, 2017). Thus, many past studies have argued that executive remuneration policies are important at the advent of the global economic crisis.

According to Bussin (2015), the world economic crisis was a result of dramatic fragmentation in the market capitalisation global banks. Scholtz and Smit (2013) also argued that, even though executives in the financial sector were engaging in business practices that were eroding performance and threatening sustainability of their respective organisation. His point of contention is based on the fact that as entire financial system is facing crisis, these executives were still receiving substantial incentive pay-outs. This argument was based on the outlook that a weak performance remuneration relationship do occur and could lead to risky business practices.

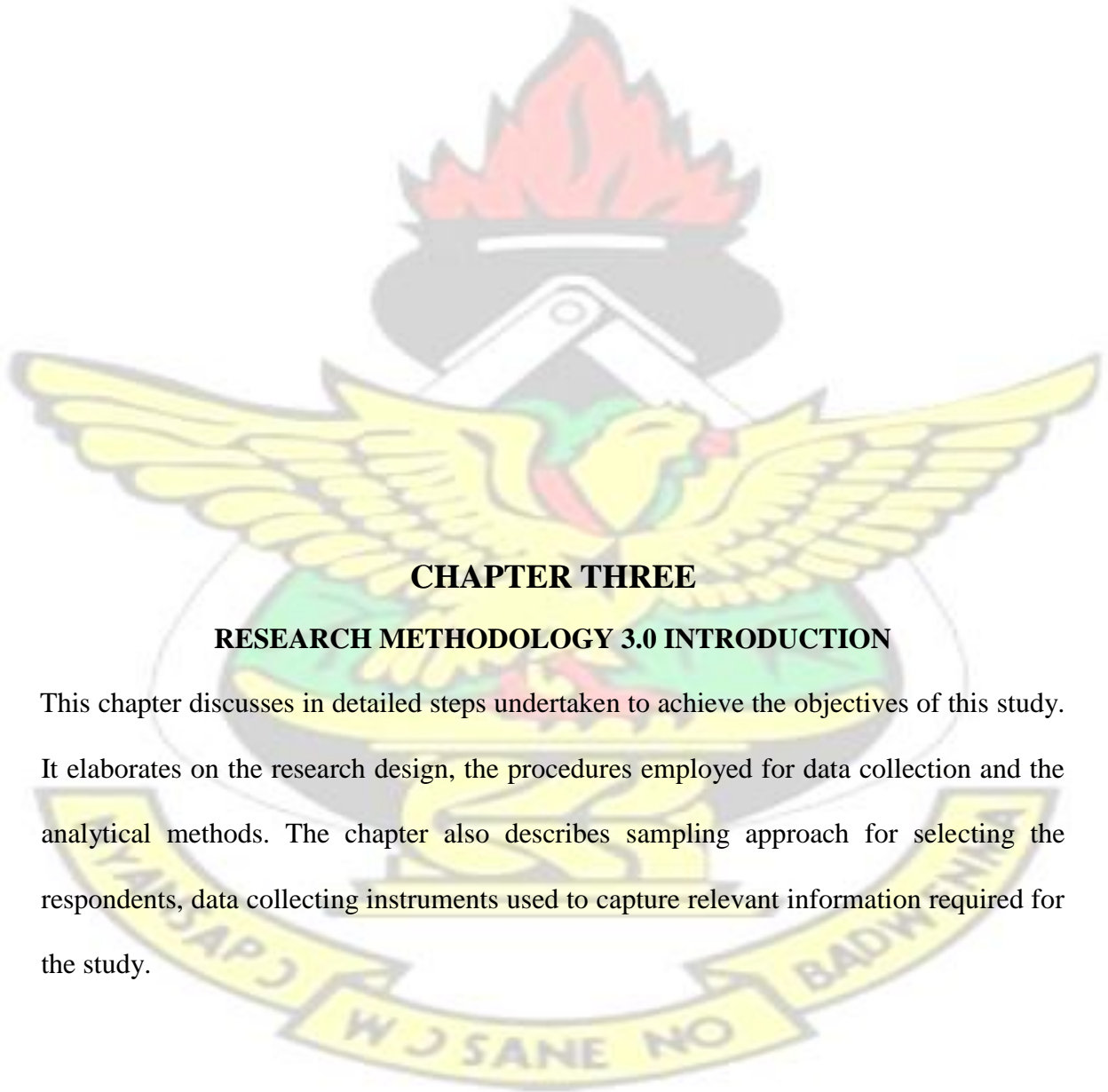
Additionally, it has been contended that remuneration plan which links performance to payment is difficult to create. Nevertheless, to be able to create it, organisations could adopt the guidelines suggested by Vemala et al., (2014), which has shown that remuneration policies should include three basic principles embracing appropriateness, effectiveness and fairness. This guideline should be closely associated with a long-term value which also reflects the viability of the organisation.

In the available literature there are many theoretical approaches are used to develop hypotheses with respect to some determinants of remuneration which are generally, typically grouped into three different dimensions, namely job, employee and organisational characteristics (Kampkötter 2012). However, several empirical studies that have discussed the relationship between company performance and remuneration, have failed to provide conclusive results or form a consensus (Bruce, Buck & Main 2005; Bussin & Blair 2015). This study therefore attempts to fill this gap by using the GWCL as a case study.

2.9 CONCLUSION

In conclusion, successful remuneration, specifically the benefits package, would promote, maintain and empower workers who recognize the institution's specifics. It helps the company to perform at far higher standard than it is at present. Per each company the appropriate benefits package is unique. In order for an institution's incentives to thrive, the institution's objectives must always be matched with the expectations of the workers it wants to encourage. The company needs to set targets, and encourage workers to recognize that aligning the institution's objectives with the individual person ambitions can be mutually beneficial. A company must consistently reconsider its requirements, and support workers to consistently inspire themselves to evaluate their wishes. Until the introduction, remuneration packages must be well figured, because even though a poor or ambiguous package is preferable than just a payment either.

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CHAPTER THREE

RESEARCH METHODOLOGY 3.0 INTRODUCTION

This chapter discusses in detailed steps undertaken to achieve the objectives of this study. It elaborates on the research design, the procedures employed for data collection and the analytical methods. The chapter also describes sampling approach for selecting the respondents, data collecting instruments used to capture relevant information required for the study.

3.1 RESEARCH DESIGN

This study is designed and conducted by adopting various steps including a thorough literature was reviewed on the topic for in-depth understanding of relationship between remuneration and financial performance. These information was collected from various sources like text books, a number of websites, and discussions with some staff at Municipal Directorate of the Ghana Water Company Limited among other revenue generation policy documents of the company. Additionally, some information on the subject was also collected from published and unpublished documents.

Subsequent to the literature review, a well-structured questionnaire (appendix A) was designed based on the research questions and objectives of the study. The Ho municipal Directorate of the Ghana water Company Limited has been identified to be made up of the following categories of staff: management staff, supervisors, customer service officers, customer service assistants, cashiers and casual or contract workers. The questionnaire were distributed to the randomly sampled staff of the company. The information or the data collected represents views of the staff on the relationship between remuneration and the financial performance of the municipal directorate of the company. Next, the data collected has been analyzed and the results produced for discussion.

Moreover, with respect to research design, mixed research approach has been used. Thus, both descriptive or qualitative and quantitative research designs have been adopted to achieve the objectives of the study. A descriptive research design comprises collecting data, describes phenomenon and then organises, tabulates, displays and describes analysed

data in the form of graphs and charts, in order to help the reader understand the distribution of data (Cooper & Schindler, 2011).

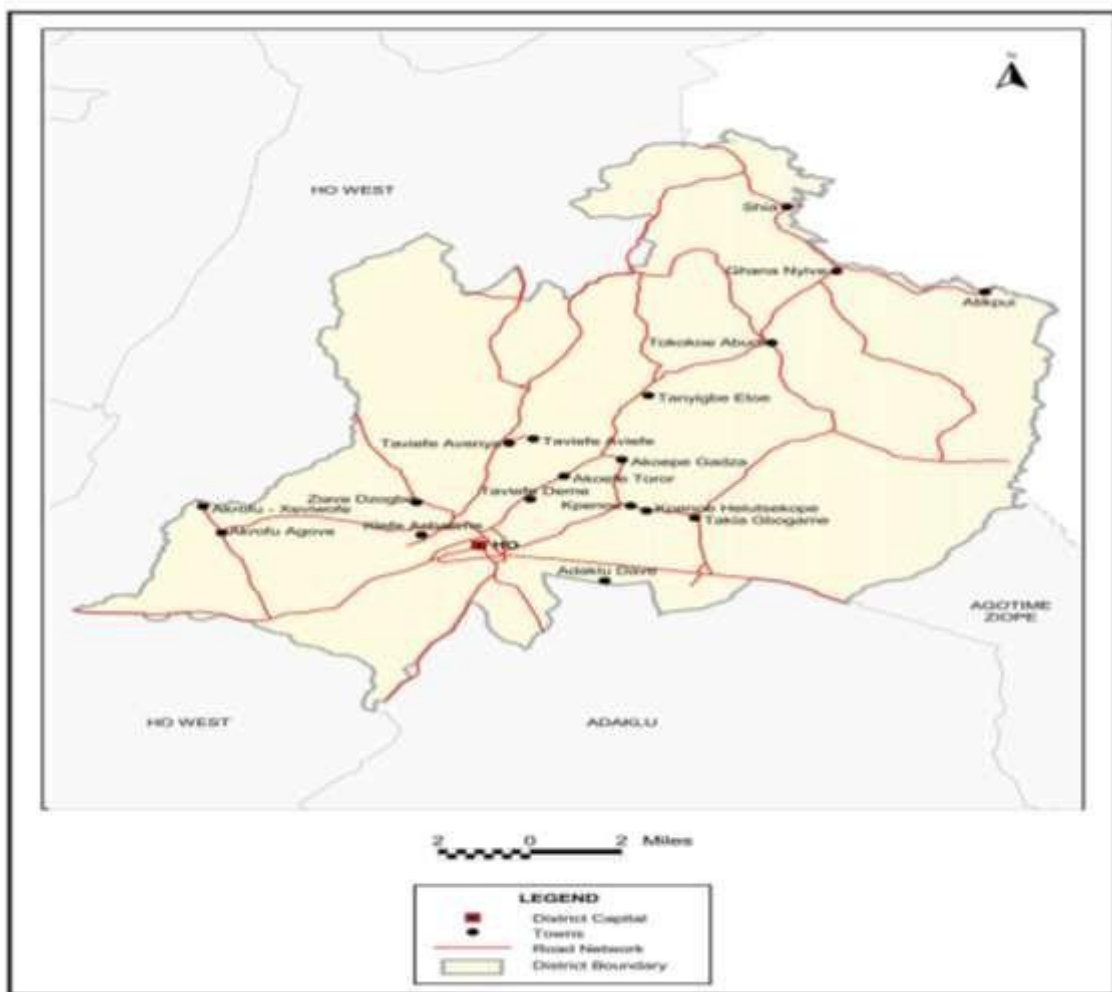
In addition, some studies have revealed that descriptive research designs are useful when one wants to assess the attitudes, opinions and behaviour of a particular category of people, as well as in understanding the attitude and perceptions of people. The approach can also be used for establishing causal relationships on the same participants or respondents within a single study (Williams, 2007). This opinion is also shared by other scholars including to Payne and Payne (2004) as well as Speklé and Widener (2018) have consistently point out that in a descriptive survey design some information are collected without manipulating the work environment. Nonetheless, it has been observed that the descriptive survey design is characterised by the weakness of the difficulty in making sure the questions being answered by respondents are friendly, clear and not misleading nor ambiguous Payne (2004). This study overcome this weakness by conducting pre-test of the questionnaire before finally administering to the sampled respondents of the Ghana Water Company in the Ho Municipality. Lastly quantitative approach in the form of probit model has used to estimate the effects of remuneration on the financial performance of the company.

3.2 POPULATION

The Ho Municipality is one of the 216 administrative districts / municipal / metropolitans in Ghana. It is located in the Volta Region, which occupies the eastern part of Ghana. It falls within the latitudes 6° 20" N and 6° 55" N of the equator and the longitudes 0 ° 12'E and 0° 53'E of Greenwich Meridian. The Ho Municipality shares its boundaries with

Adaklu and Agortime-Ziope Districts to the South, the Ho-West District to the North and the West. The Republic of Togo is to the Eastern part of the municipal. These are represented in Figure 1.

According to the 2010 population and housing Census conducted by the Ghana Statistical Service (GSS), the municipal has a total population of about 271,881, which comprises of 129,180 males and 142,701 females. The municipal has 772 communities and the land size of 2,660 square kilometres.



Map of the Ho Municipality

3.2 POPULATION OF THE STUDY

The study population included all the staff and management of the Ho Municipal Directorate of the Ghana Water Company Limited (GWCL). These include the Municipal Manager and the deputy, engineers, supervisors, cashiers, customer service officers, and the customer service assistants.

The target population of this study therefore comprises, the management and the permanent staff of the Ho-municipal directorate of the Ghana Water Company Limited. The Municipal Directorate has a total staff population of about 80 employees.

3.3 SAMPLE SIZE AND SAMPLING PROCEDURES/TECHNIQUES

This study has adopted random sampling approach in selecting the respondents from the total number of staff that are available at the time of the interview. Considering some level of convenience and limited time, 60 staff out of the 80 employees of the company at the Ho Municipal office have been randomly selected using the MS-Excel random function. The total sample size of respondents used for this study forms about 75 percent of the total employees of the company, composing of various ranks of the personnel and therefore representative of the company in the Ho Municipality.

3.3.1 DATA COLLECTING INSTRUMENTS

In soliciting various views on the effects of remuneration on the financial performance of the company, one set of data collecting instruments has been used. The questionnaire has been designed to collect data on the characteristics of the respondents, revenue generation,

remuneration and other benefits as well as challenges of remuneration and financial performance of the company. The questionnaires are made of both open ended, probing and closed ended questions. The closed ended questions purposely asked to specify all the possible and expected answer option, which are usually easier to interpret and tabulate. Also, some semantic types of questions have been asked with respect to soliciting various views of the respondents on remuneration and financial performance of the company. In addition, open ended questions have been used to give the participants some allowance to freely express themselves by stating and describing the various problems and challenges. It is also to encourage the respondents to give an extended view on their answers.

3.4 DATA COLLECTION

A formal permission was obtained from the municipal directorate office of the Ghana Water Company Limited. The questionnaires are first pre-tested to assess the efficacy of the questionnaires and the mistakes that might be in the data collecting instruments for correction. After correcting all the potential errors in the questionnaires, the researcher assisted by few individuals have administered the questionnaires to the respondents.

Following the sampling of the staff to participate in this study, the aims of the study was explained to each participant or respondents for them to make consented efforts to participate in the conduct of the study by answering the queries in the questionnaires as honestly as possible. The respondents are also assured that the research was solely for academic purpose and that all the information collected from them would be kept

confidential. Also, where necessary, the questionnaires have been given to the potential respondents to fill at their own pace and later picked up.

3.5. DATA ANALYSIS

The statistical software used in analysing the data collected for this study was mainly STATA and the graphical representations was carried by using the Microsoft excel. In general, the study uses descriptive statistics in showing the relationship between remuneration and financial performance among other factors.

In order to examine the effects of remuneration on financial performance, the linear probability (probit) model has been used. Thus, given the conditional perception that the revenue received by the Ho-Municipal directorate of the Ghana Water Company Limited (Y_i) = 1 if the revenue exceeds the cost / expenditure and 0 if the revenue it collected is less than its expenditure (Equation 1)

(1)

Also, X_i represents the vector of independent variables and they include

X_1 = Years of work in company

X_2 = 1 if remuneration depends on revenue target and 0 if it does not

X_3 = 1 if there are assets and capacity to increase its revenue and 0 if there are not

X_4 = 1 if there is a revenue generation challenge and 0 if there is not

X_5 = 1 if lack of funds for works and 0 if there are funds.

$X_6=1$ if revenue targets are met and 0 if not met

Based on equation (1) the conditional expectation of Y_i given as X_i , $E(Y_i | X_i)$, can be interpreted as the conditional probability that the event will occur given X_i , that is, $\Pr(Y_i = 1 | X_i)$. Thus, $E(Y_i | X_i)$ gives the probability of the GWCL generating revenue more than its expenditure, other variables X_i , as pertains at the Municipal Directorate. This can be represented as



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