

EFFECT OF COMPENSATION POLICY ON NON-PERFORMING LOANS IN MICROFINANCE BANKS IN ABUJA

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ABSTRACT

The study examined the effects of compensation policy on non-performing loans in Microfinance banks in Abuja. Specifically, the study assessed the effects of compensation variables on microfinance banks non-performing loans. To achieve this, the study through stratified sampling method chose fourteen microfinance banks that were state categories and two hundred and sixty staff members bifurcated into management and non-management. The study adopted survey research design. The population of the study in the chosen microfinance banks consists of 411 staff. This is made up of 78 (19%) management staff and 333(81%) middle level staff. The research adopted both quantitative and qualitative approach to analyse the results of the study. The quantitative data was collected through primary survey likert-scale questionnaire that was administered to 360 staff of the chosen microfinance banks. SPSS-20 was used to analyse the data collected in which simple percentage, correlation, ordinary least square regression analyses and ANOVA were used. Analysis of findings revealed that in compensation policies, direct compensation has a positive and significant relationship with non-performing loans, variable pay has a positive and significant relationship with non-performing loans and medical reimbursable allowance has positive and insignificant effect on non-performing loans in microfinance banks in Abuja. The study recommended that Microfinance banks in Abuja should continue to use compensation policies to checkmate Non-performing loans in the banks and in addition, they should effectively use house rent allowance, profit sharing allowance and minimise the use of medical reimbursement allowance, but should strongly utilize variable pay.

Keywords: *Compensation policy, Non-performing loans, Microfinance Banks.*

INTRODUCTION

Compensation policy is one of the most important areas of human resource management because sound compensation policies, programmes and their effective execution are essential to procure, maintain and develop the human resource of the organization. It involves paying the workforce for work done and forms a

significant route to motivate staff in the work place. It does include direct cash payments and indirect payment to employees in the organization. Wages, salaries, incentives, commissions and bonuses are some of the components of compensation in an organization. A good compensation policy can help attract,

motivate and retain talent. There is the assumption that bank staffers are generally well paid, yet the non-performing loans of microfinance banks continue to rise. It rose from ₦15.8B in 2013 to ₦30.84B in 2019 (NDIC Report, 2020). This is the paradox, for a well-motivated bank staff through their compensation policy should help reduce the non-performing loans in microfinance banks in Abuja.

Microfinance banks are in the lowest rung of the banking ladder in Nigeria. They play a vital role in the mobilization of funds from the rural areas and lending same to those in need for business growth and economic development. They are supposed to support the active poor. Their activities transcend scopes where the regular banks cannot operate. They have operated for centuries. We have the *Ajo* (Yoruba), *Adashe* (Hausa), and *Akawo* (Ibo). Similar groups exist in other parts of West Africa. Their main aim is to mobilise savings from people with surplus funds and lend to people who need such funds for a benefit.

Bank credit management entails all the necessary processes that are involved in the clients applying for credit; appraisal, approval, disbursement and recovery of payments that are overdue from the clients. Just like in the commercial banks that follow the principles of the 5Cs of credit, (Character, Condition, Collateral, Capacity and Capital), the microfinance banks, in addition to having the 5Cs of credit, have additional requirements in granting credit facilities to their clients. This is because of the peculiar nature of their services (micro and grass root oriented) and the economic segment they play in. Just as it applies to all financial firms, especially banks, the non-adherence to efficient and effective credit management policies will result to non-performing loans. The causes of delinquent or non-performing loans in the banking sector can either be exogenous to the bank (Macro) or endogenous to the bank (Micro). GDP growth, inflation, interest rate and exchange rates are common macro-economic factors, while size, staff motivation and lending policy are some of the micro variables (Greenidge & Grosvenor, 2010). These variables are by no means

exhaustive, but they provide a useful framework for monitoring the development of non-performing loans (NPLs). Non-performing loans (NPLs) and frauds are therefore some of the death knells of any bank, most especially the microfinance banks.

The need to motivate staff in the workplace through the deployment of appropriate compensation policy cannot be overemphasized. Nzelibe and Yusuf (2011), stated that most managers must motivate a diverse, and in most respects, an unpredictable group of people. It is against these backdrops that this study intends to look at the effects of compensation policy on non-performing loans in microfinance banks in the Federal Capital Territory (FCT), Abuja

The non-performing loans in the microfinance banks rose to ₦30.84b in 2019 (NDIC report, 2020), with so many microfinance banking licenses revoked because of this phenomenon. There was a continuous rise in the level of aggregate loans granted by microfinance banks for the period under study (2013-2019). The non-performing loans also rose each year except in the years 2017 and 2018. However, and most importantly, there was no year the regulatory authority's guideline of 5% ratio of non-performing loans to the aggregate loan was met. The non-performing loans ratio to the aggregate loans was consistent in exceeding the authorities' threshold of 5%. The non-performing loans for the years 2013 to 2018 were ₦15.8b, ₦21.27b, ₦38.82b, ₦36.77b, ₦26.18b, ₦24.8b and ₦30.84b (NDIC Report, 2020). Against this backdrop, Central Bank of Nigeria (CBN) issued a circular dated 24th October, 2018 on Code of Corporate Governance for Other Financial Institutions in Nigeria. It has in section 2.7 the guide to remuneration in the microfinance banks, hoping that this will help reduce the non-performing loans in the microfinance banks. The hypotheses are stated in null form and are in conformity with the study objectives. They are:

H₀₁: Direct compensation to the staff of FCT microfinance banks does not significantly affect the banks' of non-performing loans.

H₀₂: Variable Pay to the staff of FCT microfinance banks does not significantly affect the banks' of non-performing loans.

H₀₃: The payment of loan recovery incentives to the staff of FCT microfinance banks does not have a significant effect on the banks' non-performing loans.

LITERATURE REVIEW

Compensation

According to Milkovich (2013), compensation refers to all forms of financial return, tangible services and benefits employee receives as part of an employment relationship. According to Gomez (2012), employee's compensation is the single most important cost in most firms. This is also peculiar with microfinance banks. Adeoye and Fields (2014) attested that compensation is a major factor in attracting and retaining staff. They went further by saying, to attract, retain and be profitable; organizations need innovative rewards systems that satisfy employees. According to Abraham and Boerhaneoddin (2013), compensation is the tool to encourage effective employees to remain in employment for longer periods of time. They equally added that generous reward retains employees, and ultimately lead to job satisfaction, commitment and loyalty.

Bature (2013) viewed compensation as that process whereby the organisation evaluates the performance of its employees and reward them accordingly. She further states that this could be in terms of monetary rewards or non-monetary rewards. Harrison and Liska (2008) in their study postulated that compensation is the main reason why people work and this includes all types of compensation, both intrinsic and extrinsic, that are received as a result of employment by the organisation. Zhou, Xian and Henan (2009) stated that compensation should provide base salary levels necessary to attract and retain talents and compensate for day-to-day responsibilities performed at fully acceptable level and above.

Bob (2011) sees compensation as that which constitutes measuring job values, designing and maintaining pay structures, paying for performance, competence and skill, and providing employee benefits. However, compensation administration is not just about money. It is also concerned with non-financial compensation which provides intrinsic and extrinsic motivation. Brown (2003) views compensation as an entitlement for being an employee of the organization or as a reward for a job well done. From the various reviews, compensation can be said to be that reward for efforts put in producing goods and services, which can either be in cash or in kind or both. Compensation, therefore, is capable of motivating employees to do the right thing at the right time so that the interest of both the customers, employers and employees will be adequately protected.

Types of Compensation Administration.

Arul (2003) submitted that there are both direct and indirect compensations. While direct compensation comprises things like basic salary, medical reimbursable allowance, house rent allowance and leave allowance, the indirect compensation comprises retirement benefits and insurance policy.

Criteria for Determining Compensation

According to Bature (2013), a manager can determine the type of financial compensation to offer to his employees based on his ability to pay, the supply and demand of the labour force, job value and requirements, prevailing wages, cost of living, the economy and activities of the labour unions.

Concept of Non-performing loans

Non-performing loans is a by-product of credit management in a microfinance bank. Credit management is the process of granting credit, setting the terms it is granted, recovering this credit when it is due, and ensuring compliance with the company's credit policy among other related credit functions. Credit management is important because it helps us monitor the performance and maturity of given credit. This is because the longer the extended credit stays with

the borrowers, the more the risk of default. Credit management is not all about finding the best way to minimise debt, but managing the debt in the most efficient way possible. It is about developing trusting relationships with clients so that business outcomes are achieved and profits are achieved (CBN microfinance certification manual, 2013).

Safe-guiding customer's risk, settling outstanding balances and improving cash flow are three key objectives of credit management that are imperative to funding profitable business. Making sure that outstanding balances are settled can be challenging, hence the advent of non-performing loans. Non-performing loans, otherwise known as delinquent loans or stuck up loans or overdue loans is defined in the CBN supervisory guidelines of 2011 as "those loans that are not paid as and when due, according to the terms of the loan contract between the bank and the client". They are those financial assets from which banks no longer receive interest and/or installment payments as initially or beforehand booked. They are referred to as non-performing because the loans cease to generate income for the bank. In a bank-centered financial system, non-performing loans can further thwart economic recovery by shrinking operation margin and eroding the capital base of the banks. This is sometimes referred to as credit crunch (Bernanke, 1991).

Theoretical Framework

This research took into consideration the economic, agency, and the equity theories of compensation.

Equity Theory

Equity theory suggests that employee perception of what they contribute to the organization, what they get in return, and how their return-contribution ratio compares to others inside and outside the organization, "determine how fair they perceive their employment relationship" (Adams, 1963). Perceptions of inequity are expected to cause employees to take actions to restore equity. Unfortunately, some of such actions (e.g quitting or lack of cooperation) may

not be helpful to the organization. Two relevant examples of the types of counterproductive behaviours that can occur as a result of perceived inequity can be seen in the work of Greenberg (1990) which examined how an organization communicated pay cuts to its employees and the effects on theft rates and perceived equity. Two organization units received 15% across-the-board pay cuts. A third unit received no pay cut and served as a control group. The reason for the pay cut was communicated in different ways to the two pay cut groups. In the "adequate explanation" pay cut group, administration provided a significant degree of information to explain its reasons for the pay cut and also expressed significant remorse. In contrast, the "inadequate information" group received much less information and no indication of remorse. The control group received no pay cut (and thus no explanation). The control group and the two pay cut groups began with the same theft rates and equity perceptions. After pay cut, the theft rate was 45% higher in the "adequate explanation" group than in the control group. However, in the "inadequate explanation", the theft rate was 141% than in the control group. In this case communication had a large independent effect on employees' attitude and behaviours.

Cowherd and Levine (1992) used a sample of 102 business units in 41 corporations to examine whether the size of pay differential between low level employees and top administration had any effect on product quality. They suggested that individuals often compare their pay to that of people higher in the organization structure. If the low level employees feel inequitably treated, they may seek to reduce their efforts to achieve equity. Top-down communication plays a great part in employees' perception of equity in an organization (Greenberg, 1990)

Theoretical Base

This study is therefore based primarily on the Equity theory propounded by Adams in 1963, which talks about fairness in compensating employees in an organization, and Cowherd and Levine (1992). These theories emphasize that an

employee who perceives inequity in his or her rewards seeks to restore equity. The theories emphasize equity in compensating employees. Employees' perception of how they are being treated by their firm is of prime importance to them. When employees perceive inequity, it can result to lower performance, absenteeism and increased staff turnover. One of the focuses of this study is to determine the effect of variable pay in the process of Non-performing loans in the microfinance bank. Salary differential and top heaviness in the administration of compensation in microfinance banks could be a trigger to the principle of equity in salary administration. This perceived inequity could be responsible for ineffective management of the credit process especially if the bulk of the job is vested on the lower cum middle level manpower of the bank. The equity theory is therefore germane to our study.

The Empirical Review

There have been many studies on the effects of compensation management on non-performing loans in banks and fraud in organizations by different scholars. Some of these studies examined in this work are those of:

Gifty et al (2015) published a paper in which they discussed executive compensation, ownership structure and loan quality of banks in Ghana. The study used a panel data on 26 Ghanaian banks over the period of 2003 – 2011. The results showed that management is efficient when director shareholding is very prominent in banks. Institutional ownership and public listing of banks also have a significantly negative relationship with non-performing loans, while lag of non-performing loans, equity ratio, exchange rate depreciation and increases in net interest margins are seen to have a negative effect on loan quality. Executive compensation had no significant effect on loan monitoring.

Shuping et al (2014) in their work to McCombs School of Business, The University of Texas examined earnings Growth Pressure, Compensation Incentives, and Bank loan Quality. Arising from the opinions held by the lenders, regulators, lawmakers and the press that the pressure to grow earnings led banks to originate lower quality loans that subsequently

contributed to high default rate. They embarked on this study using 313 bank holding companies from 2001 to 2009. They found a significant positive association between future loan defaults and the pressure banks faced from capital market to grow earnings. They also found that there was no evidence to suggest that heightened equity incentives or bonus pay for bank CEOs is linked to higher loan defaults. In fact, they found some evidence that these compensation features help mitigate the effect of earnings growth pressure on loan quality.

Itoya and Nwabuzo (2017) in their study on Compensation Strategy: a Tool for Higher Performance in Nigeria Business Organizations tried to examine the extent to which compensation strategies can enhance the performance of Nigeria business organisation. They developed a model to regress compensation strategies (Pay for Performance, Incentive Pay, Broad banding, Gain sharing, Team based pay and competence and skill based pay) on the employee performance. They deployed 360 Likert-type questionnaires to employees of selected Business Organisations in Edo State, Nigeria. Results from their deployed research tool, regression analyses, revealed that compensation strategies have a very explanatory power on employee performance in Nigeria. Further analyses by them showed that all the independent variables have positive effect on employee performance. They therefore concluded that compensation strategy is a veritable tool for enhancing employee performance in Nigeria.

Naeem et al (2014) conducted a study on the effect of compensation on employee performance (empirical evidence from the banking sector of Pakistan). The research tried to measure the effect of compensation on employee performance. They found out from different results obtained that compensation has a positive effect on employee performance. The correlation analysis helped to ascertain that all independent variables have weak or moderate positive relationship with each other. The regression analysis shows that all independent variables have insignificant and positive effect on employee performance. The descriptive

statistical analysis also reveals that all the independent variables have positive effect on employee performance. ANOVA results reveal that education have not same effect on employee performance. The independent variables in their study were salary, reward and non-financial compensation, while the dependent variable was employee performance.

METHODOLOGY

A survey approach to explanatory research design was used in this study to gather the necessary data. The approach was adopted to assess the Effects of Compensation Policy on Non-performing loans in microfinance banks in the Federal Capital Territory, Abuja. The study extensively uses primary data that were collected mainly using closed ended questionnaire which were distributed to the selected samples. Also, the researcher used Likert scales which range from 1-5 in order to capture the participants respondents on the basis of assertion (Strongly Disagreed to Strongly Agreed). The population of the study consists of fourteen microfinance banks, 78 staff of management categories and 333 staff of non-management categories, giving a total of 411 staffs chosen for the study.

The sample size of the study is determined using Taro Yamane's sample size formula to arrive at two hundred and sixty (260) as shown below:

$$n = \frac{N}{1 + N(e)^2}$$

N = Population
n = Sample size
e = (0.05)²
= $\frac{333}{1 + 333(0.05)^2}$

$$= 182 \text{ (Non-Management staff)} + 78 \text{ Management staff} = 260$$

Furthermore, the sample was selected using the stratified random sampling technique on the targeted sampled population thereby giving each member of the stratum equal chance of being selected. The technique of analysis employed in the study is the simple regressions (OLS) operationalized by SPSS software. Compensation policy was the independent variable, and it was proxy by Direct Compensation, Variable pay and Recovery Incentives. The non-performing loans was the dependent variable. These are stated in the following model of specification.

Model Specification

The general form for the model in the work is give as:

$$Y = a + bx \dots \dots \dots$$

Regression Equation

Where Y is the dependent variable, which is Non-performing loans.

a = constant

b = coefficient

x = independent variable (compensation policy)

In specific form:

$$NPL = a + b_1HRA + b_2PSA + b_3MRA + b_4VP + b_5RI + e \dots \dots 3.1$$

a = constant.

The independent variable (compensation policy) was proxy by Direct Compensation, Variable Pay (VP), and Recovery Incentives (RI)

Direct compensation was proxy by HRA = House Rent Allowance, PSA = Profit Sharing Allowance, MRA = Medical Reimbursement Allowance.

b₁, b₂, b₃, b₄, b₅ are regression coefficients which measure the degree of responsiveness of the dependent variable to the independent variables.

e = residual or stochastic term (which reveals the strength of b₁ x₁ + b₂x₂ + b₃x₃ + b₄x₄ + b₅x₅: if

e is low, this implies that the amount of unexplained factors is low, then the residual R and R^2 will be high and vice versa.

Lastly, content validity and construct validity were used to validate the structured questionnaire instrument which indicated acceptable reliability ranging from 0.72 to 0.89. This is above the minimum cut-off mark of 0.70 as regards Cronbach's alpha coefficient. This means that they all measured what was intended

and therefore it can be concluded that all the scales are reliable.

RESULTS AND DISCUSSIONS

The data collected from the respondents were subjected to statistical tests.

Table 4.1: Gender of Respondents

Gender	Frequency	Percentage (%)
Male	169	65
Female	91	35
Total	260	100

Source: Survey data (2020)

From table 4.1, 169 respondents representing 65% of the total valid respondents are male, while 91 respondents representing 35% of the total valid respondents are female. It therefore shows that male is more than the female respondents by about 30%. This may give the banks the foresight in planning their manpower.

The result indicates that there is a high positive correlation (.953) between house rent allowance (HRA) and non-performing loan in micro finance banks institutions in Abuja. There is also

high positive correlation (.888) between profit sharing allowance (PSA) and non-performing loan in micro finance banks institutions in Abuja. The table also revealed that there is a high positive correlation (.928) between medical reimbursement allowance (MRA) and non-performing loan in micro finance banks institutions in Abuja. The same applies to variable pay (VP) and recovery incentive (RI) with .939 and .924, both with high positive correlations with non-performing loans in microfinance banks in Abuja.

Regression Analysis

Table 4.2

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.959 ^a	.919	.918	.38191

a. Predictors: (Constant), MRA, HRA, PSA, VP, RI

Table 4.3

ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	263.078	5	87.693	601.228	.000 ^b
Residual	23.045	256	.090		
Total	286.123	259			

a. Dependent Variable: NPL

b. Predictors: (Constant), MRA, HRA, PSA, VP, RI

Table 4.4: Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficient	t	Sig
	B	Std. Error	Beta		
(Constants)	.544	.087		6.244	.000
HRA	.609	.057			
PSA	.141	.062	.709	10.637	.000
MRA	.093	.094			
VP	.824	.024	.168	2.267	.025
RI	.940	.031			
			.102	.988	.325
			.939	34.469	.000
			.924	30.520	.000

a. Dependent Variable: NPL

Decision Rule: 5% level of significance

The regression result shows that the model is fit for the study since the f-statistics is significant at 5% level of significance. The result also shows that house rent allowance has positive and significant effect on non-performing loan in microfinance banks in Abuja. This effect is significant since the P-value is less than 5%. Thus, we rejected the null hypothesis and concluded that house rent allowance has positive and significant effect on non-performing loan in microfinance banks in Abuja.

The result also shows that profit sharing allowance has positive and significant effect on non-performing loan in microfinance banks in Abuja. This effect is significant since the P-value is less than 5%. Thus, we rejected the null hypothesis and concluded that profit sharing

allowance has positive and significant effect on non-performing loan in microfinance banks institutions in Abuja.

The result also shows that medical reimbursement allowance has positive and insignificant effect on non-performing loan in microfinance banks in Abuja. This effect is insignificant since the P-value is more than 5%. Thus, we rejected the null hypothesis and concluded that medical reimbursement allowance has positive and insignificant effect of non-performing loan in microfinance banks in Abuja.

The result equally shows that variable pay has positive and significant effect on non-performing loan in microfinance banks in Abuja.

This effect is significant since the P-value is less than 5%. Thus, we rejected the null hypothesis and concluded that variable pay has positive and significant effect on non-performing loan in microfinance banks in Abuja.

The result of recovery incentive on non-performing loans also shows that loan recovery incentive has positive and significant effect on non-performing loan in microfinance banks in Abuja. This effect is significant since the P-value is less than 5%. Thus, we rejected the null hypothesis and concluded that loan recovery incentive has positive and significant effect on non-performing loan in microfinance banks in Abuja.

The R of 0.959 in the model summary indicated a high degree of correlation between compensation policy and non-performing loans in microfinance banks in Abuja, while the R² of 0.91 indicates that only 91% of variation on compensation policies can be used to explain the non-performing loans in microfinance banks in Abuja but 8% can be explained by other factors not noted in the regression model which is referred to as error term.

Major Findings

The study found that house rent allowance has positive and significant effect on non-performing loans in microfinance banks in FCT, Abuja. Profit sharing allowance has positive and significant effect on non-performing loan in microfinance banks in FCT, Abuja. Medical reimbursement allowance has positive and insignificant effect on non-performing loan in microfinance banks in FCT, Abuja. Variable pay has positive and significant effect on non-performing loan in microfinance banks in FCT, Abuja. Also, loan recovery incentives have positive and significant effect on non-performing loan in microfinance banks in Abuja.

Discussion of Findings

The results confirmed that compensation policies positively contribute to non-performing loans in microfinance banks in the Federal Capital Territory. The study is in line with various researchers findings in the empirical studies who found that there is statistical

positive significant effect between the variables. Mensah et al (2015) in their paper attested to this relationship after analysing the effects of executive compensation and ownership structure on loan quality in 26 banks in Ghana. Although they found out that executive compensation has no significant effect on loan monitoring, compensation by way of directors shareholding do have a very positive relationship with the banks efficiency, bordering on the quality of non-performing loans. In consonance with this is the study carried out by Shuping et al in the business school in the university of Texas in August, 2014 in which they examined pressure of earnings growth, compensation incentives, and bank loan quality. Their findings, amongst others was that there was no evidence to suggest that heightened equity incentives or bonus pay for bank CEOs was linked to higher loans defaults. They actually found out that these compensation features helped mitigate the effects of pressure on earning growths on loan quality.

In Hypothesis 1, the study found that house rent allowance has positive and significant effect on volume of non-performing loan in microfinance banks in FCT, Abuja. Profit sharing allowance has positive and significant effect on volume of non-performing loan in microfinance banks in, Abuja. Medical reimbursement allowance has positive and insignificant effect on non-performing loan in micro finance banks in Abuja. All these variables fall within various forms of direct compensation. These finding have a bearing with the study of Itoya and Nwabuzo (2017) in which they examined the extent compensation strategies can enhance the performance of Nigeria business organization. They found out that all the noted variables have positive effects on employee performance, invariably supporting the fact that compensation policy is a veritable tool for enhancing employee performance. While their independent variable can be likened to our direct compensation variables, their performance is in tandem with our non-performing loans variable which is a sign of banks efficient performance.

In Hypothesis 2, the study found that variable pay has positive and significant effect on non-

performing loan in microfinance bank in Abuja. The study noted that variable pay effect positively to non-performing loans in microfinance banks in Abuja. The study of Itoya and Nwabuzo (2017) as discussed in hypothesis one equally apply here since their study regressed compensation strategy like Pay per Performance and skilled based pay on organizations performance. These variables are akin to our variable pay in our hypothesis 2

In Hypothesis 3, the study found that loan recovery incentives have positive and significant effect on non-performing loan in microfinance bank in Abuja. The study noted that loan recovery incentives effect positively to non-performing loans in microfinance banks in Abuja. The same study of Itoya and Nwabuzo (2017) also apply in discussing this finding. The study is also in tandem with Equity theory which states fairness in compensating employees in an organization as employee who perceives inequity in his or her rewards seeks to restore equity. The theory emphasises equity in compensating employees.

CONCLUSION AND RECOMMENDATIONS

This study found out that the quest to adequately motivate the banks staff, the need to comply with CBN circular dated 24th October, 2018 on microfinance banks compensation policy, and the need to reduce the volume of non-performing loans prompted the banks to have a compensation policy, hoping that this will help motivate the staffs in diligently discharging their assigned duties. The adoption of loan recovery incentives was to frontally address the recurring malaise of non-performing loans in the microfinance banks in Abuja. In addition, the study found out that compensation policy, except medical reimbursable allowance is very significant in the administration of non-performing loans in the microfinance banks in the Abuja.

Most of the findings are consistent with previous normative and empirical works as it has provided empirical evidence pertaining to compensation policy and non-performing loans

in both financial and non-financial institutions. It is therefore, safe to conclude that compensation policy is significant in the administration of non-performing loans in microfinance banks in Abuja.

- i. Microfinance banks in the Abuja should continue to ensure that house rent allowance is given to staff promptly and the profit sharing allowance is also promptly given to qualified staff by the board members, but medical allowance should be cautiously administered and controlled in the organizations. In the alternative, the use of medical allowance could be rejigged for motivational effectiveness. This they can do by paying the staffers directly instead of paying directly to the hospital.
- ii. The study also confirmed that variable pay has a significant effect on non-performing loans. It is therefore recommended that variable pay should be improved upon in the administration of compensation policy viz-a viz the management of non-performing loans in the microfinance banks in the Abuja. Those factors that trigger discontentment among the middle level staff due to salary differentials should be addressed. For example, some monetary rewards for the management staff can be converted to incentives or non-monetary benefits.
- iii. Closely related to variable pay is loan recovery incentive. This is given to staffers saddled with the recovery of non-performing loans. Aside from it being motivational, it helps to reduce the non-performing loans portfolio especially if assigned targets to staff are met. The study confirmed the significance of this variable in the management of non-performing loans in the microfinance banks in the Abuja. The banks should place a great deal of premium in the administration of loan recovery incentive among the staffers, especially those on the loan recovery desk of the various banks.

Suggestions for further Studies

The study examined the effect of the compensation policy on non-performing loans in microfinance banks in the Abuja. Further studies can be carried out by examining the effect of compensation policy and reward systems on non-performing loans in non-bank financial institutions in Nigeria. Study can also be carried out by examining the effect of medical allowance on non-performing loans in other microfinance institutions which are not banks in the Abuja. This is to confirm if the result of the effect of medical allowance in this study holds in other microfinance institutions which are not licensed as banks by the Central Bank of Nigeria (CBN). The need to examine the effects of non-performing loans on banks liquidity and solvency position is also suggested. We also suggest that other areas of non-performing loans like risk management and capital adequacy should be studied to find out their effects on banks sustainability and liquidity.

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