INFLUENCE OF INCENTIVE STRATEGIES ON FINANCIAL PERFORMANCE OF RETAIL INDUSTRY IN KENYA: A CASE OF UCHUMI LIMITED

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ABSTRACT

The purpose of this study was to analyse the influence of incentive strategy on performance of Retail Industry (Supermarkets) in Kenya. The study was guided by the following objectives, to: establish the influence of salary incentives on financial performance of retail industry in Kenya; assess the influence of merit incentives on financial performance of retail industry in Kenya; ascertain the influence of competency based incentives on financial performance of retail industry in Kenya and determine how work environment incentives influence financial performance of retail industry in Kenya. The study reviewed both theoretical and empirical literatures as guided by the specific objectives. Four theories, namely Equity theory, Agency theory, Competence Organisational Theory and The Two Factor theory guided the study. The conceptual framework was developed using four incentives: salary, merit, competency and work environment. The study adopted the descriptive research design and mixture of qualitative and quantitative methods of research approach. Using simple random sampling technique, a sample size of 106 was drawn from a target population of 144 staff at all strategy levels within Uchumi Ltd. Primary data was collected using structured questionnaire, analysed with Statistical Package of Social Science (SPSS) and findings presented using tables, charts and graphs. Study finding reveals as follows: salary based incentives has high significance influence on financial performance during strategy implementation, with a strong positive correlation ($r=0.713$) and 0.398 factor change in financial performance. Merit incentives has high significance influence on financial performance during strategy, with strong correlation ($r=0.72$) and 0.465 factor change in financial performance. Competency incentives has low and insignificance influence, with weak correlation ($r=0.472$) and 0.391 factor change in financial performance during strategy implementation. lastly, work environment incentives has relatively low insignificance influence, with correlation of 0.362 and 0.242 factor change in financial performance during strategy implementation. Study concludes that salary incentives has the highest influence followed by merit incentives, capacity and work environment incentives. The study
recommended further analysis in factors leading to low influence of competency and work environment during strategy implementation.

**Key words:** Salary based incentive, Merit based incentives, Competency based incentives, Work environment incentives and Organization’s financial performance

**Background of the Study**
The idea of ‘strategic incentives’ is based on the impression that it is possible to identify and implement an appropriate set of reward practices that support organizational objectives. Change management process is the most tedious task due to challenges posed both from technical, operational and human aspect. The dominant aspect of strategy change management is the human resource factor, that’s organisations’ employees, who would tend to resist any change process, especially, when perceive as threat to economic and social life (Nzuve, 2007). Accordingly, organisations can reduce employees’ resistance by embracing favourable incentive strategies that are motivating (Ali, & Ahmed, 2008). According to Ariely (2008) incentives are the key link between employees’ resistance and success change management. As argued by Harrington and Nelson (2013), successful change management initiative is dependent on having the right incentive strategies in place and this is in-exception of any organisation as positive change can only be sustained where improved performance is enabled and rewarded (Ariely, 2008).

There are various types of incentive strategies that may influence employees to act in a certain manner to attain prescribed objectives including reducing resistance to strategy change (Bibeault, 2006; Boyne, 2006). These include both financial and non-financial. The most generally financial incentives are an organisation’s formal system of salaries, bonuses and other financial benefits such as housing allowance or health care compensation. Non-financial incentives can be further categorised into two broad types, that is, merit-based and accountability based. At the individual level merit based schemes for recruitment, promotion and professional development opportunities. Accountability based incentives are schemes for establishing comprehensive and effective accountability systems (Floricel & Ibanescu, 2008).

**Literature Review**

**Theoretical Review**

**Equity Theory (ET)**

Equity theory is a motivational theory. Equity theory was advanced by Adams, J. S. in 1965 in his seminal paper titled ‘Inequity in social exchange’ (Adams, 1065). According to the theory, Adams (1965) defines inequity as “inequity exists for person whenever he perceives that the ratio of his outcomes to inputs and the ratio of others outcomes to others inputs are unequal”. It follow that inequity results not only when a person is under-benefited but also when he is over benefited. An important issue of the equity theory is the emphasis on the individual perception of what exists, even though it may not be real.

The biggest question the theory tries to answer is what motivates people to work. Greenberg, (2009) observed this as ‘the perception of equitability and in-equitability’. Accordingly, Equity theory focuses on two sides: the input and the outcome. That is, an employee compares his or her job’s inputs with an outcomes ratio. If the employee
perceives inequality, he or she will act to correct the inequity. The employee may lower productivity or reduce the quality of their job. Many times inequities can lead to an increase in absenteeism and even resignation of an organization (Greenberg, 2009).

The perception of inequity is based on comparing the individual’s ratio with the comparison others ratio. According to Adinolfi (2008), it is the perceived equity of the effort-reward balance that is important in determining the employees’ level of motivation. If employees feel that the rewards are not equitable, they will take action by, for example, reducing effort, absenteeism, or minimal involvement in certain activities (meetings, social events among others). Hence, the theory implies that it is not necessarily the type or level of reward that is important, but the extent to which the employee perceives this as equitable. Equity theory deals with human motives and it should have wide applications in understanding organizational behaviour. Management needs to take equity theory under serious consideration when dealing with people especially when implementing strategies for performance.

In relation to study’s specific objective one, the equity theory position that because employees in organizations expect to be rewarded like other employees for similar levels of input, the distribution of rewards becomes important. Therefore, this theory can best be used to design salary based incentive system. Hence, the implication to of this theory to study is that the theory emphases on realigning pay administration, promotions, recognition, training, improvements, and development to performance.

**Agency Theory (AT)**

An agency relationship occurs whenever one party (the principal) hires another person (the agent) who possesses specialized knowledge and skills. Agency theory was advanced by Ross and Stephen in 1973 in their seminal paper titled ‘The economic theory of agency: The principal's problem’. The Agency Theory assumes that each party acts in its own self-interest, and this gives rise to one of the problems of agency theory because the interests of the two parties may not coincide. Where the agent has a high level of autonomy and independence, the risk of ‘moral hazard’ may increase. This happens when the agents participate in activities that are not in the interest of the principal, such as using work time and organizational resources for personal gain.

Given this agency problem, the principals develop mechanisms to minimize the moral hazard. These might include a system of rules introduced to monitor the behaviour of agents (such as having to provide certain types of information regularly to the principal) or the introduction of incentives. This incentive mechanism is based on rewarding specific outputs that are of interest to the principal (such as profits, or growth in market share), while the first is geared towards supervising the input or behavior of the agent.

**Competence Organizational Theory (COT)**

Competence organizational theory is a way of thinking about how organizations gain high performance for a significant period of time. Established as a theory in the early 1990 by Sanchez and Heene, this theory of competence-based strategic management explains how organizations can develop sustainable competitive advantage in a systematic and structural way. According to Sanchez and Heene (2004), the theory of competence-based strategic management is an integrative strategy theory that incorporates economic, organizational and behavioural concerns in a framework that is dynamic, systemic, cognitive and holistic (Sanchez & Heene, 2004). This theory defines competence as: the ability to sustain the
coordinated deployment of resources in ways that helps an organization achieve its goals (creating and distributing value to customers and stakeholders). In addition, competence-based management can be found in areas such as human resource management.

The competence theory emphasis that ‘competence’ must include the ability to respond to the dynamic nature of an organization's external environment and of its own internal processes. The requirement of sustainability in the above definition of competence encompasses both forms of dynamics. To be sustainable, a competence must respond to the dynamics of the external environment by enabling an organization to maintain its ability to create value in the marketplace even as changes take place in market preferences and available technologies. Indeed, according to Aoki (2009), sustainability requires overcoming internal organizational dynamics that result in various forms of organizational entropy, such as a gradual loss of organizational focus, a narrowing and increasing rigidity in the patterns of activity the organization can or does perform a progressive lowering of organizational expectations for performance and success. Therefore, in organizations as systems, managers must provide continuous inputs of energy and attention to maintain or improve the order and structure in an organization's value-creation processes. Another nature of competence theory is the coordination of resources within the organization boundary to create value (Aoki, 2009).

### Conceptual Framework

#### Independent Variables

- **Salary based incentive**
  - Basic pay
  - Allowances
  - Bonuses

- **Merit based incentives**
  - Reward
  - Promotion
  - Acknowledgement

- **Competency based incentives**
  - Education
  - Training
  - Delegation

- **Work environment incentives**
  - Tools and equipment
  - Participation in decision
  - Quality of relationship

#### Dependent Variable

- **Organisation’s financial performance**
  - Profit before Tax (PBT)
  - Return on Assets (ROA)
  - Return on Equity (ROE)
Research Methodology

Research design

According to Kothari (2004), research design as a blueprint which facilitates the smooth sailing of the various research operations. Accordingly, research design ensures that research is efficient as possible and yields maximum information with minimal expenditure of effort, time and money. This study adopted a descriptive research design. The design allowed the researcher to describe the state of affairs (strategy incentives and organisation performance) as it exists. According to Kothari (2004), descriptive survey is a method of collecting information by Inquiry or administering questionnaires to a sample of individuals. The design is justified in that it allows for assessing respondents opinions, attitudes or habit towards organisation strategy incentives.

Target Population

Population, according to Kothari (2004), is the entire group of individuals or items under consideration in any field of inquiry and have a common attribute. Target population included staff at all levels of strategy, namely, staff at corporate, business and functional levels. According to data obtained from the firm’s Human Resource Department, there are 144 staff distributed as shown in table below:

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Target population</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate level</td>
<td>12</td>
<td>8.33%</td>
</tr>
<tr>
<td>Business level</td>
<td>34</td>
<td>23.61%</td>
</tr>
<tr>
<td>Functional/operation level</td>
<td>98</td>
<td>68.06%</td>
</tr>
<tr>
<td>Total</td>
<td>144</td>
<td>1.00.00%</td>
</tr>
</tbody>
</table>


Sample size and Sampling Technique

Sample Size

The study determined sample size using Slovin’s sample size formula (Solvin, 1960). Slovin's formula is used in statistical analysis as a tool to determine the sample size of a population that must be taken for a specific study. According to (Orodho & Kombo, 2002) Slovin’s sample size formula is ideal used when the target population is finite, like in the case of the study. The sample was worked out as follows:

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

Where: 
- \( n \) = the sample size
- \( N \) = the population size
- \( e \) = the error tolerant allowed by researcher.

From a target population of 144 and 5 per cent margin of error, the computed sample size was 105.882, approximately 106 respondents.

Sampling Technique

Simple random sampling techniques was used to draw respondents from the sampled population. The choice of simple random sampling technique was guided by the homogeneity of target population, that is, all are employees of Uchumi Limited involved in strategy decision. In justification of this sampling method, Guthrie (2010)
noted that simple random sampling technique is more fitting in a situation where population exhibited a homogeneity characteristic and all elements stand equal chance of being selected. From each level of strategy, respondents for analysis was drawn using proportionate weight method as follows;

**Sample Size**

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Target population</th>
<th>Weight</th>
<th>Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate level</td>
<td>12</td>
<td>0.08</td>
<td>9</td>
</tr>
<tr>
<td>Business level</td>
<td>34</td>
<td>0.24</td>
<td>25</td>
</tr>
<tr>
<td>Functional/operation level</td>
<td>98</td>
<td>0.68</td>
<td>72</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>144</strong></td>
<td><strong>1.00</strong></td>
<td><strong>106</strong></td>
</tr>
</tbody>
</table>

**Data Collection Instruments**

This used both primary and secondary data. According to Creswell (2005), primary data is first-hand information obtained at source for the first time. Structured questionnaires were used for primary data collection. The questionnaire contained both closed and open-ended questions to enable respondents give their views, feelings and behaviour (Robinson, 2009), in relation to the research questions. Cooper and Schindler (2011) posit that questionnaires are more reliable where respondents can be reached and are willing to co-operate. Secondary data was obtained from audited financial statement of Uchumi Ltd Co. specifically financial performance data on Profit Before Tax (PBT), Return on Asset (ROA) and Return on Equity (ROE).

**Data Collection Procedure**

For primary data, the study employed drop-and-pick data collection method. Questionnaires was administered by the researcher with the help of research assistant at the respondent’s place of work. To enhance high response rate, respondents were allowed two days to fill them after which they was collected due to time constraints. The secondary data was obtained through desktop review method which will involve review of relevant financial statement reports.

**Pilot Test**

Pilot test is a stage where research instruments are administered to a number of individuals in the target population who are not included in the sample size so as to test the reliability and validity of the instruments (Cooper & Schindler, 2011). The study conducted a pilot test to test for the reliability and validity of research instruments as follows:

**Reliability of Research Instrument**

Reliability measures the degree to which research instruments yield consistent results (Robinson, 2009). The reliability of the questionnaires was measured statistically by measuring the internal consistency using Split-Half Method and Cronbach’s Alpha reliability coefficient. According to Bryman and Cramer (2005), generally reliability of 0.7 to 1.0 is considered acceptable. For this study an alpha coefficient of 0.7 and above was considered reliable and the results are presented and explained in chapter four.
Validity of Research Instrument

Validity is the degree to which result obtained from the analysis of the data actually represents the phenomenon under study. The study performed Content Validity Index (CVI) analysis, which measure the degree to which data collected using a particular instrument represents a specific domain or content of a particular concept (Creswel, 2002). Only items with CVI of 0.78 and above were accepted as recommended by Amin (2005). Result for this test is presented in chapter four.

Data Analysis and Presentation

According to Babbie (2009), data analysis is the reduction of accumulated data to a manageable size, developing summaries, looking for patterns and applying statistical techniques. The collected data was analysed by use of Statistical Package for Social Sciences (SPSS) version 23. Descriptive and inferential statistics measures were used in analysis. That is, descriptive statistics such as percentages, frequencies, measures of central tendencies (mean) was used to describe the characteristics of the target population, while inferential statistics was used to draw similarities and differenced between independent and dependent variable. To test for the correlation between independent and dependent variable, the study employed Pearson correlation analysis, and multiple regression analysis was used to establish the change in dependent variable attributed by a unit change in independent variable. The proposed regression model was as follows:

\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon \]

Where \( Y \) – Organisation performance during strategy implementation  
\( X_1 \) – Salary based incentive strategies  
\( X_2 \) – Merit based incentive strategies  
\( X_3 \) – Capacity based incentive strategies  
\( X_4 \) – Work environment incentive strategies  
\( B_0, B_1, B_2 \ldots B_4 = \) Regression coefficients of independent variables  
\( \epsilon = \) Error term normally distributed about the mean of zero

The study employ Analysis of Variance (ANOVA) to test for the variation error not explained by the model and F-test statistics to identify how the model best fits the population from which the data was drawn. The significance of regression beta coefficient of variable in the model was tested using t-test statistics at 95 per cent level of confidence. The result was presented using graphical presentation method with the aid of tables, charts and figures.

Results

Response Rate

The study issued questionnaire to a sample size of 106 respondents, out of which 22 questionnaires were not returned, 11 returned but partly filled and 73 returned fully filled. The study only considered the fully filled questionnaires for analysis, which accounted for approximately 68.87 per cent response rate. The response rate is relatively below minimum response rate (70%) required for analysis according to Creswell (2009). However, Mugenda and Mugenda (2003) indicated that a response rate of 50 per cent is adequate for analysis and reporting. The response was affected by the prevailing election time when data was collected. The response rate is represented on Table below.
Response Rate

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentages (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not returned</td>
<td>21</td>
<td>19.81</td>
</tr>
<tr>
<td>Returned and not fully filled</td>
<td>12</td>
<td>11.32</td>
</tr>
<tr>
<td>Returned and fully filled</td>
<td>73</td>
<td>68.87</td>
</tr>
<tr>
<td>Total</td>
<td>106</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Reliability of the Questionnaire

Reliability of questionnaire results is shown in table below. Results illustrates that the mean of Cronbach’s alpha value was 0.75, with all variables scoring above 0.7 alpha value. Hence, the questionnaire was considered reliable to achieve the desired result of the study.

<table>
<thead>
<tr>
<th>Items</th>
<th>No. of tests items</th>
<th>Alpha Values</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary incentives</td>
<td>8</td>
<td>0.77</td>
<td>Accepted</td>
</tr>
<tr>
<td>Merit incentives</td>
<td>8</td>
<td>0.71</td>
<td>Accepted</td>
</tr>
<tr>
<td>Capacity development incentives</td>
<td>8</td>
<td>0.78</td>
<td>Accepted</td>
</tr>
<tr>
<td>Work environment</td>
<td>8</td>
<td>0.75</td>
<td>Accepted</td>
</tr>
<tr>
<td>Average mean</td>
<td></td>
<td>0.75</td>
<td>Accepted</td>
</tr>
</tbody>
</table>

Demographic Information

This section offers the background information with regards to the respondents’ age, gender, marital status, level of education, work position and the number of years at Uchumi Limited. This was put into consideration because of the meaningful contribution it offers to the study as the variables help to provide the logic behind the responses issued by the respective respondents.

Age Distribution

Figure below shows the respondents age distribution, and reveals that 26.0 per cent of staff who work in finance and strategy department at Uchumi Limited were aged between 18 - 25 years, 31.5 per cent were aged between 26 – 35 years, 28.8 per cent aged between 36 – 45 years and, 13.7 per cent aged between 46 – 55 years with non being above 55 years. These findings indicate that majority of the respondents were in the right age to comprehend issues to do with incentive strategies and majority of respondents fell in the 26-35 age brackets, which consisted of individuals with the experience and business knowledge necessary to comprehend compensation, motivation and performance.
Respondents Age

Distribution of Respondents by Gender
Figure below shows male respondent constituted 61.6 per cent of respondents while the female respondents accounted for 38.4 per cent. Although the findings indicated that majority of the respondents were male, it also affirm that the 30 per cent gender consideration as set out in the constitution was observed.

Respondent Gender

Marital Status of the Respondents
Table below reveals that 19.2 per cent are single, 69.9 per cent are married, 4.1 per cent are divorced and 6.8 per cent are widowed. This finding reveals that majority of respondents were in stable family thus could provide a better view of how motivation, as derived from incentives, affect performance and commitment to duty.

<table>
<thead>
<tr>
<th>Marital Status</th>
<th>Frequency</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>14</td>
<td>19.2</td>
</tr>
<tr>
<td>Married</td>
<td>51</td>
<td>69.9</td>
</tr>
<tr>
<td>Divorced</td>
<td>3</td>
<td>4.1</td>
</tr>
<tr>
<td>Widow</td>
<td>5</td>
<td>6.8</td>
</tr>
<tr>
<td>Total</td>
<td>73</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Respondent’s Level of Education
Respondents’ response to highest level of education as depicted in figure below shows that 23.3 per cent hold certificate as highest level of academic, 43.8 per cent are diploma holders, 26.0 per cent are bachelor degree holders and 6.8 per cent were master’s degree holder. This finding reveals that higher education qualifications are necessity to work finance and strategy departments in chain retail stores in Kenya. In addition, this further reveals that respondents were well educated and understood the study language with ease.

![Graph showing level of education](image)

**Respondents Level of Education**

**Respondents Work Position**

Figure below shows that 2.7 per cent of respondents work at corporate level of strategy, 21.9 per cent worked at SBU level, 16.4 per cent worked at functional level and 58.9 per cent work at operational level. This finding implies that respondents well represented the organization strategy decision-making levels and thus they provided opinions/responses that truly reflect the varied influence or incentive motivation across different calibre of employees at different status within the organization.

![Graph showing work position](image)

**Respondent Work Position**

**Respondents Years of Work**

Respondents’ distribution by years they have worked for the firm is depicted in table 4.4. Table below shows that 20.6 per cent have worked for less than one year, 16.4 per cent...
per cent have worked for between one and five years, 43.8 per cent have worked for between six to ten years and 19.2 have worked for above 10 years. This finding implies that majority of respondent have worked for more than five years thus are well conversant with the operation of the firm and have been involved in strategy decision of implementation in one way or the other. In addition, 19.2 per cent have worked for more than 10 years indicating that they have been part of the turnaround strategy from initiation and thus well provided real response on how incentive affects their performance.

**Respondent Work Position**

<table>
<thead>
<tr>
<th>Work Position</th>
<th>Frequency</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1 year</td>
<td>15</td>
<td>20.6</td>
</tr>
<tr>
<td>1 – 5 years</td>
<td>12</td>
<td>16.4</td>
</tr>
<tr>
<td>6 – 10 years</td>
<td>32</td>
<td>43.8</td>
</tr>
<tr>
<td>Above 10 years</td>
<td>14</td>
<td>19.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>73</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

**Descriptive Statistics**

This section presents the major findings of descriptive statistics results for objective questions. The mean and standard deviation for each objective elements are presented and discussed as follows:

**Salary Incentive Strategy**

The first specific objective of the study was to establish the influence of salary incentives on financial performance of retail industry in Kenya. The following subsection presents findings concerning how respondents regarded the issues various under this variable. First, respondents were asked whether salary incentive affects their performance and the extent to which salary incentive affect performance. Findings show that 69.9 per cent of respondent agreed that salary incentive affects their performance. Results regarding the extent of effect, as rated on a four point Likert scale (4 very high, 3 high, 2 low and 1 very low) is depicted in figure below.
The finding in figure below shows that 32.9 per cent agree that salary incentives affects their performance to very high extent, 46.6 per cent agree to high extent, 16.4 per cent agree to low extent and 4.1 per cent to very low extent. This implies that salary incentives highly affect staff performance. This finding is in agreement with Adinolfi (2008) and (Bibeault, 2006).

In addition, the study selected three elements for investigation under salary incentive variable, namely, basic salary, allowances and bonuses. Each of these element statements was analyzed on a five point likert scale (with 5 being strongly agreed and 1 being strongly disagreed). The results are shown in table below.

**Effects of Salary Incentive Factors**

<table>
<thead>
<tr>
<th>Statements</th>
<th>Mean</th>
<th>Std Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic salary motivates staff to support the implementation of turnaround strategy.</td>
<td>4.81</td>
<td>0.163</td>
</tr>
<tr>
<td>Organization awards motivating allowances for turnaround strategy implementation..</td>
<td>4.31</td>
<td>0.109</td>
</tr>
<tr>
<td>There are adequate bonuses awarded to those who support strategy implementation</td>
<td>2.95</td>
<td>1.092</td>
</tr>
<tr>
<td><strong>Averages</strong></td>
<td><strong>4.02</strong></td>
<td><strong>0.455</strong></td>
</tr>
</tbody>
</table>

The descriptive results as shown in table above illustrates that majority of respondents strongly agrees (m=4.81; std dev.= 0.163) that basic salary motivates staff to support the implementation of strategy, implying basic salary influences change management; majority of respondents partially agrees (m=4.11; std dev. 1.09) that Uchumi Ltd award allowances for support of strategy change, implying allowances are inadequate. In addition, majority of respondents disagreed (m=2.95; std. dev 1.092) with the adequacy of bonuses awarded to those who support strategy, implying there is poor bonus reward to employees. Average rating for all elements of salary incentive reveals a m = 4.02 and std. dev=0.445 implying a weak agreement that salary incentive influences strategy change management. This finding corroborates with findings of Osterloch (2002).

**Merit Based Incentives Strategy**

The second specific objective of the study was to assess the influence of merit based incentives on financial performance of retail industry in Kenya. Respondents were asked whether merit based incentives offered affects their performance. Findings show that 45.4 per cent of respondent says yes with majority 54.6 per cent holding contrary opinion. In addition, finding regarding the extent to which merit based incentive affect performance results are shown in figure below.
Extent to which Merit Based Incentive Affects Performance

Figure above shows that 6.8 per cent agrees that merit based incentives affects their performance to very high extent, 13.7 per cent agrees to high extent, 47.9 per cent agrees to low extent and 31.5 per cent to a very low extent. This implies that organization’s merit based incentives to a low extent affect staff performance. This finding is in agreement with Rich and Larson (2004).

Findings on the three elements for merit based incentives under investigation, namely, rewards, promotion and acknowledgement is shown in table below. The results in table 4.7 illustrate that majority of respondents disagree (m=2.41; std dev.=0.176) that fringe/reward benefits offered to staff, has low influence. Similarly, majority of respondents disagrees (m=2.22; std dev. 0.199) that promoting staff based on their contribution to strategy implementation promotes strategy change management, implying staff are not promoted based on how they support strategy change implementation. However for acknowledgement element, majority of respondents partially agree or are largely indifference (m=3.95; std. dev 1.002) acknowledging individual achievement or contributions towards performance motivate and enhance contribution to strategy change management. Average rating reveals a m=2.86 and std. dev=0.459 implying a no agreement that merit based incentive influences strategy change management. This finding corroborates with findings of Holcomb et al (2006) and Devers et al. (2006).

<table>
<thead>
<tr>
<th>Statements</th>
<th>Mean</th>
<th>Std Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fringe benefits/reward support implementation of change management.</td>
<td>2.41</td>
<td>0.176</td>
</tr>
<tr>
<td>Promoting staff based on their contribution (to strategy) promotes strategy implementation.</td>
<td>2.22</td>
<td>0.199</td>
</tr>
<tr>
<td>Acknowledging individual achievement or contributions towards strategy performance motivate staff.</td>
<td>3.95</td>
<td>1.002</td>
</tr>
<tr>
<td><strong>Averages</strong></td>
<td><strong>2.86</strong></td>
<td><strong>0.459</strong></td>
</tr>
</tbody>
</table>

Effects of Salary Incentive Statement

Competency Based Incentive Strategy
The study specific objective three was design to ascertain the influence of capacity development incentives on organization performance. Response regarding whether
employees competency affects performance reveals that 100 per cent of respondent says yes. Results regarding the extent to which competency affects incentive strategies, as rated on a four point Likert scale (4 very high, 3 high, 2 low and 1 very low) is depicted in figure below.

![Bar Chart](http://www.ijsse.org/)

**Extent to which Competency Incentive Affects Performance**

The finding in figure above shows that 13.7 per cent agree that competency incentives affects their performance to very high extent, 24.7 per cent agrees to high extent, 43.8 per cent agrees to low extent and 17.8 per cent to a very low extent. This implies that although competency highly affects employee’s performance, the firm’s competency incentives only yield a low extent influence on performance. This finding is in agreement with Taylor (2015).

Three elements of competency incentives, namely education, training and delegation of responsibility, were selected by the study. Result of these element statements as analyzed on a five point Likert scale (with 5 being strongly agreed and 1 being strongly disagreed) is shown in table below.

**Effects of Competency Based Incentive Statement**

<table>
<thead>
<tr>
<th>Statements</th>
<th>Mean</th>
<th>Std Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees’ education affects strategy management.</td>
<td>4.73</td>
<td>0.106</td>
</tr>
<tr>
<td>Training enhances strategy management.</td>
<td>4.83</td>
<td>0.119</td>
</tr>
<tr>
<td>Delegation and responsibility enhances strategy management.</td>
<td>2.69</td>
<td>0.092</td>
</tr>
<tr>
<td>Averages</td>
<td>4.08</td>
<td>0.106</td>
</tr>
</tbody>
</table>

Results shown in table above indicates that majority of respondents strongly agrees (m=4.73; std dev.= 0.106) that employees education affects change strategy implementation; majority strongly agrees (m=4.83; std dev. 1.119) that training enhances strategy management, and majority disagreed (m=2.69; std. dev 0.092)
delegation and responsibility enhances strategy management. Average rating for all elements of competency incentive reveals a $m=4.08$ and std. dev=$0.106$ implying a strong agreement that competency incentives employed by Uchumi Ltd influences strategy management. This finding corroborates with findings of Miller and Triana (2009).

**Work Environment Incentive Strategy**

Work environment is considered a fundamental determinant of employees output. The forth objective was crafted to determine how work incentives influence organization performance. The study sought respondents’ opinion regarding their work environment. Results indicate that 50.3 per cent concurs that their work environment affect performance. Conversely, finding regarding the extent to which work environment incentives affects strategy management is illustrated in figure below.

![Extent to which Work Environment Incentive Affects Performance](image)

**Extent to which Work Environment Incentive Affects Performance**

Results as depicted in figure above shows that 13.7 per cent agrees with work environment incentives to affects their performance to very high extent, 30.1 per cent agrees to high extent, 42.5 per cent agrees to low extent and 13.7 per cent agrees but to a very low extent. Therefore, as majority are of the opinion that their work environment incentives affect performance to a low extent, it implies that the firms work environment incentives lowly motivates employees. This finding is in agreement with Bordum (2010) and Yukl *et al.* (2010).

Present findings for the study’s elements of work environment incentives, namely tools and equipment, participation in decision making and, quality of relationship, as rated on a five point Likert scale is shown in table below.

---

**Table showing extent to which work environment incentives affect performance**

<table>
<thead>
<tr>
<th>Rating</th>
<th>% Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very low</td>
<td>13.7%</td>
</tr>
<tr>
<td>Low</td>
<td>42.5%</td>
</tr>
<tr>
<td>High</td>
<td>30.1%</td>
</tr>
<tr>
<td>Very high</td>
<td>13.7%</td>
</tr>
</tbody>
</table>
Effects of Work Environment Incentive Statements

<table>
<thead>
<tr>
<th>Statements</th>
<th>Mean</th>
<th>Std Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>There are right tools and equipment that improve strategy implementation</td>
<td>3.26</td>
<td>0.152</td>
</tr>
<tr>
<td>Employees participation in decision making enhance strategy implementation</td>
<td>4.11</td>
<td>1.008</td>
</tr>
<tr>
<td>Healthy relationship between staff and management promotes strategy</td>
<td>2.51</td>
<td>0.999</td>
</tr>
<tr>
<td>implementation performance</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Averages</strong></td>
<td><strong>3.29</strong></td>
<td><strong>0.72</strong></td>
</tr>
</tbody>
</table>

Results indicated in table above shows majority of respondents are indifferent (m=3.26; std dev.= 0.152) work place tools and equipment affects performance; majority agree (m=4.11; std dev. 1.008) that their participation in decision making enhances implementation of strategy, and majority disagreed (m=2.51; std. dev 0.999) that relationship between staff and management promotes strategy implementation. On average rating, all elements of work environment incentive reveals m=3.29 and std. dev=0.72 implying a indifference or divided opinion among respondents with regards to work environment. This finding corroborates with findings of Rekha and Kamalanabhan (2010).

Organization’s Financial Performance

The study used secondary data obtained from Uchumi Ltd. Co. audited financial statement for the financial period 2011 to 2015 was used to assess for financial performance based on Profit Before Tax (PBT), Return on Asset (ROA) and Return on Equity (ROE). Results for trend analysis are discussed below:

**Profit Before Tax (PBT)**

Profit before tax performance results indicates that, within the analysis period, the PBT depicted a downward trend performance with the highest PBT being reported in 2011 (354 billions) and the lowest being in 2013 (6 billions). However, PBT performance thereafter begins to rise after 2013 at an average performance of 70 billions. This finding implies downward – upwards performance, and could be attributed the increased expenditure relating and the upward trend could be attributed to early profit margins from the strategy. These findings are supported by Bordum (2010) and Yukl et al. (2010).
PBT

Return on Assets
The analysis results for RoA is depicted in Figure below. From the Figure 4.11, it is clear that ROA performance indicates a declining or downward trend result with the highest ROA being recorded in 2011 and lowest being in 2015. This downward trend implies that incentive strategies had a declining influence on ROA of Uchumi limited. This decline could be attributed to immediate commission of resources towards implementation, which would later yield economic benefits. This finding corroborates Miller and Triana (2009).

![ROA Chart]

ROA

Return on Equity
Result for ROE is depicted in Figure below and illustrates a decline trend similar to ROA. The highest ROE was recorded in 2011 with the lowest falling in 2015. This finding implies that incentive strategies have declining influence on ROE. This finding corroborates Miller and Triana (2009).

![ROE Chart]
Inferential Analysis
This subsection presents the results for inferential analysis of the Pearson Correlation and Multiple Regression, including Analysis of Variance (ANOVA) and determination of coefficient or beta values of study variables.

Correlation Analysis
The results of Pearson Moment Correlation (PMC) analysis is depicted in Table below and illustrates that there was a strong positive correlation \( r=0.713 \) between salary based incentives and financial performance, statistically significance \( (P=0.02<0.05) \) at 95 per cent confidence level; a strong correlation \( r=0.765 \) between merit based incentives and financial performance, statistically significance \( (P=0.04<0.05) \) at 95 per cent confidence level; relatively weak and positive \( r=0.472 \) between competency based incentives and financial performance, not statistically significance \( (P=0.81>0.05) \) at 95 per cent confidence level; and a weak correlation \( r=0.362 \) between work environment incentives and financial performance, not statistically significance \( (P=0.92>0.05) \) at 95 per cent confidence level. PMC findings implies that salary based incentives and merit based incentives positively and strongly relates with financial performance, while competency and work environment incentives do not significantly contributes to the same.

<table>
<thead>
<tr>
<th>Incentive Strategies</th>
<th>Salary Based</th>
<th>Merit Based</th>
<th>Competency Based</th>
<th>Work Environment Based</th>
<th>Financial Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary Based</td>
<td>Pearson</td>
<td>1</td>
<td>.00</td>
<td>.04</td>
<td>.02</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
<td>.00</td>
<td>.00</td>
<td>.00</td>
</tr>
<tr>
<td>N</td>
<td>73</td>
<td>73</td>
<td>73</td>
<td>73</td>
<td>73</td>
</tr>
<tr>
<td>Merit Based</td>
<td>Pearson</td>
<td>.864(*)</td>
<td>1</td>
<td>.39(*)</td>
<td>.502(*)</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.04</td>
<td>.00</td>
<td>.00</td>
<td>.00</td>
<td>.00</td>
</tr>
<tr>
<td>N</td>
<td>73</td>
<td>73</td>
<td>73</td>
<td>73</td>
<td>73</td>
</tr>
<tr>
<td>Competency Based</td>
<td>Pearson</td>
<td>.604(*)</td>
<td>.390(*)</td>
<td>1</td>
<td>.350(*)</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.01</td>
<td>.004</td>
<td>.00</td>
<td>.00</td>
<td>.00</td>
</tr>
<tr>
<td>N</td>
<td>73</td>
<td>73</td>
<td>73</td>
<td>73</td>
<td>73</td>
</tr>
<tr>
<td>Work Environment Based</td>
<td>Pearson</td>
<td>.733(*)</td>
<td>.502(*)</td>
<td>.350(*)</td>
<td>1</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.002</td>
<td>.02</td>
<td>.02</td>
<td>.00</td>
<td>.00</td>
</tr>
<tr>
<td>N</td>
<td>73</td>
<td>73</td>
<td>73</td>
<td>73</td>
<td>73</td>
</tr>
<tr>
<td>Financial Performance</td>
<td>Pearson</td>
<td>713(*)</td>
<td>.765(*)</td>
<td>.472</td>
<td>.362</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.02</td>
<td>.04</td>
<td>.081</td>
<td>.092</td>
<td>.00</td>
</tr>
<tr>
<td>N</td>
<td>73</td>
<td>73</td>
<td>73</td>
<td>73</td>
<td>73</td>
</tr>
</tbody>
</table>

* Correlation is significant at the 0.05 level (2-tailed).

Regression Analysis
Regression analysis results are shown in Table below, and reveal \( R^2 \) of 0.4079 and significant variables all at 0.05 level of significance. This implies that 40.79 per cent
change in financial performance during (dependent variable) is attributable to salary, merit, competency and work environment incentive strategies (independent variables).

Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Squarea</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.6387a</td>
<td>0.4079</td>
<td>0.3951</td>
<td>0.021</td>
</tr>
</tbody>
</table>

a. Predictors: (constant), salary incentives, merit incentives, competency incentives and work environment incentives.

Analysis of Variance (ANOVA) result is depicted in Table below and indicates a total variance of 55.103 as the difference between variance which can be explained by the Model (independent variables) and error (cannot be explained by the model independent variable). Finding on the higher value of F-statistics (F_{Cal}=6.675> F_{Cri} = 4.123 at confidence level 95 per cent and sig is 0.000<0.05) indicates the model is fit $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$ for the study.

ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>18.867</td>
<td>4</td>
<td>4.707</td>
<td>6.675</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>36.236</td>
<td>68</td>
<td>.647</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>55.103</td>
<td>72</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (constant), salary incentives, merit incentives, competency incentives and work environment incentives
b. Dependent variable: financial performance

Beta coefficients obtained from multiple regression analysis results are shown in table below. Finding reveals a constant value 0.674 represents the change in dependent variable not attributed to by study independent variables. In addition, regression results revealed that a unit change in salary based incentives ($X_1$) causes 0.398 factor change on financial; unit change in merit based incentives ($X_2$) results to 0.465 factor change on financial performance; unit change in competency based incentives ($X_3$) causes 0.391 factor change on financial performance and unit change in work environment based incentives ($X_4$) results to 0.242 factor change on financial performance. Both salary based incentives and merit based incentives factor change are significance at 95% confidence level while competency and work environment incentives are insignificance. The insignificance contributions of capacity incentive could be attributed to low emphasis on employee’s professional development required to handle strategy implementation. On the other hand, insignificance contribution of work environment might be attributed to poor working condition.
Coefficient Analysis

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>0.674</td>
<td>0.192</td>
</tr>
<tr>
<td>Merit based incentives</td>
<td>0.465</td>
<td>0.195</td>
</tr>
<tr>
<td>Salary based incentives</td>
<td>0.398</td>
<td>0.172</td>
</tr>
<tr>
<td>Competency based incentives</td>
<td>0.391</td>
<td>0.078</td>
</tr>
<tr>
<td>Work environment based incentives</td>
<td>0.242</td>
<td>0.039</td>
</tr>
</tbody>
</table>

a. Predictors: (constant), salary incentives, merit incentives, competency incentives and work environment incentives

Optimal Regression Model

The optimal regression model of the reveal that merit based incentives has the highest factor influence followed by salary based incentives then competency based and lastly work environment incentives. This yields an overall model shown below.

Organisation’s Final Performance = 0.674 + 0.465 Merit based incentives + 0.398 Salary based incentives + 0.391 Competency based incentives + 0.242 Work environment incentives

or

Y = 0.674 + 0.465X₁ + 0.398X₂ + 0.391X₃ + 0.242X₄

Where:
Y – Financial performance
X₁ - Merit Based Incentives
X₂ - Salary Based Incentives
X₃ - Competency Based Incentives
X₄ - Work Environment Based Incentives

Summary of Major Findings

The study achieved a response rate above the acceptable minimum response. Demographic result revealed that the dominant age group was adult, dominant gender male and majority of respondents being married. Demographic results further revealed that majority respondent holds diploma and undergraduate degree as minimum academic qualification. Respondents were drawn from all levels of strategy with majority coming from operational level. Majority of respondents have worked for more than five years. In broader perspective, demographic finding shows that respondents were mature, well educated, and experienced in the organisation. Based on this, they were able to provide reliable and objective data/information for the study.

Salary Based Incentives Strategy

Salary based incentives affects respondent performance at Uchumi Ltd Co. with majority agreeing the effect has high influence during strategy management. In addition, basic salary motivates staff to, allowances partially motivate and bonuses do not due to their inadequacy. Salary incentives contribute to profitability of firm and not ROI and market share price. Finally, salary incentives has strong positive
correlation with financial performance and a unit change in salary incentive contributes to significance factor change in financial performance.

**Merit Based Incentives Strategy**
Merit based incentives affects majority of staff performance at Uchumi Ltd Co. However the extent of effect is low. In addition, analysed merit incentives showed that fringe benefits/rewards offered by the organisation has low influence on employees performance during, job promotion has low influence on staff performance and acknowledgement of employees contribution neither influence their contribution too. Merit based incentives contribution to profitability of firm, ROI and market share price is unclear despite the strong correlation with financial performance and a unit change in merit based incentive contributes significance factor to financial performance.

**Capacity Based Incentives Strategy**
Competency incentive affects all staff performance at Uchumi Ltd Co. The extent of effect is relatively low despite employees education and training. Poor delegation and responsibility derrails strategy implementation. Competency incentive contribution to profitability and ROI, but not market share price. There is a relatively weak correlation between competency incentives and financial performance, as a unit change in competency incentive contributes significance factor change in financial performance.

**Work Environment Incentives Strategy**
Lastly, slightly half of the respondents agree that work environment affects their performance at Uchumi Ltd Co. Furthermore, the extent of this effect is relatively low due to indifferent effect with tools and equipment for implementing and, poor relationship between management and subordinate. However, employees are allowed to participate in decision making. Work environment incentives contribution to profitability, ROI, and market share price is disputed or unclear. Finally, there is a weak correlation between work environment incentives and financial performance, and a unit change in work environment incentive contributes insignificance factor change in financial performance.

**Conclusions**
The study made the following conclusions. Salary based incentives affects employees’ performance with a high effect. Basic salary motivates staff, allowances partially motivate and bonuses do not motivates. Salary incentive has strong positive correlation with financial performance and a unit change in salary incentive contributes to significance change in financial performance.

Merit based incentives affects employees’ performance with a low effect. Fringe benefits/rewards has low influence on employees performance and job promotion has low influence Merit based incentives has strong positive correlation with financial performance and a unit change in merit based incentive causes significance change in financial performance.

Competency incentive affects employees’ performance at Uchumi Ltd Co with a relatively low effect. Education and training enhances strategy implementation. There is poor delegation of responsibility. Competency incentive has relatively weak insignificance correlation with financial performance and a unit change in competency incentive contributes insignificance change in financial performance.
Work environment affects employees' performance with a relatively low effect. There are no proper tools and equipment for implementing and poor relationship between management and subordinates. There is a weak correlation between work environment incentives and financial performance, and a unit change in work environment incentive contributes insignificance change in financial performance.

**Recommendations**

The study made the following recommendations based on the findings.

**Salary Based Incentives Strategy**

Based on the finding on low influence of allowances and bonuses on employees’ performance, the study recommends that Uchumi Ltd. Co. should review the basis of awarding current allowances and bonuses and design better and motivating allowances and bonuses.

**Merit Based Incentives**

The study recommends that the firm should review its merit-based incentives. Specifically, the firm should seek for fringe benefits/rewards that are aligned to performance; job promotion should be based on employees' support to management.

**Competency Based Incentives**

Based on finding on poor influence of delegation of responsibility, which derails strategy implementation, the study recommends that the firm should design effective policies on delegation of responsibilities to enhance employees’ performance.

**Work Environment Incentives**

The study recommends that the firm should review its work environment. Specific attention should be given to tools and equipment for implementing strategic change. In addition, the firm should work on the relationship between management and subordinated.

**Acknowledgement**

This research project owes its existence to the help, support and inspiration of several people. First, I would like to express my sincere appreciation and gratitude to Dr. Allan Kihara for his enormous guidance throughout this project writing. His support and inspiring suggestions have been precious for the construction and completion of this project. I am indebted to CBD Campus Director, Deputy Director and the Chairman of Department of Commerce and Economic Studies (CES) for the opportunity given to be in this reputable institution of higher learning. Last but not list, I would like to thank my family members for encouragement and support. May God bless you all.

**References**


