INFLUENCE OF EMPLOYEE REWARD ON THE PERFORMANCE OF PARASTATALS IN KENYA

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ABSTRACT

This study sought to examine the effect of employee reward on the performance of parastatals in Kenya. The study adopted a descriptive survey design with both quantitative and qualitative approaches. A population of 9600 was targeted in 32 purely commercial parastatals in Kenya. A sample of 240 respondents was selected from 10 parastatals using cluster random sampling technique. Cluster sampling allows study of parastatals in the clusters as they are involved in different businesses. The respondents included CEOs, senior managers, supervisors and other staff in each of these parastatals. Primary data was obtained from the respondents through self-administered questionnaires and interviews. Questionnaires were administered through drop and pick later method. Interviews were conducted by use of an interview guide. Data was analyzed using both descriptive and inferential statistics with the use of Statistical Package for Social Science (SPSS version 23). Descriptive including mean scores, standard deviations, percentages and frequency distribution were computed to describe the characteristics of the variables of interest in the study. Inferential statistics like linear regression technique was used to establish the nature and magnitude of the relationships between the variables. The results were presented in tables and figures (graphs and pie charts). The findings indicated that the relationship between employee reward and performance of parastatals was positive and statistically significant. Results indicated that employees agreed that the rewards offered by the parastatals had an effect on their performance and the rewards offered attracted and retained high quality employees. Based on the findings of this study, it was revealed that employee rewards affects the motivation of employees which in turn influences the firm’s performance. It is therefore possible to conclude that reward is a very critical and central activity in the human resource management function in any organization. Human resource is the most vital tool for organizational development. The parastatals need to re-evaluate their compensation programs within the context of their corporate strategy and specific HR strategy to ensure that they are consistent with the necessary performance measures required by the public sector. The study recommends that the boards of parastatals set specific levels of remuneration of executives and senior staff in consultations with the parent Ministry and the State corporations Advisory Committee.

Key Words: Employee Reward, Compensation, Performance, Parastatals
1. Introduction

Strategic Human Resource Management practices represent a distinctive approach for shaping employee behaviours and work attitudes, which in turn impacts on organization performance (Huselid, 1995; Fombrum, Tichy, & Devanna, 1984). Job satisfaction and organizational commitment are key employee work attitudes and behaviours that constitute immediate outcomes of SHRM practices (Guthrie, 2001). Satisfied and committed employees are more likely to have a strong desire to retain membership and exert considerable effort on behalf of the firm, thereby enhancing firm performance. However, employees do not bring these key work attitudes and behaviors on entry; rather, they acquire them in the workplace, from a process of the exchange relationship, via relevant SHRM policies, programmes, processes, and practices (Luthans, 2008; Lin & Chang, 2005; Rodriguez & Ventura, 2003).

Organization’s performance is positively impacted by the presence of Strategic Human Resource Management (SHRM) practices which tend to create a significant contribution on organizational competencies, and this in turn becomes a great boost for further enhancing innovativeness (Noe Hollenbeck, Gehart & Wright, 2003; Youndt, Subramaniam, & Snell, 2004; Waiganjo, Mukulu & Kahiri, 2012). According to Horngren (2000), organizations link the maximization of performance with SHRM practices. As a result of intensive competition, and need to meet society needs, organizations constantly search for newer sources of effectiveness, one of the most important being SHRM, that has the potential to improve and determine an organization’s fate (Kelliher & Perrett, 2001). Organizations today have increasingly become aware of the importance of SHRM in sustaining growth and effectiveness unless there are strategies that complement its operations.

To motivate behavior, the organization needs to provide an effective reward system. Managers often use rewards to reinforce employee behavior that they want to continue. According to Perce and Robinson (2007) reward power is available when the manager confers rewards in return for desired actions and outcomes. Rewards systems are often implemented within organizations as a key management tool that can contribute to a firm’s effectiveness by influencing individual behavior and motivating employees at work (Fareed et al. 2013). Employees’ job satisfaction is affected by both financial and nonfinancial rewards (Armstrong, Reilly & Brown, 2011; Ali & Ahmad, 2009). Organizations tend to focus on financial rewards, and non-financial rewards have
become increasingly being overlooked (Fareed et al. 2013). Rewards can be extrinsic or intrinsic, extrinsic rewards are tangible rewards and these rewards are external to the job or task performed by the employee. External rewards can be in terms of salary/pay, incentives, bonuses, promotions, job security, among others. Intrinsic rewards are intangible rewards or psychological rewards like appreciation, meeting the new challenges, positive and caring attitude from employer, and job rotation after attaining the goal (Ali & Ahmad, 2009). This study sought to determine the incentive system, and monetary as well as non monetary rewards adopted by parastatals in Kenya. The effect of rewards on performance of parastatals in Kenya was also examined.

2. **Statement of the problem**

Performance-based reward is the dominant HR practice that firms use to evaluate and reward employees’ efforts (Collins & Clark, 2003). Evidently, performance-based reward has a positive effect upon employee and organizational performance (Brown & Ostroff, 2004; Cardon & Stevens, 2004). However, there is scarce evidence on the effects of reward policy of firm growth. Empirical studies on the relationship between performance-related pay and company performance have generally found a positive relationship, but a growing body of empirical evidence suggests that it is not just pay level that matters, but also pay structure as well (Wimbush, 2005; Singh, 2005). Barringer, Jones and Neubaum (2005) demonstrated that employee incentives differentiated the rapid-growth from the slow-growth firms. Delery and Doty (1996) identified performance-based reward as the single strongest predictor of firm performance. Both performance-based reward and merit-based promotion can be viewed as ingredients in organizational incentive systems that encourage individual performance and retention (Uen & Chien, 2004). David, Chin and Victor, (2002) suggested that incentive plans is effective in decreasing turnover rates. Employee turnover can significantly slow growth. Studies that measure effects of employee reward on performance of parastatals in Kenyan remain few and less documented. This study therefore sought to determine the influence of employee reward on the performance of parastatals in Kenya.

3. **Purpose of the Paper**

The purpose of this paper was to establish the effect of employee reward on the performance of parastatals in Kenya.
4. Literature Review

4.1 Employee Reward

To motivate behavior, the organization needs to provide an effective reward system. A reward strategy is a declaration of intent that defines what the organization wants to do in the longer term to develop and implement reward policies, practices and processes that will further the achievement of its business goals and meet the needs of the stakeholders (Armstrong, 2006). An effective reward system has four elements: rewards need to satisfy the basic needs of all employees; rewards need to be included in the system and be comparable to ones offered by a competitive organization in the same area; rewards need to be available to people in the same positions and be distributed fairly and equitably (Goel, 2008). According to Perce and Robinson (2007), reward power is available when the manager confers rewards in return for desired actions and outcomes. A reward is a work outcome of positive value to the individual (Armstrong, 2006). A reward strategy should enhance commitment and engagement and provide more opportunities for the contributions of people to be valued and recognized.

According to Rudman (2003) paying for performance is a big issue in contemporary human resources management. Studies have found a positive relationship between performance related pay and performance (Goel, 2008; Huselid, 1995). People receive extrinsic rewards, for example, pay bonuses, promotions, time off, special assignments, office fixtures, awards and verbal praise or intrinsic rewards (Armstrong, 2008; Goel, 2008). Intrinsic rewards are self-administered (Dessler, 2006). The overall reward system needs to be multifaceted. Because all people are different, managers must provide a range of rewards - pay, time off, recognition, or promotion (Armstrong, 2008). According to Armstrong and Murlis (2006), it is also important to consider non financial rewards which vary according to the nature of the employment relationship and also the personal characteristics of the employee. Lewis, Thornhill and Suanders (2003) identify the following non financial rewards: feeling part of a community, a sense of personal achievement, social recognition and social and societal responsibility.

5. Methodology

This research adopted quantitative and qualitative approaches. Quantitative approach was used because the data collected through questionnaires from respondents was analyzable using the
standard statistical tools. Qualitative approach was also adopted in this study which was collected through interview guide, it was used because qualitative data is more in depth and provides detailed answers (Berg, 2001). The target population for the study was all C.E.Os, managers, supervisors and other support staff of the purely commercial parastatals. This study targeted all the 32 purely commercial parastatals. The sampling technique used was cluster sampling as it allows study of parastatals in the cluster as they deal with different businesses (Mugenda & Mugenda, 2003). Cluster sampling technique guarantees that each cluster is represented in the sample and is more accurate in reflecting the characteristics of the population (Kothari 2004). In this sampling method, sampling error is considerably reduced. Using the sampling frame, 10 parastatals were selected from 32 purely commercial parastatals that are in different categories. This represents more than the 30% of the accessible population that is generally recommended by Mugenda & Mugenda (2003) who recommend that 30% of the accessible population is enough.

A sample of 240 respondents was selected through stratified random sampling. This study estimated that around 80% of the parastatals have embraced SHRM practices.

Table 1: Representative samples of different categories for the ten parastatals

<table>
<thead>
<tr>
<th>Population Category</th>
<th>Number per parastatal</th>
<th>Representative Sample (n)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEOs</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>Managers</td>
<td>3</td>
<td>30</td>
</tr>
<tr>
<td>Supervisors</td>
<td>6</td>
<td>60</td>
</tr>
<tr>
<td>Other support staff</td>
<td>14</td>
<td>140</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>24</strong></td>
<td><strong>240</strong></td>
</tr>
</tbody>
</table>

Data was collected, coded and analyzed using SPSS version 20.0. The findings were presented in form of tables and pie charts and discussions and interpretation of the same given.

6. Results and Discussions

6.1. Response Rate

The number of questionnaires, administered to all the respondents, was 240. A total of 187 questionnaires were properly filled and returned from the parastatals in Kenya. This represented an overall successful response rate of 78%. According to Mugenda and Mugenda (2003), a response rate of 50% or more is adequate. Babbie (2004) also asserted that return rates of 50% are acceptable to analyze and publish, 60% is good and 70% is very good.
6.2. Descriptive Statistics

The fourth objective of the study was to examine the effect of employee reward on the performance of parastatals in Kenya. The study findings show that 74.4% of the respondents agreed that in the parastatal, salary and other benefits are comparable to the market, 79.2% agreed that in the parastatal, rewards are decided on the basis of competence or ability of the employee and 67.4% agreed that the rewards for all employees were directly linked to his/her performance. Sixty nine percent of the respondents agreed that in the parastatal, profit sharing was used as a mechanism to reward higher performance, while 71.7% agreed that the rewards offered by the parastatal had an effect on employee performance and 77.6% agreed that the rewards offered attracted and retained high quality employees. Furthermore, 79.1% of the respondents agreed that rewards affected the market share of the parastatals by attracting customers, 69% agreed that employee rewards affected the rate of growth of a parastatal and 79.1% agreed that there was a relationship between reward of employees and parastatal performance. Finally 70.6% of the respondents agreed that corruption plays a significant role in employee rewarding and 74.4% agreed that rewards were based on family, tribal relations and bribery rather than merit. The mean score for responses for this section was 3.87 which indicates that majority of the respondents agreed that employee reward was a key determinant of performance of parastatals.

6.3 Regression Analysis

Regression analysis was conducted to empirically determine whether employee reward was a significant determinant of performance in purely commercial parastatals in Kenya. Regression results in Table 2 indicate the goodness of fit for the regression between employee reward and performance was satisfactory. An R squared of 0.414 indicates that 41.4% of the variations in performance are explained by the variations in employee reward effectiveness. This implies that 58.6% of the unexplained variations in performance is accounted for by the other variables including recruitment and selection, decentralized teams and training development. The study findings are in support that performance-based reward has a positive effect upon employee and organizational performance (Brown & Ostroff, 2004; Cardon & Stevens, 2004). In addition other empirical studies on the relationship between performance-related pay and company performance
have generally found a positive relationship, but a growing body of empirical evidence suggests that it is not just pay level that matters, but also pay structure as well (Wimbush, 2005; Singh 2005).

### Table 2: Model Summary for Employee Reward

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>R</td>
<td>0.643</td>
</tr>
<tr>
<td>R Square</td>
<td>0.414</td>
</tr>
<tr>
<td>Adjusted R Square</td>
<td>0.41</td>
</tr>
<tr>
<td>Std. Error of the Estimate</td>
<td>0.57255</td>
</tr>
</tbody>
</table>

The overall model significance is presented in table 3. An F statistic of 130.466 indicated that the overall model was significant. The ANOVA test shows that the significance of the F-statistic 0.000 is less than 0.05 meaning that null hypothesis is rejected and conclude that there is a significant relationship between employee reward and performance of commercial parastatals. The findings imply that employee reward was statistically significant in explaining performance of parastatals in Kenya.

### Table 3: ANOVA for Employee Reward

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>42.769</td>
<td>1</td>
<td>42.769</td>
<td>130.466</td>
<td>0.000</td>
</tr>
<tr>
<td>Residual</td>
<td>60.646</td>
<td>185</td>
<td>0.328</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>103.414</td>
<td>186</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The coefficients are presented in table 4. The results show that employee reward contributes significantly to the model since the p-value for the constant and gradient are less than 0.05. The findings imply that one positive unit change in employee reward effectiveness led to a change in performance at the rate of 0.725. This confirms the positive effect of employee reward on performance. The fitted equation is as shown below

\[ Y = 1.222 + 0.715X_1 \]
7. Conclusions

From this study it is concluded that employee reward affects the performance of parastatals to a moderate extent. Employee reward effectiveness explains a 41.4% variance in performance. From this study, it is concluded that there is a general direct/positive relationship between employee rewards and performance. The results of correlation matrix have supported the hypothesis that there exists a positive relationship between employee rewards and performance. Based on the findings of this study, it was revealed that employee rewards affects the motivation of employees which in turn influences the firm’s performance. It is also possible to conclude that reward is a very critical and central activity in the human resource management function in any organization. Human resource is the most vital tool for organizational development.

8. Recommendations

The parastatals need to re-evaluate their compensation programs within the context of their corporate strategy and specific HR strategy to ensure that they are consistent with the necessary performance measures required by the public sector. The study recommends that the boards of parastatals set specific levels of remuneration of executives and senior staff in consultations with the parent Ministry and the State corporations Advisory Committee. The Salaries and Remuneration Commission can also borrow from the study to deal with high inconsistencies in the remuneration of the executives and senior staff of these entities, since there is no clear reason why in some entities they are remunerated at significantly higher levels than those of others. HR managers should also ensure that the salaries and benefits offered by organizations are comparable to what is generally in the industry.
References


