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The Strategic JOURNAL of Business & Change MANAGEMENT
ISSN: 2312-9492 www.strategicjournals.com
Vol. 6, Iss. 3, pp 627 - 635 September 3, 2019. www.strategicjournals.com, ©Strategic Journals

EMPLOYEE COMPENSATION ON JOB PERFORMANCE IN THE COUNTY GOVERNMENT OF KAKAMEGA, KENYA

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Accepted: August 13, 2019

ABSTRACT

Despite the fact that County Governments have been investing heavily in staff empowerment strategies since inception its effect on job performance still remains vague. Several studies have been conducted on this subject and their results were diverse. More than 25% of organizations reported no significant empowerment-oriented practices in their organizations. The main purpose of this study was to investigate the effect of employee compensation on job performance among staff in the County Government of Kakamega, Kenya. This study was anchored on the Resource Based View Theory. A correlation research design was adopted for the study and the study targeted 242 respondents, drawn from all the county departments in the County Government of Kakamega. A sample size of 171 respondents was used. The questionnaire was the main instrument for data collection. Reliability analysis results illustrated that Cronbach alpha coefficients were above 0.7. The study employed criterion validity, construct validity of the instruments, and face validity. Data analysis and interpretation were based on descriptive statistics as well as inferential statistics using SPSS version 22. The findings of the study illustrated that employee compensation and employee performance were found to be linear, positive and significant (p-value less than 0.05). It was concluded that employee compensation accounted for 62.1% variation of job performance among staff of the County Government of Kakamega. This implied that if employee compensation were enhanced in the County Governments, employee job performance will be automatically improved. It was recommended that the county governments should fairly remunerate their employees through use of various types of bonuses like annual/year-end bonus and incentive bonus to motivate employees to better performance. The output of the study would be utilized by the Department of Human Resources Management by the County Governments of Kenya in the formulation of a systematic process of applying employee compensation. It would further guide formulation of policy in the key areas of employee compensation by County Governments and other policy makers. Finally, it would also contribute to scientific knowledge base for academic purposes for researchers in the area of employee compensation.

Key Words: *Employee Compensation, Job Performance, County Government of Kakamega*

CITATION: Puka, S., Wanyama, K. W., & Aliata, V. L. (2019). Employee compensation on job performance in the county government of Kakamega, Kenya. The Strategic Journal of Business & Change Management, 6 (3), 627 – 635.

INTRODUCTION

Mayfield and Mayfield (2008) observed that in today's business world, retention of valuable employees is one of the most critical issues confronting leaders Talented employees with competencies which are critical for the survival of an organisation are difficult to retain because they often attach more importance to their own career path than to organisational loyalty, which in turn can result in voluntary turnover (De Vos and Meganck, 2009). Organisations need to explore alternative methods to retain key talent to ensure business success. Employee rewards can serve the purpose of attracting prospective talented employees, retaining valuable employees, motivating employees as well as assisting in achieving job satisfaction and organinsational commitment while obtaining competitive advantage (Bratton and Gold, 2007). A clear focus on employee rewards (employee compensation) will enable organisations to retain its workforce. Nujjoo and Meyer (2012) affirm that employee rewards management is one of the key strategies used to create a motivated and committed workforce, while Ramlall's (2004) study reveals that employees who are motivated and committed to the organisation are less likely to quit. There has been a high influx of mobility amongst employees, which makes it difficult to retain talented employees.

Employee compensation is one of the major functions of human resources management (Absar, Azim, Balasundaram and Akhter, 2010). Compensation is important for both employers and employees in terms of attracting, retaining and motivating employees. Ray and Ray (2011) regarded compensation as important for employees since it is one of the main reasons people work. Compensation includes claims on goods and services paid to an employee in the form of money or a form that is quickly and easily exchangeable into money at the discretion of the employee (Nel, *et al*., 2004).

Grobler, Wärnich, Carrell, Elbert and Hatfield (2011) observe that inadequate compensation is often the cause of turnover. Compensation is the most critical issue when it comes to attracting and retaining talent (Chew, 2004). Compensation represents both intrinsic and extrinsic rewards that employees receive for performing their jobs. Intrinsic compensation reflects employees' psychological mind-sets that result from performing their jobs while extrinsic compensation includes both monetary and non-monetary rewards (Martocchio, 2013). Pratheepkanth (2011) argues that the reward system is an important tool that management can use to channel employee motivation in desired ways. If the reward strategies are implemented effectively in the organisation they can act as a retention strategy.

Statement of the Problem

Despite the fact that County Governments have been investing heavily in staff empowerment strategies like employee compensation since inception its effect on job performance still remains ambiguous (Auditor General Report, 2018). Several studies have been conducted on this subject matter but their results have been inconsistent. A study conducted by Mbaya (2012) dwelt on effects of reward and compensation systems on employee performance within the National Museums of Kenya found that reward and compensation systems had both positive and negative effects on employee performance. A further study by Njanja, Maina, Kibet and Njagi (2013) on effect of reward on employee performance a case of Kenya Power and Lighting Company Limited in Kenya illustrated that cash bonus has no effect on employee performance. In Kenya, Odongo (2006) did a study on employee empowerment programs among international NGOs in the public health sector in Kenya. The study found that employee empowerment programs were diverse and their influence on job performance was not conclusive. From the foregoing discussion the debate on whether empowerment leads to improved performance is still inconclusive. Extensive review of related literature revealed very little has been conducted on employee compensation on job performance in the County Government of Kakamega.

LITERATURE REVIEW

Resource Based View theory: The Resource Based View (RBV) theory is founded on the work of Penrose (1959). Barney (2011) posits that an organization gains competitive advantage by not only acquiring but also developing, putting together, and effectively deploying its physical, human, and organizational resources in techniques that put in unique value and that are difficult for competitors to imitate. The resource based view states that competitive advantage comes from the internal resources that are owned by a firm (Wernerfelt, 2014). The RBV is concerned with the connection between internal resources, strategy and the performance of the organization. Lado and Wilson (2014) argue that HR practices put together into a general HR system can be exceptional and not easy to duplicate and constitute a resource satisfying the conditions necessary for sustained competitive advantage. While both views appear to be acknowledged in the literature, the majority of SHRM researchers using RBV as their theoretical framework have paid attention on the HR system or overarching HR philosophy as a resource functioning to develop the human capital of the firm (Boxall, 2018). The resource based view was used in this study to support organization's human resource capabilities which needs to be valuable, rare, inimitable and non-substitutable to give a firm competitive advantage. It was also used to identify the SHRM practices that are used in the study of which employee compensation was one of the practices. This theory was employed to explain the variable of employee compensation as a resource to employee performance.

Employee Compensation and Job Performance: Kreitner and Kinicki (2008) established that there was a significant relationship between job satisfaction and job performance. Luthans (2005) states that although there is supporting research evidence on a causal direction, showing that job satisfaction influences performance rather than vice versa, there seem to be many possible moderating variables, for an example, rewards. Employees will thus be satisfied if they receive equitable rewards, which are likely to lead to greater performance efforts. Armstrong (2009) concurs that it is a commonly held and a seemingly not unreasonable belief that an increase in job satisfaction will result in improved performance.

Machado-Taylor *et al*. (2016) found that academics were most satisfied with the opportunity to use their own initiative, with relationships with their colleagues, and with the actual work; they were least satisfied with promotion prospects and salary. Marcado-Taylor, Soares, Ferreira and Gouveia (2010) affirm that dissatisfaction stems from inadequate and non-competitive salaries and further lack of job satisfaction due to non-monetary reasons. Mustapha (2013) indicates that a remuneration system plays a significant role in determining an employee's level of job satisfaction in higher education institutions. This factor also involves the degree to which individuals are considering fair compensation they receive for their work, when compared to the earnings received by the other members of the organisation. Salary has a significant effect on the job satisfaction. Therefore, researchers notice that in Europe intrinsic factors such as job rank level, career are the predictors of higher job satisfaction among employees.

Saeed, Nayyab and Lodhi (2013) did a study on the relationship between rewards and employee performance in Technical Education Authority of Pakistan. The study used a descriptive research design. Sample of 300 was selected by using random sampling approach. Data was collected through questionnaires and response rate of questionnaires is 80 percent. Data was analyzed using descriptive statistics, Pearson's coefficient of correlation and linear regression. Results proved that extrinsic rewards does not have much substantial influence on performance of employee, influence of intrinsic rewards on employee performance is moderate and substantial. In addition, intrinsic and extrinsic rewards had different influences on performance of employee; intrinsic rewards have higher impact on employee performance than extrinsic rewards in Technical Education Authority of Pakistan.

Gohari, Ahmadloo, Boroujeni and Hosseinipour (2013) sought to assess the relationship between rewards and employee performance. The study focused on 77 filled up survey questionnaires by different employee types from two Malaysian tourism companies. Overall, the statistical results revealed that although all reward types (including intrinsic and extrinsic types) have a direct positive relationship with employees performance based on the correlation test, three types (appreciation, fringe benefits, and bonus) lose their importance when they are considered in a more comprehensive model including other rewards. Further, the findings revealed that internal rewards have more powerful effects on employees' performance than the extrinsic rewards.

A study by Ozutka (2012) examined the relationship between reward systems and TQM. After related literature review, reward practices have been handled as organizational based rewards. In the sample, which consists of 217 businesses that operate in Turkish manufacturing industry and apply TQM, organization based reward practices of firms on people results were analyzed? The results of this survey were analyzed through descriptive analysis, ANOVA and MANOVA analyses. Results revealed that application level of organization based rewards in Turkish manufacturing industry is not high. In addition, the study identified that intrinsic rewards have a significant influence on employee results; however extrinsic rewards did not have a significant influence on employee results in Turkish manufacturing industry.

On the other hand a local study by Mbaya (2012) dwelt on effects of reward and compensation systems on employee performance within the National Museums of Kenya. The study found out that the reward and compensation systems had both positive and negative effects on employee performance that included increased efficiency and effectiveness, productivity and morale on the positive side; while labor turnover, reduced productivity and work performance are effects on the negative side. Further study by Njanja, Maina, Kibet and Njagi (2013) on effect of reward on employee performance a case of Kenya Power and Lighting Company Limited in Kenya illustrated that cash bonus has no effect on employee performance.

METHODOLOGY

The researcher employed correlation research design. The study was carried out in County Government of Kakamega. Study targeted 242 respondents, drawn from all departments in the County Government of Kakamega. A sample size of 171 respondents was used. The sample size was arrived at using Slovin's formula, written as: n= sample size (171); N= total population of members (242); E= Tolerance level of confidence or probability level of α=0.05. Simple random sampling, stratified sampling and purposive sampling were used in the study. Primary data (quantitative data) was collected by use of questionnaires. The study employed criterion validity, construct validity of the instruments, and face validity. Reliability test was carried out and the results yielded a Cronbach alpha coefficient of 0.799, implying that the research instrument was reliable. Analysis involved the use of both descriptive and inferential statistics. Descriptive statistics used mainly measures of central tendencies like means and standard deviations; while inferential statistics employed linear regression analysis. Inferential statistics were used to test research hypotheses at p-value of 5% (0.05) at confidence interval of 95%.

RESULTS

The objective of the study was to examine the effect of compensationand job performance among staff in County Government of Kakamega. Descriptive and Inferential statistics were as illustrated in Tables 1 and 2. Compensation had ten (10) statements based on the five point Likert Scale.

Table 1: Descriptive Statistics of Employee compensation

Descriptive Statistics					
Questions on Employee Compensation	**N**	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
Employees are paid based on job performance	163	1.00	5.00	4.0123	1.15463
Employees are given incentives after posting impressive results	163	1.00	5.00	3.9264	0.93332
Company gives a general salary increase	163	1.00	5.00	4.3067	0.98965
Company gives a cost of living increase	163	1.00	5.00	3.6687	1.28166
Company has a bonus/incentive plan	163	2.00	5.00	3.9755	1.04202
Company has a formal employee merit review process	163	1.00	5.00	4.1840	0.84794
There is an average merit increase yearly	163	1.00	5.00	4.1595	0.96817
Employees' salaries are reviewed yearly	163	1.00	5.00	4.1534	0.89981
There are various types of bonuses e.g. annual/year-end bonus and incentive bonus	163	2.00	5.00	4.2761	0.89779
Employees are fairly remunerated	163	1.00	5.00	4.3620	1.14839
Valid N (list wise)	**163**				

Results in Table 1 showed that most of the respondents agreed that: employees were fairly remunerated (mean =4.3620; standard deviation = 1.14839); company gave a general salary increase (mean =4.3067; standard deviation = 0.98965); there were various types of bonuses, for example, annual/year-end bonus and incentive bonus (mean =4.2761; standard deviation = 0.89779); company had a formal employee merit review process (mean =4.1840; standard deviation = 0.84794); there was an average merit increase yearly (mean =4.1595; standard deviation = 0.96817); employees' salaries were reviewed yearly (mean =4.1534; standard deviation = 0.89981); employees were paid based on job performance (mean =4.0123; standard deviation = 1.15463). The results on the seven (7) questions on employee compensation indicated that most respondents were positive of the views on employee compensation in relation to job performance among staff of County Government of Kakamega.

Regression results of the effect of employee compensation and job performance was achieved when the variables of employee compensation were regressed with the mean of job performance among staff of County Government of Kakamega. The purpose of this analysis was to establish the causal relationship between employee compensation and job performance among staff of County Government of Kakamega. From Table 1, it was evident that compensation had a linear, positive and significant relationship with job performance among staff in the County Government of Kakamega. Results showed that there was a statistically significant positive relationship between employee employee compensation and employee performance where regression coefficient, B=0.559, correlation coefficient, beta=0.620, ANOVA, F=24.780 and t-test value, t=10.496.

Table 2: Regression Results of Effect of Compensation and Job Performance

Model Summary [c]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change statistics				
					R Square change	F change	df1	df2	Sig. F change
1	0.788a	0.621	0.596	0.72614	0.621	24.780	10	151	0.000

a. a. Predictors: (Constant), Employee Compensation

b. c. Dependent Variable: Job Performance

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	130.659	10	13.066	24.780	0.000[b]
	Residual	79.619	151	0.527		
	Total	210.278	161			

a. Dependent Variable: Job Performance

b. Predictors: (Constant), Employee Compensation

Coefficients [a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Correlations		
		B	S.E.	Beta			Zero order	Partial	Part
1	(Constant)	1.259	0.455		2.767	0.006			
	Employee Rewards	0.559	0.053	0.620	10.496	0.000	0.674	0.649	0.526

a. Dependent Variable: Dependent Variable: Job Performance

b. Predictors: (Constant), Employee Compensation

With the significance value of $p=0.000<0.05$, the model was statistically significant in predicting how employee compensation affect job performance among staff in the County Government of Kakamega. These results indicated that a unit change in employee compensation would result to change in job performance among staff of County Government of Kakamega by 0.621 in the same direction. At 5% level of significance and 95% level of confidence, employee compensation and job performance among staff of County Government of Kakamega was significant in predicating the degree of job performance among staff in the County Government of Kakamega which in this case was attributed to 62.1% of job performance among staff. Null hypothesis, H_0: there is no significant effect of employee compensation on job performance in the County Government of Kakamega was rejected since a positive and significant relationship was established between these two variables. The regression equation to estimate the degree of job performance among staff in the County Government of Kakamega was stated as:

Job Performance = 1.259 + 0.559Employee Compensation + e

These findings were in congruent with the findings of previous studies. Ombima's (2014) study cited that better pay and incentives as the key reasons for working for United States International University (USIU). Marcado-Taylor, Soares, Ferreira and Gouveia (2011) affirmed that dissatisfaction stems from inadequate and non-competitive salaries and further lack of job satisfaction due to non-monetary reasons. Mustapha (2013) indicates that a remuneration system plays a significant role in determining an employee's level of job satisfaction in higher education institutions. This factor also involves the degree to which individuals were considering fair compensation they receive for their work, when compared to the earnings received by the other members of the organisation. Salary has a significant effect on the job satisfaction. Therefore, researchers notice that in Europe intrinsic factors such as job rank level, career are the predictors of higher job satisfaction among employees.

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CONCLUSION AND RECOMMENDATION

Results showed that there was a statistically significant positive relationship between employee compensation and employee performance. Results indicated that a unit change in employee rewards would result to change in job performance among staff of County Government of Kakamega by 0.621(62.1% variation of job performance is accounted for by employee compensation) in the same direction. The organization should fairly remunerate their employees through use of various types of bonuses like annual/year-end bonus and incentive bonus to motivate employees to better performance because employee rewards had a linear, positive and significant relationship with job performance among staff in the County Government of Kakamega.

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