ISSN 2348-3156 (Print)
International Journal of Social Science and Humanities Research ISSN 2348-3164 (online)
Vol. 7, Issue 2, pp: (327-331), Month: April - June 2019, Available at: www.researchpublish.com

INFLUENCE OF FINANCIAL REWARDS ON EMPLOYEE PERFORMANCE IN THE STATE CORPORATIONS IN KENYA

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Abstract: **Kenya aspires to attain sustained and high growth in economy in line with employment by the government, creating wealth and reducing poverty to conform with 2030 vision. To achieve this, the public sector which is the biggest employer must monitor the performance of its employees. The main objective of the study was to establish the influence of financial rewards on Employee Performance in the State Corporations in Kenya. The study was guided by three theories which include; Abraham Maslow's, Hertzberg's, Vrooms' expectancy, scientific management, Adams Equity Reinforcement and goal setting theories. The study used descriptive and explanatory research designs and targeted 6 respondents from the 107 sampled state corporations totaling to 642. The study undertook a pilot study to pretest and validate the questionnaire. The probability and non-probability sampling was adopted and the study used stratified sampling and purposive sampling. The findings showed that financial rewards moderately influence employee performance. The study recommends that organizations should seriously and keenly consider reward management practices such as pay rise to promote a healthy competition among the employees as each will strive to work harder and give result in order to receive better pay or increase in their salary.**

Keywords: **Reward Management Practices, Financial Rewards, Employee Performance, State Corporations.**

1. INTRODUCTION

This study sought to ascertain the influence of financial rewards on employee performance in the State Corporations in Kenya. Human resources or the people are the organizations' most valuable assets. No resource is more crucial to a firm's accomplishment than those relating to human (Tessema, Ready & Embaye, 2013). Notably, employees create a major source of competitive advantage for companies, hence the need for every firm, private or public, to acquire and retain committed, skilled, and motivated personnel.

Barney and Hesterly (2012) indicated that firms that utilize capabilities and resources to seize business opportunities and neutralize threats are likely to realize an increase in their net revenue or a decrease in their net costs or both or vice versa. On this note, threat neutralization, personnel motivation, and opportunity exploitation are realized through employing diverse incentive-based approaches that include financial rewards.

Julius and Olusegun (2012) conducted a study to assess the relationship and causality between job performance and reward system in Nigeria and indicated that rewards affected job performance. Further studies indicated that pay structure affects job performance among public servants in Ghana. It is important to note that compensation policy of a country leads to alteration in the level of salaries in different public institutions.

KIPPRA, (2013) report further indicates that there are larger vertical disproportions in salary remuneration within the public sector, especially in cases where individuals in similar job groups earn varied wages and allowances. Based on the noted findings, it is arguable that public enterprises do not formulate effective reward strategies regarding fairness. In cases where there are established reward management practices, the implementation, and evaluation of policies is not entirely fruitful, hence the low performance among employees. It is thus crucial and essential to establish the association linking practices of financial rewards and the performance of employees more so in Kenya state corporations. This study sought to establish the impact of financial rewards on employee performance in the state corporations in Kenya.

2. STATEMENT OF THE PROBLEM

According to Breza, Kaur and Shamdasani (2015), the pay gap is a major contributor to the level of staff morale and subsequent performance and productivity levels. According to KIPPRA, 2013, 84% employees in the entire public service are concentrated in the lower paying job scales, this percentage constitutes of the 'workers' who if disgruntled can slow the performance process, hence reduced returns for the country. The low compensation in both salaries and rewards has led to national wide strikes of the public sector employees leading to decreased productivity (KIPPRA, 2013).

The state corporations are marred by under-performance which in turn translates to losses and misappropriation of public funds with 21% of the corporations registering losses in 2011/12, 23% in 2010/11 and 31% in 2009/10. This is despite the fact that the wage bill in 2013 for 188 state corporations stood at over Kenya shillings131.2 billion with treasury financing Kenya shillings 60.34 billion (GOK, 2013). This study therefore sought to establish the extent to which financial rewards influences employee performance and how the same can be adequately applied to improve employee performance in the State Corporations in Kenya.

3. OBJECTIVE OF THE STUDY

The general purpose of this study was to establish the influence of financial rewards on employee performance in the state corporations in Kenya.

Research Hypotheses:

H_A: Financial rewards positively influence Employee Performance in the State Corporations in Kenya

4. LITERATURE REVIEW

The framework containing theories assorts the concepts in an interrelated manner in guiding research in terms of statistical linkages and things to measure (Thomas & Williams, 2010). The theories important and vital to this study include Abraham Maslows' hierarchy, of needs, Vroom's Expectancy, theory, Goal setting, Theory, Hertzberg's theory, Reinforcement Theory, Scientific Management Theory and Adams equity theory.

According to Nick (2011) financial rewards refers to earnings and pay including basic salary or ages as well as conditional pay, bonuses, overtime payments and other commissions (Nick, 2011). Monetary reward systems can be categorized into three classes: short-term incentive plans, performance-based salary increases and long-term incentive plans (Rees & Smith, 2014). A study by Caligiuri *et al*, (2010) indicated that job satisfaction is affected by pay. Employees require monetary reward commensurate to the contribution in an organization because they consider it as measure of their measure in an organization and companies need to provide attractive and equitable pay (Finkle, 2011). Financial reward boosts employees' purchasing power and hence they undertake assessment of reward in terms of how it ensures that they afford a decent living.

Employees would also compare their level of pay with other people doing similar jobs in other organizations (Nick, 2011). A mixed methods study indicated that financial rewards are essential for motivating employee especially in third world countries that are struggling with inflation rates (Yousaf *et al*, 2014). Hence, there is a positive correlation between financial rewards and employee performance.

Bergmann (2001), puts it that those organizations mainly using monetary and remunerations as forms of reward might be challenged in sustaining motivation of employees. Even if monetary compensation may be the major factor there is still argument that it may not appear like 'hygiene factor'.

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Most of the studies conducted focus on individual specific sectors of the State Corporations while this study covers all the state Corporations. Therefore, there is need for future research, to understand the effectiveness of financial reward on employee performance among the state corporations in Kenya. The current study will not only fill the literature gap, but will also provide the latest information concerning new financial reward practices and allowances in the Kenyan public service.

5. RESEARCH METHODOLOGY

The study used both the descriptive and explanatory designs as they encompass the quantitative and qualitative research designs. The method is practical in the current context because it is precise and accurate since it enables the description of events in a carefully planned way (Creswell & Plano, 2011). The study was carried out in the 178 state corporations in Kenya (ROK, 2012). The state corporations are categorized as commercial, regulatory, tertiary, research and service. The unit of analysis was the 2 top managers reporting to the Chief Executive Officer, 2 officers or assistant managers and 2 assistant officers.

In addition of primary data secondary data was also included to aid achievement of the objectives. Questionnaires are used to capture data or information from respondents and data considered secondary is taken from internet, libraries and other publications of the organization. The pilot study was conducted on 10% of the sample size of 107 state corporations which is 11 and therefore targeted 66 employees.

Data analysis took place at two levels – descriptive statistics level and inferential statistics level. Descriptive analysis aims at summarizing distributions and describing a set of data on variables of the study. This analysis was used to profile respondents. It was carried out by producing percentages, means and standard deviation and results were displayed in tables. Simple and multiple linear regressions were used to test the hypothesis. The Pearson correlation coefficient was used to determine the strength or degree of a relationship between the independent variable and the dependent variable (Sekaran, 2013; Ketchen & Bergh, 2014). All the statistical tests were conducted at 95 percent confidence level. P-value was used to ascertain the significance of each construct in the regression model. The variables were taken to be statistically significant if the $p\text{-value} \leq 0.05$.

6. RESEARCH FINDINGS AND DISCUSSIONS

The chapter presents findings empirically and from analytical techniques as outlined and proposed in the previous discussions. The questionnaires were self-administered to the top management in each state corporation who are considered to have the information relating to how reward management practices impact on employee performance. The researcher distributed 642 questionnaires, out of which 501 responded positively by filling and returning the questionnaires. This represented an overall positive response rate of 78.04%. The remaining 21.96% were unresponsive even after several follow-ups and reminders.

Test of Hypotheses

A hypothesis was formed on the basis of the research objective; it was tested using simple regression analysis. The choice of analytical tools to be used was guided by the study objective, type of data as well as the measurement scales. The hypotheses was tested at 95 percent confidence level ($\alpha=0.05$), hence decision points to reject or fail to reject a hypothesis was based on the p-values.

Interpretations of results and subsequent discussions also considered correlations (R), coefficients of determinations (R^2), F-Statistic values (F) and beta values (β). R^2 indicated the change in dependent variable explained by change in the independent variables combined. Further, the higher the F-Statistic, the more significant the model was. The negative or positive effect of the independent variable on the dependent (either negative or positive) was explained by checking the beta (β) sign. The R-value shows the strength of the relationship between the variables, t-values represent the significance of individual variables.

The hypothesis formulated was that*; H_1: Financial rewards positively influence Employee Performance in the State Corporations in Kenya.* This was tested through the simple linear regression analysis**.**

Table 1: Effect of Financial Rewards on Employee Performance

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.371[a]	.138	.136	.68709

ANOVAa

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	37.572	1	37.572	79.586	.000[b]
	Residual	235.577	499	.472		
	Total	273.149	500			

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.646	.146		18.119	.000
	Financial Rewards	.421	.047	.371	8.921	.000

The study found a relatively moderate relationship between financial rewards and employee performance (R= .371). Coefficient of determination (R^2 =.138) indicates that financial rewards explain 13.8 % of variation in employee performance. However, although moderate, the relationship is significant (F=79.586, $p<0.05$).

The significant relationship is further manifested by the t-value in the coefficient table (β=.421, t=8.921, $p<0.05$). This therefore depicts that financial rewards is key in determining performance of employees in state corporations in Kenya and thus the hypothesis that there is significant influence of financial rewards on employee performance in the state corporations in Kenya was supported.

7. CONCLUSION AND RECOMMENDATION

Based on the findings, the study concluded that salary adjustment in most State Corporation in Kenya was not based on individual performance and that these organizations did not offer commission to the employees for revenue targets achieved according to the respondents' feedback.

Despite these shortcomings, the study also concluded that financial rewards positively influence the levels of employees' performance. Financial rewards have significant motivating power since they symbolize power, security and provide a sense of accomplishment. These conclusions were arrived to by most respondents reacting negatively to the statements depicting the items mentioned. The study further concluded that most organizations did not offer overtime payments for extra hours worked. Based on the conclusions of the study, it is recommended by this study that the management of state corporations as well as other organizations in Kenya should ensure that when conducting salary adjustment they should consider an individual's performance and expertise.

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