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## Do Staff Rewards Influence Corporate Performance? An Analysis of Parastatals in Kenya

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### **Abstract:**

*State or public sector corporations are body corporates formed world over to support delivery of specific state mandates mainly commercial or socio-economic service delivery. In Kenya, such corporations are variously referred to as Parastatals or Semi-Autonomous Government Agencies (SAGAs). However, most Parastatals in Kenya have suffered diminished performance thus failing to realize competitiveness in service delivery and business standards. This study sought to identify the influence of staff rewards on the overall performance of Parastatals in Kenya. The study design used was cross-sectional. Data was collected from 102 Parastatals and analyzed using SPSS. The study concluded that provision of staff rewards positively influences attainment of performance targets for Parastatals. This finding supports the study recommendation that Parastatals should mainstream staff rewards as a strategy to promote performance. It is further recommended that financial rewards be accorded higher priority compared with non-financial rewards, and as such Parastatals need to develop appropriate policies and budgetary line items to facilitate provision of staff rewards.*

**Keywords:** Parastatal, staff reward, financial reward, non-financial reward, performance

## 1. Introduction

### 1.1. Background

State or public sector corporations are body corporates formed by governments world over to support delivery of specific state mandates mainly commercial or socio-economic service delivery. In Kenya, such state corporations are variously referred to as Parastatals or Semi-Autonomous Government Agencies (SAGAs). Parastatals were first established in Kenya by the colonial government to provide services that were not provided by the private sector. Following independence, the Government published Sessional Paper No. 10 on African Socialism that formed the basis of establishing Parastatals to take charge of key sectors such as agriculture, transport and communications, manufacturing, revenue collection, trade, research, education and curricula, and health services, among others (RoK, 1965). The Parastatals are established under the State Corporations Act (1986) Cap 446 of the Laws of Kenya. As at 2014, there was a total of 200 Parastatals in Kenya with their operations and/or services covering almost all parts of the country (Ministry of Devolution and Planning, 2014).

However, most Parastatals in Kenya suffered diminished performance of their mandates failing to realize competitiveness in service delivery and business standards. This inefficiency in public sector, and particularly, Parastatal operations and performance prompted the Government of Kenya to initiate the Structural Adjustments Programme (SAP) in 1986 (Rono, 2002), the Civil Service Reform Programme (CSRP) in 1993 (Sawe, 1997), and Results-Based Management (RBM) in 2003 (Kobia & Mohammed, 2006). Specifically, the Government introduced performance contracting for all public institutions in 2004 anchored on the Results-Based Management model (Obong'o, 2009). The performance contract, signed between the Government and Management of the public institution, specifies the roles of each party, the duties and obligations of each, and how to measure the annual performance milestones set out in the contract (Ochieng, 2010). An important aspect of performance contracting is the provision for rewarding the institutions and its staff members based on their attainment of milestones set out at individual level and collective corporate level in the performance contract.

### 1.2. Problem Statement

Most countries across the world have, at one time or the other, raised issue with the performance of State Owned Enterprises particularly the entities' efficiency, profitability, service delivery and value for money invested. Since the early 1960s, state enterprises in sub-Saharan Africa countries including Kenya, Tanzania, Ghana and South Africa have variously under-performed thereby requiring Government intervention to boost performance, profitability and sustainability (Simpson, 2002; Kanyane and Sausi, 2015 & Michael, 2002). In Kenya, the government support to the struggling Parastatal sector has been in the form of passing enabling legislation, gazetting supportive policy and strategy papers, budgetary allocations and other financial injections, as well as seconding expert technical support. What is outstanding, however, was the introduction of rewards based on performance for management and staff of the Parastatals (Ministry of Devolution and Planning, 2013)

This study sought to identify the influence of staff rewards on the overall performance of Parastatals in Kenya. It is expected that the results of this study will form the basis for decision making by relevant public sector institutions on continuation or cessation of performance-based staff reward schemes.

### 1.3. Study Objective

The specific objective of the study was to measure the influence of staff rewards on the overall performance of Parastatals in Kenya.

### 1.4. Study Hypothesis

Staff rewards have no influence on the performance of Parastatals in Kenya.

## 2. Literature Review

### 2.1. Strategic Human Resource Management Approach

The strategic human resource management approach is premised on the recognition that workers in any corporate, manufacturing, business or service industry are a key driver towards achievement of competitive advantage (Armstrong, 2006). This approach advocates for strategic utilization of the workforce to achieve organizational targets. Through this model, an organization aims to achieve sustainable competitiveness by building vertical and horizontal staff capabilities and capacities at delivery. Proponents of the strategic human resource management approach opine that both internal and external environments to the organization combine with its business strategy to underpin the overall human resource strategy comprising resourcing, human resource development, performance rewards, and employee relation strategies.

According to Wright and McMahan (1992), components of human resource management are vertically and horizontally integrated into strategic human resource management, and they include, interview panel composition, staff development, appraisal and reward. Waiganjo, Mukulu and Kahiri (2012) concur with the observation by Wright and McMahan (1992) and state that the strategic human resource management approach has become the global yardstick for measuring improvements in organizational performance. This is because human resource management determines who is to be recruited, training offered to staff, duty allocation, appraisals as well as reward system.

Richard and Johnson (2001) hold that implementation of the strategic human resource management approach reduces staff turnover and significantly increases the organization's market share. In fact, Becker and Huselid (2006) state that organizations worldwide invariably apply strategic human resource management as a strategy for both staff development and organizational performance improvement since the strategy factors employee expectations into its overall corporate strategy. What has been unclear is the process of ensuring the corporate's human resource management strategy is well integrated with the overall strategic plan in order to ensure the resulting benefits are sustained. Mugo, Nyandika and Okibo (2014) in their study of the public healthcare sector in Kenya concurred that linking best practices in staff management to corporate strategy is key to enabling human resource interventions to positively impact on corporate performance. An earlier study by Gurbuz and Mert (2011) also confirmed that strategic human resource management positively influences the financial and operational performance of an organization. Finally, Gitau (2014) identified staff compensation as a vital cog in attaining an organization's performance and competitiveness.

### 2.2. Theory of Motivation to Work

The theory of motivation to work was proposed from the works by Fredrick Herzberg (Herzberg, 1959). The theory postulates that an analysis of the factors that motivate or demotivate staff in any sector underpins their individual motivation to perform their best (Herzberg, Mauser & Snyderman, 2010). According to Herzberg, staff motivator factors such as achievement, recognition, work itself, responsibility, advancement and personal growth are inherently independent of hygiene factors whose absence demotivates staff such as company policy and administration, supervision, relationship with supervisors, work conditions, salary, relationship with peers, personal life, and relationship with subordinates, status and job security. This position is supported by Basset-Jones and Lloyd (2005) who found that the theory of motivation to work is still relevant in the current corporate world long after its conceptualization in the 1950s. However, Dartey-Baah and Amoako (2011) in a study on public sector staff in Ghana noted that some hygiene factors such as salary and job security served as motivation factors. On the other hand, a study by Ghazi, Shahzada and Khan (2013) in Pakistan showed that whilst one part of the theory was applicable, some parts were not applicable since hygiene factors had more influence on staff motivation for individual performance when compared to motivator factors. Nanayakkara and

Dayarathria (2016) in their study of supermarkets in Sri Lanka also found that both motivator and hygiene factors do have a positive influence on staff retention at the workplace.

From another perspective, a study of the healthcare system in India by Mitrabasu (2013) found that the delineation of the motivator and hygiene factors in the motivation to work theory ignored factors that serve both as hygiene and motivators. Similarly, Smerek and Peterson (2007) in their study on university non-teaching staff in the United States of America found that it was only the variable of work itself that behaved according to the theory of motivation to work. As such, they concluded that the delineation of the two sets of factors, namely motivator and hygiene, is not applicable when measured in stable corporate settings since it was based on an event. Still, the motivation to work theory has over the years been the basis onto which human resource practitioners have drawn guidelines on staff motivation for improving performance (Condrey, 2010). However, a number of studies have tended to classify the motivation to work theory as that of job satisfaction rather than one that explains motivation to perform (Aswathappa, 2007). Other scholars have noted that the theory does not take into consideration situational factors that motivate or demotivate individuals to work (Sapru, 2013). For instance, a study undertaken by Erkilic (2008) noted difficulty in applying the theory in classroom management where student participation has significant influence on their motivation to perform as opposed to management of workers in a factory setting where the ultimate goal is far much different.

In this study, the theory of motivation to work's hygiene factor is applied to the extent that provision of staff rewards motivates their desire for optimal performance at work.

### *2.3. Measuring Performance in State Parastatals*

State-owned enterprises and institutions world over are required to demonstrate increased efficiency and effectiveness in service provision as well as their impact vis-à-vis public expectation (André, 2010). What has, however, not been globally agreed upon is the process through which measurement of performance could be empirically undertaken. Some governments simply adopted the performance measurement parameters for their institutions from the private sector (Walker, 2008). Yet, as argued by Anjula (2009), the public sector is inherently different from the private sector since it has vast resources and capabilities including statutory establishment, state-owned financial resources, a large workforce, as well as supportive infrastructure. Two, performance measurement in the public sector is targeted more at process indicators and less at outcome indicators. Yet, according to Evans & Bellamy (1995) and Aldin, Rahim and Athmay (2008), performance outcomes are more important than compliance to processes. Three, Berg, Grift and Witteloostuijn (2011) measured performance using the economic position of the target organization, whilst Gestel, Voets and Verhoest (2012) utilized product and process performance. Lastly, measurement of informal process and outcomes has been undertaken using parameters for measuring formal processes and outcomes (Fritzen, 2007).

On the downside, however, it was noted from a study by Theil and Leeuw (2002) that corporate managers may tend to focus only on parameters that are measurable whenever they conduct performance assessments in their organizations. Others scholars have actually opined that performance assessment does not in itself improve the performance of an organization since the same is often driven and conducted by external evaluators (Karen, Jiju & Susan, 2009). In fact, the failure to measure performance of corporate organizations by profitability and other progressive parameters is regarded by economics theorists as the main cause of the inefficiency of these institutions, as it deprives them of the incentive to increase gains, cut costs and operate efficiently. It should be noted that in Kenya, performance measurement of Parastatals and other public sector institutions is done using the Balanced Scorecard (BSC) model as recommended by Kirkman, Lowe and Young (1999). This model assesses financial, non-financial and process parameters of performance. Key among these parameters are finance stewardship, service delivery, non-financial issues, operations, dynamic/ qualitative issues and corruption eradication (Republic of Kenya, 2013). Utilization of the Balanced Scorecard model is recognized globally though the same has not been adopted widely (Northcott & Taulapapa, 2012).

## **3. Methodology**

### *3.1. Study Design*

A cross-sectional design was adopted for this study. This design was adopted based on its simplicity and effectiveness in terms of time and cost. Data was collected wholly at one point in time. Overall, the study was guided by the positivist philosophical approach that lays emphasis on verifiability of knowledge and truth (Philips & Burbules, 2000).

### *3.2. Study Population*

All the 200 Parastatals in Kenya were targeted as the study population. These were evaluated during the Financial Year 2014-2015.

### *3.3. Sample Size and Sampling Technique*

A scientific formula of computing sample size (Mugenda and Mugenda, 2003) was adopted for the study. Using the formula, a sample size of 132 Parastatals was computed. Simple random sampling was undertaken through which the Parastatals that participated in the study were identified.

### *3.4. Collection Of Data*

Data collection was undertaken using a structured questionnaire as adopted in economic and business research (Kothari, 2011). The questionnaire was pretested before adoption using a group similar to the study population as recommended by Mugenda and Mugenda, (2003). Out of the 132 Parastatals sampled, 102 of them filled in the

questionnaires and provided the requisite data. One respondent at the management level was interviewed from each corporation.

### 3.5. Processing and Analysis Of Data

The researcher assessed each questionnaire for completeness and assigned a number. Each response was appropriately coded. Data was entered using the Statistical Package for Social Sciences (SPSS). Data analysis was undertaken using descriptive statistics and multiple regressions. Diagnostic testing was undertaken to ascertain the validity, reliability, normality, multicollinearity and autocorrelation of the data.

## 4. Findings

### 4.1. Findings from Descriptive Analysis

Measurement of staff reward was considered in financial and non-financial terms. Results from the analysis indicated that a large proportion of Parastatals (77.5%) were providing performance rewards (financial or non-financial) to staff. All the Parastatals that provided staff reward did so over and above the monthly staff salary. Rewards of the financial nature were provided to staff in 53.9% of the Parastatals whilst 68.6% of the Parastatals gave non-financial rewards. Almost half of the Parastatals (45.1%) gave their staff both financial and non-financial rewards, mostly to individual staff members or departmental groups, and sometimes to both. The findings show that a large proportion of the rewards were given to individual staff members (70.6%) followed by those given to departmental groups (49%), with the rewards for both individuals and groups being given in 42.1% of the Parastatals studied. Regarding recommendations of appropriate rewards to promote corporate performance, a large proportion of respondents (39.2%) mentioned cash and vouchers, whilst 24.5% of respondents mentioned recognition, followed by promotion at 23.5%, and lastly holiday at 17.6% of the respondents.

The findings demonstrate that Parastatals in Kenya had varied preferences on whether financial or non-financial rewards were suitable for their staff as motivation for improved performance. From the data, most of the Parastatals that did not give staff rewards cited lack of policy (10.8%) while a lesser fraction (9.8%) indicated budgetary constraints to support the scheme. Lastly, it emerged from the findings that almost all Parastatals (96.1%) considered provision of staff rewards as a motivating factor for individual performance and also a catalyst for improved corporate performance.

### 4.2. Diagnostic Tests for Study Variables

#### 4.2.1. Validity

The research applied factor analysis to determine validity of the data. In particular, the study applied the Kaiser-Meyer-Olkin (KMO) test as well as Bartlett's sphericity test. According to Dayan (2011), the values for the Kaiser-Meyer-Olkin (KMO) test should be  $\geq 0.5$  while the Bartlett's test of sphericity should be significant in order to ascertain that the findings are valid. From the study, the KMO test showed a value of 0.532 while Bartlett's test of sphericity showed that the approximate Chi-Square was significant, hence the values obtained confirm that the study data is valid.

#### 4.2.2. Reliability

The research calculated Cronbach's alpha in order to determine reliability of the data. From the analysis, the predictor variable achieved an alpha value of 0.783. On the other hand, the dependent variable achieved an alpha value of 0.9680. As posited by Fraenkel and Wallen (2006), the results of the analysis indicate high reliability of the data as it exceeds the 0.7 threshold.

#### 4.2.3. Normality

The test for normality of data was carried out to test whether none of the values for skewness and kurtosis exceed +1 or -1 (Aluja, Blanca & Garcia, 2005). From the analysis, the predictor variable had a skewness of -0.312 and kurtosis 0.812, whilst the dependent variable had a skewness of -0.816 and kurtosis 0.333. These values confirm normality of the study data.

#### 4.2.4. Multi-collinearity

The variance inflation factor and collinearity tolerances for each of the predictor variables were computed in order to determine the multi-collinearity in the study. According to Bryman (2012), multicollinearity becomes a problem if the variance inflation factor (VIF) exceeds 10. However, from the analysis, it emerged that the predictor variables had a (VIF) of 1.087 which is less than 10, hence the VIF values rule out the problem of multicollinearity.

#### 4.2.5. Auto-correlation

Lastly, the Durbin Watson statistic was calculated with a view to determining if the predictor variable was auto correlated with other predictor variables. According to Gujarati (2003), coefficients ranging from 1.5 to 2.5 signify absence of autocorrelation. The analysis obtained a value of 2.133, which indicates the absence of autocorrelation amongst the variables.

#### 4.3. Results of Correlation Analysis

The Pearson coefficient was used to calculate the correlation between staff rewards and the performance of the Parastatal. Findings from the analysis indicate that staff rewards and the performance of their corporates have a significant inverse relationship, that is,  $r = -0.472$ ,  $p < 0.05$ . This implies that as staff rewards increase so does the performance of their corporation as lower corporate composite score is most preferred. It was also found that the constructs for staff reward have a significant inverse relationship with the dependent variable. In this case, financial rewards had a correlation coefficient of  $r = -0.387$ ,  $p < 0.05$  whilst non-financial reward had a correlation coefficient of  $r = -0.310$ ,  $p < 0.05$ . This means that these constructs are associated with performance of Parastatals. From the findings, it was noted that financial rewards had a stronger relationship with the dependent variable compared with non-financial rewards.

#### 4.4. Regression Analysis Results

As indicated in the objective section, this study aimed to measure the influence of staff rewards on the overall performance of Parastatals in Kenya. It was hypothesized that:

- H01: Staff rewards have no influence on the performance of Parastatals in Kenya.

The model  $Y = \beta_0 + \beta_1 X_1 + \epsilon$  was fitted to test this hypothesis.

Where Y = Performance of Parastatal

$\beta_0$  = Performance of Parastatals in absence of staff rewards

$\beta_1$  = Coefficient of staff rewards

$X_1$  = Staff rewards

$\epsilon$  = Error term

Application of the model's ability to predict the dependent variable using the predictor variable is constructed using the constant ( $\beta_0 = 0.179$ ,  $p < 0.05$ ) and coefficient of staff reward ( $\beta_1 = -0.405$ ,  $p < 0.05$ ) as shown in Table 1.

| Model Summary |                   |                             |                   |                            |        |               |
|---------------|-------------------|-----------------------------|-------------------|----------------------------|--------|---------------|
| Model         | R                 | R Square                    | Adjusted R Square | Std. Error of the Estimate |        | Durbin-Watson |
| 1             | .472              | .223                        | .215              | .83557                     |        | 1.979         |
| ANOVA         |                   |                             |                   |                            |        |               |
| Model         |                   | Sum of Squares              | Df                | Mean Square                | F      | Sig.          |
| 1             | Regression        | 19.856                      | 1                 | 19.856                     | 28.440 | .000          |
|               | Residual          | 69.119                      | 99                | .698                       |        |               |
|               | Total             | 88.975                      | 100               |                            |        |               |
| Coefficients  |                   |                             |                   |                            |        |               |
| Model         |                   | Unstandardized Coefficients |                   | Standardized Coefficients  | T      | Sig.          |
|               |                   | B                           | Std. Error        | Beta                       |        |               |
| 1             | (Constant)        | .179                        | .084              |                            | 2.144  | .034          |
|               | Employees' Reward | -.405                       | .076              | -.472                      | -5.333 | .000          |

Table 1: Regression of Staff Reward and Performance

Note:  $N=102$ ,  $P < 0.05$

After substitution of the beta values in the equation with the actual values from the model, the causal relationship for the two variables is depicted as follows:

$$Y = 0.179 - 0.405 X_1 + \epsilon$$

This equation shows that as the value of staff rewards increase, there will be a reduction in the value of performance score of the Parastatal. Since a lower performance score is preferred, the implication is that improvements in staff rewards will lead to improvements in the Parastatal's performance. The prediction power of this model is significant since both the constant and rewards have  $p < 0.05$ . Thus, the null hypothesis is rejected and alternative hypothesis accepted that there is a statistically significant influence of staff rewards on the performance of Parastatals in Kenya. The model shows that staff rewards explain 22.3% of the variance observed in performance of Parastatals in Kenya. The ANOVA indicates that the model is a good fit and exists ( $F = 28.440$ ,  $p < 0.05$ ). When the constructs for staff rewards were considered, financial rewards had a greater influence on performance with a  $\beta$  value of  $-0.349$  compared with non-financial rewards that had a  $\beta$  value of  $-0.292$ . This finding is supported by other scholars (Muraga, 2015; Ali & Ahmed, 2009). However, the results contradict the findings of Njanja *et al*, (2013) that established no relationship between staff bonuses and corporate performance. The difference may be due to the fact that Njanja *et al*, (2013) studied only one Parastatal in Kenya.

#### 5. Conclusions and Recommendations

The study concluded that provision of staff rewards positively influences attainment of performance targets for Parastatals in Kenya. The findings showed that a positive change in the predictor variable also had a positive influence on

the dependent variable. The study established that a unit change in financial rewards had greater influence on the dependent variable compared with a unit change in non-financial rewards. However, it was found that some Parastatals in Kenya were unable to give staff rewards owing to lack of supportive policy and budgetary constraints.

The findings support the study recommendation that Parastatals in Kenya should mainstream staff rewards as a strategy to promote their strategic performance. The study further recommends that financial rewards be accorded higher priority compared with non-financial rewards since the results showed that financial rewards had a greater influence on performance when compared to non-financial rewards. Lastly, the study recommends that Parastatals in Kenya need to develop appropriate policies and budgetary line items to facilitate provision of staff rewards as a motivator for enhanced corporate performance in line with the Government of Kenya's performance contracting guidelines and the Results-Based Management model.

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