Employee Compensation and Performance of Academic Staff in Kenyan Chartered Public Universities

Mitalo, Ruth Atidah¹, Florence Muindi², Prof. Peter K’Obonyo³, Prof. G. P. Pokhariyal⁴

¹Correspondent Author, School of Business, University of Nairobi, P.O. Box 30197-00100 Nairobi, Email: ruthatida@gmail.com

²Senior Lecturer, Department of Business Administration, University of Nairobi, Kenya

³Professor, Department of Business Administration, University of Nairobi, Kenya

⁴Professor, Department of Mathematics, University of Nairobi, Kenya

ABSTRACT

Compensation is essential to the functioning of the relationship between the employee and employer and very close to the heart of both the employer and the employee. This research investigates the effect of employee motivation and employee performance. When employees believe that they are not paid equitably they will be dissatisfied with work which can lead to voluntary employee turn-over, regular absence from work, non-commitment to the organization and low-trust employee relations. Lack of clear criteria and unfairness in distributing incentives to academic staff and supportive supervisors could influence staff performance. The main objective of this study was to determine the effect of compensation on employee performance in Kenyan chartered public universities. The study was based on expectancy theory and equity theory. The study adopted positivist research philosophy. A descriptive cross-sectional design was adopted to enable the researcher discover the relationship between different variables. The study targeted academic staff in 23 Kenyan chartered public universities. Multistage sampling technique was used to identify respondents from Kenyan Chartered Public Universities. The number of Faculties/Schools/Institutes sampled was 43 out of 246. A sample size of 370 academic staff was selected from a population of 2011 using easy sample size calculator. Data was collected on employee compensation, supervisor support and employee performance using a questionnaire. 247 questionnaires were returned out of 370 administered, thus a response rate of 69%. Quantitative technique was used to analyze data. The study found that employee compensation had a weak positive significant effect on employee performance (R²=0.203, p<0.05). Financial compensation had a very weak positive significant influence on employee performance (R²=0.171, F= 50.632, p<0.05) and non-financial compensation also had weak positive but significant influence on employee performance (R²=0.14, F= 39.803, p<0.05). The study concluded that employee compensation was crucial in improving employee performance. The study recommended that chartered universities to implement compensation programs capable of improving employee performance.

Keywords: Employee Compensation, Financial Compensation, Non-financial Compensation, Employee Performance, Academic Staff, Chartered Public Universities
1. INTRODUCTION

Employee compensation is a very important subsystem in human resource management. Employees anticipate adequate compensation in form of financial and non-financial rewards to satisfy their needs after helping the organization achieve its goals (Adeniji & Osibanjo, 2012). Employers’ ability to properly implement rewards greatly impacts on employee work satisfaction and organizational commitment (Hafer & Martin, 2006). Compensation affects employees’ productivity and their rate of turnover. According to Simamora (1997) as cited in Elqadri et al (2015) employees are considered important as they can affect the efficiency and effectiveness of an organization. Organization performance depends on the performance of its employees. When employees feel dissatisfied with compensation, it may lead to reduced performance, increased absenteeism and increased rate of employee turnover (Mangkuprawira, 2003). The relationship between employee compensation and employee performance is founded on Expectancy Theory. This theory was first developed by Victor Vroom (1964), and later refined and expanded by Lawler and Porter (1967). Together with Lawler and Porter, Vroom suggested that effort, motivation and performance are associated with one's motivation. The concept of pay for performance is founded in equity theory which emphasizes on the perception of employees' on fairness. According to Armstrong (2012) total compensation is a combination of financial and non-financial rewards given to employees. They are resources offered to employees, which are used by employers to attract employees, motivate and retain them. This compensation includes, but is not limited to health care benefits, educational incentives, paid time off, vacation time, flexible schedules, retirement, special programs, work environment, and salary. Cascio (2003) define compensation as monetary payments in the form of salaries, wages, bonuses, and entitlements. However, definition of compensation by Cascio (2003) appears very narrow as they equate pay with monetary income.

Armstrong (2005) suggest that compensation is an input-output exchange involving an employee and employer, that is, employees are required to contribute efforts and employers required to pay wages to employees. In this exchange process, the organization offers pay for availability of workers, knowledge, skills, education, experience, and output. According to Armstrong, compensation management is seen as financial and non-financial returns that employees receive in return of their services and as part of employment relationship. Employees compensation refers to the process of coming up with the structure of wages level for the various cadres, designing rewards systems and setting individual salaries and wages within the established structures. Compensation affects employees’ performance and establishes the level of relationship between the employer and the employee (Armstrong, 2005). Compensation is an important part of human resources management as it affects the performance of employees and establishes the degree of relationship between the employer and employee. Public Universities in Kenya have continued to receive less financial support from the government than their expenditure. There has been a remarkable increase in student numbers in Kenyan Universities without a balanced increase in resources available to universities. Academic staff pay in Kenyan Public Universities has been a bone of contention. The demand for better pay for academic staff in Public Universities has always led to altercations between the Academic Staff Union and Kenya government. The industrial strike called by UASU at the end of year 2011 in demand of better remuneration and terms of service which lasted for more than two weeks show the disillusionment of academic staff in public universities. The equivalence of compensating academic staffs who are degree holders the same amount as certificate holders contravene
academic values and the principle of fairness as this may impact on their motivation and performance (Mwiria et al, 2007).

2. RESEARCH PROBLEM

Compensation is essential to the functioning of the relationship between the employee and employer and very close to the heart of both the employer and the employee. Cole (2000) argues that relationships between the employee and employer are frequently expressed as inputs and outputs of the employees. One can evaluate their outputs such as salary level and promotion based on their inputs such as education, efforts, competence and skills. Torrington et al (2008) argue that perceived unfairness in compensation can be harmful to an organization. When employees believe that they are not paid equitably they will be dissatisfied with work which can lead to voluntary employee turn-over, regular absence from work, non-commitment to the organization and low-trust employee relations (Rousseau & Aubé, 2010). Since early 1990’s, Kenyan public universities have continued to receive less financial support from the government than their expenditure. The Economic Survey (2014) showed that the number of public universities increased from 8 in 2012 to 22 in 2013 with many constituent colleges becoming fully chartered. Admission to public universities in Kenya increased by 41 percent, from 195,428 in 2012 to 276,349 in 2014 which was seven times more than the increase, if any, of the financial support. Financial support to Public universities in Kenya increased by 6 percent, that is, from Kshs.61 billion in 2012 to Kshs.64.8 billion in 2014 (The Economic Survey, 2014, pg 52). This has pushed universities to engage in income generating activities to meet the extra costs of staff, catering and accommodation services, learning and research materials (Mwiria et al, 2007).

There are concerns of lack of clear criteria and unfairness in distributing incentives to academic staff in universities. Salaries and Remuneration Commission (SRC) in its study on wage differentials in 2013 established Public Service Pay is competitive for state officers, that is, for public servants in senior grades and at the bottom job groups of unskilled and semi-skilled workers. Although the Public Sector has become the employer of choice for employees at the top and at the bottom of the remuneration and benefits structures, there is however, a challenge of attraction and retention of adequate numbers of competent technical and professional personnel in some sectors of the Public Service, including Public Universities, which has compromised performance. There are disparities in salaries, allowances and other benefits enjoyed by employees with comparable competences and workloads within State Organs due to minimal harmonization of salary structures and uncoordinated salary and benefits reviews (Public Sector Remuneration and Benefits Policy, 2015). Persistent agitation for fair treatment has necessitated for job evaluation by SRC to harmonize the public sector remuneration in the hope that the results will improve employees’ performance. Several studies have been done in the field of employee compensation and employee performance, empirical gaps have been identified from limitation of such studies and the recommendations for further studies (Grawitch et al, 2006, Duberg and Mollen, 2010, Mburu et al, 2014). In addition, few studies have examined these variables individually in Kenyan public universities context. This study thus focused on the influence of employee compensation on performance.

3. OBJECTIVE OF THE STUDY

The objective of this study was to determine the effect of employee compensation on performance of academic staff in Kenyan Chartered Public Universities.
4. THEORETICAL REVIEW

Several theories have been formulated to explain the relationship between employee compensation and employee performance. This study was based on two theories: Expectancy theory and Equity Theory. Expectancy theory is the main theory in which this research was grounded because it covers employee compensation and employee performance. Expectancy theory is anchored on the perception that human beings believe that there is a relationship between the effort put in their work, performance from the effort and compensation acquired from their effort (Vroom, 1964). Employees will be encouraged to work hard when they realize that their effort will result in good performance and in turn their good performance result in preferred rewards. Expectancy theory was first proposed by Vroom (1964) which was later refined by Lawler et al (1992) and (Pinder, 1987). Lawler and Porter’s expectancy theory suggest that a person’s view regarding the fairness and attractiveness of rewards affects motivation (Lawler et al, 1992). According to Lawler et al (1992), performance leads to both intrinsic and extrinsic rewards. These rewards, alongside individuals perceived equity leads to satisfaction. Employers must ensure that employees are compensated well to motivate them and thus improve their performance. According to Stone et al (2003), expectancy theory by Vroom does not specifically provide ideas on what motivates workers. Instead, the theory gives cognitive variables which reflect on individual dissimilarities in motivation. In Vroom’s model, employees do not act simply due to strong internal drives or needs that have not been met. Instead, employees are considered as reasonable people whose perceptions and beliefs affect their own behavior. Porter’s new model is founded on the assertion that whenever there are a number of results, human beings will normally have a preference among the results. Despite the conceptual weaknesses of the Expectancy theory above, many researchers have described the positive aspects of the theory in testing the relationship between employee compensation and employee performance. Therefore, Expectancy theory was selected for this study as the theory is most suitable and relevant to the context of the study. Employee compensation and performance are best explained by Expectancy theory.

The effect for pay for performance is clearly seen in equity theory which emphasizes on the perception of employees’ on fairness. According to this theory, employees will observe a practice/process to be fair when the ratio of their input to output is similar to that of a referent. Employees will perceive fairness in the ratio if paid accordance to their performance (Adams, 1965). Adams’ Equity Theory model integrates the influence and assessment of other people's (such as friends and colleagues) situations in forming a relative observation and understanding of fairness, which is evident as a sense of what is just. When people feel that they are treated well, they will be encouraged to work hard. Similarly, when they feel that they are unfairly treated they will be demotivated to work hard. The sense of fairness is the spirit of Equity Theory. According to Maiese, 2013, elaborations of Equity theory are seen in the areas of determinants of inequity, dissatisfaction arising from inequity, and responses to dissatisfaction. Equity theory supports forecasts in the area of underpayment but consequences of overpayment have not been adequately revealed. The formulation of the theory does not also spell out whether people will respond to injustice by changing the condition to reinstate equity in objective terms or by appealing in biased processes of re-construal. Despite these weaknesses, many writers have used this equity theory to explain perceptions of employees on fairness. Equity theory was chosen for this study as the theory that best explains perceived equity variable in the context of the study.
5. RESEARCH METHODOLOGY

This study adopted positivist research philosophy. This choice was informed by the fact the study was anchored on theory and a conceptual model from hypotheses drawn. This philosophy requires quantitative data and corresponding analytical techniques. This paradigm further involves operationalizing concepts so that they can be measured, and taking large samples (Saunders et al, 2007). A descriptive cross-sectional design was adopted which enabled the researcher to discover the relationship between compensation and employee performance in Kenyan chartered public universities. This study targeted academic employees in 23 Kenyan chartered public universities. The Country has a total of 54 chartered universities. Among them, 23 are chartered public (government-funded), 17 are chartered private and 14 universities operate with Letter of Interim Authority (CUE List of Accredited Universities, November 2015). The unit of analysis and target respondents will be academic employees in Kenyan chartered public universities. The total population of academic employees in these universities is over 8281. Chartered Universities are preferred for this study as they have clear organizational structures and policies. They do not operate on individual decisions but on clear line of responsibilities and are likely to exhibit elaborate relationship among the variables to be studied.

Multistage sampling technique was used to identify sampling units at different stages according to the structure of the population. Three stages were used in this study. The first stage involved selection of universities. The researcher did a census of all the Kenyan chartered public universities. As at January 2016, there were twenty three (23) chartered public universities in Kenya (CUE, January 2016). The second stage involved selection of academic units (Faculties/Schools/Institutes) from the twenty three (23) public universities. Out of the twenty three (23) chartered public universities, there were two hundred and forty six (246) Faculties/Schools/Institutes. Forty three (43) Faculties/Schools/Institutes were selected out of two hundred and forty six (246) Faculties/Schools/Institutes in all chartered public universities in Kenya. To get the required sample of Faculties/Schools/Institutes from each university, the researcher used simple random method. The third stage involved sampling academic staff from the 43 Faculties/Schools/Institutes. The total number of academic staff in all Kenyan chartered public universities as at January 2016 was 8281. The total number of academic staff from sampled Faculties/Schools/Institutes was 2011. Sample size was obtained using easy sample size calculator by Krejcie and Morgan (1970) whereby using a population size of 10,000, a sample size of 370 respondents was appropriate to achieve a confidence level of 95 percent and 5% margin of error. The researcher then used proportionate sampling to apportion the sample size of 370 respondents to every university. Two hundred and forty seven (247) questionnaires were returned and analyzed out of 370 questionnaires issued; this gave a response rate of 69 percent. Primary data was collected on compensation and employee performance using 5-point likert type scale questionnaire that is mostly used in scholarly research. Secondary data was collected on task performance in public universities, that is, how academic staff had performed various tasks for a period of three years. Data was analyzed using descriptive statistics, for instance mean, standard deviation and coefficient of variation and inferential statistics such as analysis of variance, correlation analysis, and simple regression analysis. Data was presented in form of graphs and tables.

6. STUDY RESULTS

The study sought to determine the employee compensation and employee performance in Kenyan chartered public universities. Each hypothesis was tested using an appropriate statistical tool. The
tests and results for each hypothesis are shown in this section. Simple linear regression was used to test the hypotheses.

This effect was hypothesized as follows:

**H1: Employee compensation influences employee performance**

Data was collected on two types of compensation namely, financial and non-financial. Regression results are shown in Tables 1-3 below:

**Table 1: Results of Regression Analysis for the Effect of Employee Compensation on Employee Performance**

<table>
<thead>
<tr>
<th>Model Summary</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>R</td>
<td>R Square</td>
<td>Adjusted R Square</td>
<td>Std. Error of the Estimate</td>
</tr>
<tr>
<td>.451a</td>
<td>0.203</td>
<td>0.20</td>
<td>0.57489</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ANOVA</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sum of Squares</td>
<td>df</td>
<td>Mean Square</td>
<td>F</td>
</tr>
<tr>
<td>Regression</td>
<td>20.639</td>
<td>1</td>
<td>20.639</td>
</tr>
<tr>
<td>Residual</td>
<td>80.972</td>
<td>245</td>
<td>0.33</td>
</tr>
<tr>
<td>Total</td>
<td>101.61</td>
<td>246</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Beta Coefficients</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>2.239</td>
<td>0.185</td>
</tr>
<tr>
<td>Compensation</td>
<td>0.47</td>
<td>0.451</td>
</tr>
</tbody>
</table>

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

*b. Dependent Variable: Employee Performance*

The results in Table 1 indicate a weak coefficient of determination ($R^2=0.203$, $F= 62.448$, $p<0.05$), implying that 20.3% of change in employee performance is attributed to employee compensation. 79.7% variance in employee performance was caused by other factors not in the study influencing employee performance. The model therefore had a goodness of fit as shown by a significant F-ratio. The model had significant Beta coefficient ($B=0.47,t= 7.902$, $p<0.05$) in respect of employee compensation. This implied that a unit change in employee compensation is associated with 0.47 change in employee performance. Based on these results, regression equation is fitted as follows: $EP= 2.239+ 0.47CO$.

Based on the findings, hypothesis that Employee compensation influences employee performance was confirmed. We therefore conclude that there is a significant relationship between employee compensation and employee performance.

**a) Effect of Financial Compensation on Financial Compensation**

The findings on the relationship between financial compensation and employee performance are presented in Table 2 below.
Table 2: Regression Results for the Effect of Financial Compensation on Employee Performance

<table>
<thead>
<tr>
<th>Model Summary</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>.414a</td>
<td>0.171</td>
<td>0.168</td>
<td>0.58626</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ANOVA</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>17.403</td>
<td>1</td>
<td>17.403</td>
<td>50.632</td>
<td>.000a</td>
</tr>
<tr>
<td>Residual</td>
<td>84.208</td>
<td>245</td>
<td>0.344</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>101.61</td>
<td>246</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Beta Coefficients</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>(Constant)</td>
<td>2.479</td>
<td>0.171</td>
</tr>
<tr>
<td>Financial Compensation</td>
<td>0.39</td>
<td>0.055</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Financial Compensation
b. Dependent Variable: Employee Performance

The regression results in Table 2 show a very weak coefficient of determination ($R^2=0.171$, $F=50.632$, $p<0.05$), implying that financial compensation accounted for 17.1% of change in employee performance. 82.9% variance in employee performance was caused by other factors not in this study influencing performance. The model therefore had a weak although significant goodness of fit as shown by a significant F-ratio. Beta coefficient was significant ($B=0.39$, $t=7.116$, $p<0.05$) in respect of financial compensation suggesting that a unit change in financial compensation is associated with 0.39 change in employee performance. Based on these results, regression equation is fitted as follows: $EP = 2.479 + 0.39 FCO$.

We therefore conclude that there is a very weak though significant relationship between financial compensation and employee performance. Based on these findings, the hypothesis that financial compensation influences employee performance is confirmed.

b) Effect of Non-Financial Compensation on Employee Performance

The findings on the relationship between non-financial compensation and employee performance are presented in Table 3.

Table 3: Regression Results for the Effect of Non-Financial Compensation on Employee Performance

<table>
<thead>
<tr>
<th>Model Summary</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>.374a</td>
<td>0.14</td>
<td>0.136</td>
<td>0.59731</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ANOVA</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>14.201</td>
<td>1</td>
<td>14.201</td>
<td>39.803</td>
<td>.000a</td>
</tr>
<tr>
<td>Residual</td>
<td>87.41</td>
<td>245</td>
<td>0.357</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The results indicated in Table 3 show a very weak coefficient of determination ($R^2=0.14$, $F=39.803$, $p<0.05$), implying that non-financial compensation accounted for 14% of change in employee performance. 86% variance in employee performance was caused by unknown factors. The model therefore had achieved goodness of fit as shown by a significant F-ratio. Beta coefficient was significant ($B=0.329$, $t=6.309$, $p<0.05$) in respect of non-financial compensation and employee performance, implying that a unit change in non-financial compensation is associated with 0.329 change in employee performance. Based on these results, regression equation is fitted as follows: $EP=2.672+0.329NFCO$. Based on the findings, it is concluded that there is a very weak positive but significant relationship between non-financial compensation and employee performance. The hypothesis that non-financial compensation influences employee performance is therefore confirmed.

7. DISCUSSION OF RESULTS

The objective of this study sought to determine the influence of employee compensation on employee performance. Simple regression analysis was carried out to determine the relationship between employee compensation and employee performance. The findings indicate that 20.3% of change in employee performance is attributed to employee compensation. The findings indicated that employee compensation had weak but significant effect on employee performance. Therefore, the hypothesis that employee compensation influences employee performance was accepted. Employee compensation is thus an important concept to be considered by organizations seeking to improve employee performance. The study findings were in agreement with that of Hameed et al (2014) in their study on compensation and performance of employees which found that compensation has positive influence on employees’ performance. The results of this study concur with Ibojo et al (2014) who found a positive significant relationship between compensation management and performance of employees.

8. CONCLUSIONS AND RECOMMENDATIONS

The objective of the study was concerned with the relationship between employee compensation and employee performance. Based on the study findings, it is reasonable to conclude that employee compensation positively and significantly influences employee performance. Employee compensation is confirmed to be an important subsystem in human resource management. Employers’ ability to properly implement rewards greatly impacts on employee work satisfaction and organizational commitment. Employees will increase their performance when they feel that their performance is recognized and compensated by the organization hoping to receive even high compensation. These findings are fully support the findings by Milkovich and Newman (2005) observe that organizations should design compensation systems and structures that not only reward performance, but also motivate employees and raise their pay to
become more valuable in the external labour market and enhance their commitment. The study found that employee compensation has been positively correlated to employee performance, therefore universities should consider constantly reviewing the financial and non-performance compensation benefits to its employees in order to retain them and ensure they perform well. The compensation programs should be well structured so as to promote fairness and also motivate employees. This can only be achieved by ensuring that compensation policies are consultative. Compensation should focus on both financial compensation and non-financial compensation. Besides financial compensation, non-financial compensation is necessary to retain academic staff in Universities.

REFERENCES

Commission for University Education Website, (http://www.cue.or.ke/).
Rousseau, V., &Aubé, C. (2010). Social support at work and affective commitment to the
organization: The moderating effect of job resource adequacy and ambient conditions. 

Salaries and Remuneration Commission (2015).*Public Sector Remuneration and Benefits Policy.* 
Nairobi.

Pearson Education Limited, India.


This is an open-access article published and distributed under the terms and conditions of the 
Creative Commons Attribution 4.0 International License of United States 
unless otherwise stated. Access, citation and distribution of this article is allowed with full 
recognition of the authors and the source.

Authors seeking to publish with an International Peer Reviewed Journal should consider 
www.ijcab.org by writing to the Editor at editor@ijcab.org. List of our Journals are Available at www.ijcab.org/journals