

## COMPENSATION STRATEGIES AND EMPLOYEE COMMITMENT IN KENYA: A QUANTITATIVE ANALYSIS ON PUBLIC SECTOR

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**ABSTRACT:** *A total compensation system provides pay that is sufficient to attract and retain key employees and keep them motivated to perform with the best of their competencies. Unless the total compensation program is perceived as internally fair and externally competitive, good employees are likely to leave (Jackson & Schuler, 2005). The purpose of this study therefore was to analyse the effects of employee compensation strategies on employee commitment. The research hypothesis for the study were;  $H_{o1}$  employee compensation 'strategies' has no significant effect on employee commitment. The study employed a case study research design that was conducted at Moi Teaching and Referral Hospital. The target population was three thousand two hundred (3200) respondents were targeted because that was the group highly affected by commitment and turnover issues in the organisation. A sample size of 340 was extracted from the target population and the sampling techniques used were stratified sampling for the departments working in and simple random sampling for the individual respondents. Data was analyzed using Statistical Package for Social Sciences (Software). Multiple regression analyses were used to test the hypotheses. Exploratory factor analysis, specifically principal component analysis was conducted to reduce the variables to a manageable size. The cronbach's alpha reliability obtained was 0.623. Regression analysis was performed to test the hypothesized relationships. Based on the observed correlation results, employee compensation ( $\beta = 0.172$ ,  $p < 0.01$ ) was the strongest predictor of employee commitment). The findings indicated that there was a significant positive correlation between employee compensation and their commitment for  $H_{o1}$ , results indicate that there was a significant positive correlation between employee Compensation ( $r = 0.194$ ,  $p < 0.01$ ) and Empowerment ( $r = 0.231$ ,  $p < 0.01$ ). This implies that the perceived empowerment of employees by the hospital was likely to impact positively on their commitment to the hospital.*

**KEYWORDS:** Employee Commitment, compensation, Strategies and Public Organizations

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### INTRODUCTION

Reward systems are frequently used by organizations to try and retain employees (Farris, 2000). Financial rewards are extrinsic monetary rewards that organizations pay to their staff (employees) for services delivered by them. These financial rewards include; base salary, cash recognition, incentives, flexible pay, stock options. Compensation has been defined in many terms by various scholars, but in this research, compensation are which include i.e. typically money awarded to someone as a compensation for injury, loss or suffering, money received by an employee from an employer as a salary or wages, or do/giving something to someone in return. Compensation is not only in form of money but also in non-cash form, benefits such as

pension, life and health insurance and retirement plans. Money is still the primary incentive used to lure employees in an organization. To effectively enhance employee motivation and productivity, the performance measurement and feedback process must be aligned with the organization's business strategy and organizational culture. For start-up firms, performance-based pay system can be more useful to attract external talents. By aligning personal interests with company objectives, performance-based pay system motivates workers to realize the strategic objectives of the HR function (Kim & Sung-Choon, 2013). The specific objective of the study were to,

a) Establish the extent to which employee compensation "strategies" affects employee commitment.

## **REVIEW OF LITERATURE**

### **Concept of Employee Commitment**

based on other literature, the concept of organizational commitment should be very reliable as a way of measuring human behavior in organizational groups; more so in any case than other theoretical constructs such as job satisfaction or job involvement, Jae Moon (2000). In the competitive environment, most of the organizations have successfully developed, executed, evaluated, refined and perused employee empowerment and improvement as a prime human resource practice with business value (Kandula, 2004). So an employee empowerment and involvement organization starts with the concept of strategic fit between people, tasks, technology, information processes, rewards and organization structure for which all must be in alignment before the organization can work efficiently.

Employee involvement can also result from providing employees with the skills necessary for decision making, problem solving, shared leadership and overall understanding of the business. The indicators of workplace commitment are the possible results derived from organizational and individual commitment. Employees with strong organizational commitment are emotionally attached to the organization and have strong desire to contribute significantly towards organizational success. This leads to increased competitiveness, accountability, risk taking, highly innovativeness, low wastage, and the desire to improve overall job performance.

### **Employee Compensation and Organizational Commitment**

Organizational commitment is defined as a force that binds the individual to a target for example an organization and consequently to a course of action of relevance to that target (Meyer, *et al*; 2006). Compensation offers an opportunity for security, autonomy, recognition and improved self-worth (Hoyt and Gerdloff. 2000). Unless the total compensation program is perceived as internally fair and externally competitive, good employees are likely to leave (Jackson & Schuler, 2005). To effectively enhance employee motivation and productivity, the performance measurement and feedback process must be aligned with the organization's business strategy and organizational culture. For start-up firms, performance-based pay system can be more useful to attract external talents. By aligning personal interests with company objectives, performance-based pay system motivates workers to realize the strategic objectives of the HR function (Kim & Sung-Choon, 2013). Many organizations are experimenting with more flexible packages which include elements of variable pay, linked to job performance, competence, skills

development and desired team and leadership behaviors. If organizations require high level of flexibility, reward systems may also need to be flexible (Holbeche, 2004).

Multiple researches have explained with evidence that compensation satisfaction plays an important part in employee retention. (DiPietro and Condly, 2007) used the commitment and necessity model of motivation to find how hospital employees are motivated. (Williams *et al.*, 2007), found that if employees are satisfied with how the organization operates and communicates its compensation policies, they would remain committed to the organization. Either, the organization's reward system, is more likely to affect the performance of the employees and their desire to remain employed, Barnberger *et al.*, 2000)

## METHODOLOGY

Survey research design was employed in this study to investigate effect of retention strategies on employee commitment probability sampling design A sample of 320 employees study target population was 3200 employees (Mugenda and Mugenda, 2003) Structured questionnaires were presented to the selected population in the hospital who were the respondents for the study data was done using descriptive statistics specifically mean and standard deviation. Inferential statistics were Pearson correlation coefficient and multiple regression analysis the multiple regression analysis models.

## RESULTS

### Response Rate

The sample population consisted of Administrators, Section Heads, and the other employees drawn from the Moi Teaching and Referral Hospital. A total of 340 questionnaires were distributed to 10 administrators, 30 section heads and 300 to other employees. As shown in Table 4.1, the overall response rate to the questionnaire was 93.4% (299 respondents). A total of 5 questionnaires were discarded for lack of response and being improperly filled.

**Table 4.1: Distribution of Respondents Response**

Sample size	Administrators		Section Heads		Other Employees	
	Number	Percent	Number	Percent	Number	Percent
Total sample size	10	100	30	100	300	100
Total responses	8	80	27	90	264	88.0
Total unusable	1	10	1	3.3	3	1.07
Total usable response	7	70	26	86.7	261	87.0
Description of unusable questionnaires						
Returned blank	1		0		1	
Incomplete questionnaire	0		1		2	

*Source: Survey Data (2015)*

### Employee Compensation Strategies and Employee Commitment

Results shown in Table 4.2 show those respondents were neutral on all the items. In particular; the employees tended to be neutral on employees benefit package (M=3.42, SD=1.132); employees most recent raise (M=3.29, SD=1.248); the hospitals pay structure (M=2.94, SD=1.222); supervisor's influence on their pay (M=2.73, SD=1.176); competitiveness of their total salary package (M=2.83, SD=1.202); consistency of the hospital's pay policies (M=3.05, SD = 1.205); the number of benefits they receive (M=3.13, SD=1.246); determination of increase (M=3.22, SD=1.249); and administration of the hospital's pay (M=3.37, SD = 1.224). In addition, the skewness and Kurtosis values lie within the range - 3 to 3 which implies that the responses regarding employee compensation were normally distributed.

**Table 4.2: Descriptive Data on Prevailing Status of Employee Compensation**

	Mean	Std. Deviation	Skewness Statistic	Std. Error	Kurtosis Statistic	Std. Error
Employees benefit package	3.42	1.132	-.631	.143	-.463	.285
Employees most recent raise	3.29	1.248	-.168	.143	-.993	.285
The institutions pay structure	2.94	1.222	1.935	.143	1.587	.285
Supervisors influence on employees pay	2.73	1.176	.340	.143	-.736	.285
Competitiveness of employees total salary package	2.84	1.202	-.077	.143	-.919	.285
Consistency of institution's pay policies	3.05	1.205	-.057	.143	-1.107	.285
The number of benefits employees receive	3.13	1.246	-.243	.143	-.964	.285
Determination of increments	3.22	1.249	-.334	.143	-.732	.285
Administration of institutions pay	3.37	1.224	-.406	.143	-.668	.285

*Source:* Survey Data (2015)

These results imply that the participating respondents were not sure of the prevailing employee compensation strategies at the Moi Teaching and Referral Hospital. This means that there seems to be no clear structures put in place in the hospital with regards with employee compensation.

**Table 4.3: Descriptive Data on Prevailing Status of Employee Empowerment**

	Mean	Std. Deviation	Skewness Statistic	Std. Error	Kurtosis Statistic	Std. Error
Employees have the opportunity to determine how to do their job	3.59	1.215	-.832	.143	-.207	.285
The work makes good use of employees skills and duties	4.43	.663	-1.182	.143	1.930	.285
Employees make decisions about new ideas when doing their duties	4.08	.992	-1.187	.143	1.070	.285

*Source:* Survey Data (2015)

These findings regarding prevailing status of employee empowerment imply that the Moi Teaching and Referral Hospital as an organization values an empowered and committed workforce for effective functioning. This is consistent with prior findings that empowerment is an intrinsic motivation that involves positively valued experiences essential for generating organizational commitment (Singh, 2005)

**Table 4.4: Descriptive Data on Prevailing Level of Employee Commitment**

	Mean	Std. Deviation	Skewness Statistic	Std. Error	Kurtosis Statistic	Std. Error
Staying at the organization is a matter of employees' necessity	3.73	1.154	-.890	.143	.069	.285
It is difficult for employees to leave the organization	4.11	.885	-1.365	.143	2.341	.285
Employees have few options to leave the organization	4.01	.879	-1.026	.143	1.226	.285
Employees have an emotional attachment to the organization	4.10	.881	-1.423	.143	2.687	.285
Employees feel guilty if they leave the organization	4.04	.872	-1.061	.143	1.226	.285
Employees own organizations' problems	4.03	.890	-1.029	.143	1.140	.285
Employees have a strong sense of belonging to their organization	3.97	.935	-1.128	.143	1.329	.285
Employees feel an obligation to remain with the organization	4.01	.894	-1.046	.143	1.149	.285
The organization deserves employees' loyalty	3.97	1.313	-1.243	.143	.304	.285
Employees are happy to spend the rest of their career in the organization	3.86	1.327	-.919	.143	-.367	.285

*Source:* Survey Data (2015)

These results imply that most of the Moi Teaching and Referral Hospital's employees depict a high level of commitment. Given that the study also found out that the respondents tended to be happy with the prevailing status of training and development, work life policies, and employee empowerment, the study therefore postulated that employee commitment at the hospital could be modeled as a function of these variables.

**Correlation statistics****Table 4.5 Correlations between Employee compensation and Employee Commitment**

	1	2	3	4	5
1. Employee Commitment	1				
3. Compensation	.194**	.966**	1		

\*\* Correlation is significant at the 0.01 level (2-tailed).

*Source:* Survey Data (2015)

As shown from the Table 4.7, results indicate that there was a significant positive correlation between employee Compensation ( $r=0.194$ ,  $p<0.01$ ) and Empowerment ( $r=0.231$ ,  $p<0.01$ ). This implies that the perceived empowerment of employees by the hospital was likely to impact positively on their commitment to the hospital.

**Table 4.6 Multiple Regression Results for Employee Commitment Model**

	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
	B	Std. Error	Beta	T	Sig.	Tolerance	VIF
(Constant)	4.443	0.4		11.107	0		
Compensation	0.307	0.114	0.172	2.703	0.007	0.662	1.511
Multiple R	0.490						
R <sup>2</sup>	0.240						

a) Predictors :( Constant), Compensation, Dependent Variable: Employee Commitment

*Source:* Survey Data (2015)

**CONCLUSIONS**

On the basis of the findings highlighted above, the following conclusions were made. Use of employee compensation in the hospital as an employee retention strategy has a direct effect on employee commitment. However, the hospital does not seem to have put proper structures to address employee compensation. This could have negative consequences for the hospital when trying to retain its employees since employee compensation directly affects both affective, normative and continuance commitment.

### **Contributions to academic debate and entire body of knowledge**

Organizational investment in employees was associated with higher levels of employee affective commitment to the organization through effective compensation. This process indicates that management is committed to establishing a long-term relationship with employees. These educational investments could make employees more committed to their profession. This might lead to reduced organizational commitment, or make the employees more attractive to headhunters, both of which could lead to reduced retention. Jobs characterized by varied work, an opportunity to solve challenging problems, opportunities to work with the best people, freedom, flexibility and being able to pursue interesting assignments would increase employee's retention. These feelings of increased competence and the meaningfulness of the work should develop more organizational commitment. Employees' organizational commitment is related to their belief that these retention factors were motivated by the desire to retain good employees and to be fair in the treatment of employees. Although literature's indicates a weak relationship between compensation's and commitment, it still has a significant impact on the commitment of employees. The monetary value of the compensation is less important, but the way in which organizations determine pay is clearly a concern to employees in large organizations. Employees constantly review if their salary is still competitive. Informing employees on the process of determining pay levels could change this perception.

### **RECOMMENDATIONS FOR FURTHER STUDY**

The study should use a moderating role in order to study the variables in place to enhance the study

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