

# Influence of Performance Management and Compensation Practices on Employee Retention in Research Institutes in Kenya

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## Abstract

This study sought to establish the influence of employee performance management and compensation on employee retention and the moderating effect of management style on employee retention in research institutes in Kenya. This study was informed by the dynamic and competitive environment in which research institutes in Kenya operate, the fact that talent and technical skills are in short supply and the difficulty in retaining valued employees. Data was collected from 236 employees in specific categories identified in 5 public research institutes in Kenya formed under the Science, Technology and Innovation Act (repealed), 2013 using self-administered questionnaires. Data was analyzed using Predictive Analytics Software (PASW) version 23 formerly Statistical package for social sciences (SPSS) to generate descriptive and inferential statistics. The study found that performance management and compensation have a significant positive influence on employee retention and management style had a significant moderating effect on the relationship between the selected HRM practices in research institutes in Kenya at  $p \leq .05$  level of significance. The study recommends active participation of relevant actors and provision of prompt feedback as regards to performance management and the need to undertake periodic salary review, ensuring external equity of salaries and provision of competitive benefit packages in research institutes in Kenya.

**Keywords:** Performance management, compensation, Management style and employee retention.

## 1. Introduction

Performance management is a systematic process of improving organizational performance by developing the performance of individuals and teams. It is a means of getting better results by understanding and managing performance within an agreed framework of planned goals, standards and competency requirements (Armstrong, 2009). Enthusiasts for performance assessment argue that it serves a key integrating role within an organization's human resource processes as follows: First, it provides a checking mechanism for resourcing policies and procedures, evaluating the quality of recruits and hence underlying decision making process. Secondly, it monitors employee commitment and the relevance of their working behaviour to business objectives. Thirdly, it provides rationale for an organization's pay policies. Performance management strategies are particularly concerned with workforce motivation which can lead to employee effort and commitment.

Compensation management is an aspect of human resource management that focuses on pay and other benefits on the achievement of business objectives and it covers both strategy and practice of pay systems. Compensation refers to all forms of financial returns and tangible benefits that employee receives as part of the employment relationship (Bernardin, 2007; Odunlade, 2012). According to the expectancy theory Vroom, 1964 as cited in Armstrong (2009), when pay is tied to some measure of individual or group performance, employees are more likely to work harder to increase individual, group and organization's performance and they are motivated to stay longer with the organization. However, choosing an appropriate compensation mechanism is probably the core problem of human resource managers and represents the heart of economics (Garibaldi, 2006).

Employee retention is an effort by an organization to maintain a working environment which supports current staff in remaining with the organization in the long term (Snell, 2007). Employees are more likely to remain with the organization only if they believe that the organization shows more interest and concern for them, if they know what is expected from them, if they are given a role that fits their capabilities, and if they receive regular feedback and recognition (Samuel & Chipunza, 2013). High employee turnover has grave implications in quality, consistency and stability of enterprises. In addition, turnover can have detrimental effects on remaining employees who struggle to give quality services, when positions are vacated and then filled by inexperienced personnel (Powell, 2010). Therefore for organizations to be able to retain workers more effectively, they must know what factors motivate their employees to stay in the organization and what factors cause them to leave. This will have an impact on human resource management practices such as recruitment and selection, training and development, performance management, reward management and employee welfare among other human resource management practices.

### 1.1 Public Research Institutes in Kenya

Public research Institutes in Kenya are state corporations anchored under respective Government Ministries depending on their mandates. There are five (5) public research institutes in Kenya formed under the Science, Technology and Innovation Act, CAP 250 (repealed) and they have centres spread across the country. They include: Kenya Agricultural & Livestock Research organization (KALRO), Kenya Forestry Research Institute (KEFRI), Kenya Marine and Fisheries Research Institute (KMFRI), Kenya Medical Research Institute (KEMRI) and Kenya Industrial Research and Development Institute (KIRDI). The Government through these research institutes supports both the social and economic pillars for Vision 2030 by improving the quality of life, creating wealth and employment.

In Kenya, each research institute is autonomous just like other state corporations which determine their own organization structure, employee resourcing strategies, and pay levels among other human resource management practices. According to Njiru (2008), lack of adequate human resources has hampered human effective and efficient service delivery of state corporations. State corporations in Kenya as is the case in most African countries have been faced with a myriad of challenges such as corrupt political leadership, weak private sector development and failure to recognize that research and development is the key to all development plans and gains in the past, present and future (Andrew, 2014). In addition, state corporations are vulnerable to loss of competence through valuable people moving out (Wario, 2012). Despite these challenges, the increasing customer expectations, corporate obligations and responsibilities necessitate a continuous review of the services these institutes offer to meet the changing consumer preferences and taste. This calls for development of employee retention strategies in order to keep these institutes with highly skilled manpower with the institutional memory required to provide quality services and to maintain consistency and stability of these institutes.

### 1.2 Statement of the Problem

Competition for competent and talented employees has made organizations to rethink on their employee retention strategies. Research institutes require employees with highly specialized skills and knowledge which are developed over time within the organization if they are to deliver on their mandates and secure Vision 2030. It is costly and time consuming to replace such employees thus the need for effective human resource management practices that can attract, motivate and retain the best employees. As such organizations are coming up with better ways to make their human resource management practices more effective in a bid to lock in their best employees so as to continue having an edge over their competitors.

Some past studies on employee retention (Moncarz *et al.*, 2009; Sullivan, 2009; Long *et al.*, 2012; Nivethithia *et al.*, 2014 & Ozolina-Ozola, 2014) indicate that increasing employee turnover has been a trend in many organizations and the issue of employee retention has remained a major challenge in most organizations. According to Heathfield (2005), retaining desirable employees is beneficial to an organization in gaining competitive advantage that cannot be substituted by other competitors in terms of producing high morale and satisfied workers who will provide better customer service and enhanced productivity, which subsequently results in sales generating, customer satisfaction, smooth succession management and improved organizational learning.

### 1.3 Objectives of the Study

The objectives of the study are as follows:

To examine the influence of performance management on employee retention in research institutes in Kenya.

To determine the influence of compensation on employee retention in research institutes in Kenya.

To establish the moderating effect of management style on the relationship between human resource management practices and employee retention in research institutes in Kenya.

## 2. Literature Review

### 2.1 Theoretical Framework

The practice of human resource management is underpinned by a number of theories which will be adopted by this study. To be able to explain the relationship between human resource management practices and retention of employees, the study will focus on human resource management theories as categorized by Boselie *et al.*, (2005) namely: contingency theory, resource based view and AMO theory. In addition, the study will also adopt the Michigan model, which depicts well the relationship between human resource strategy and business strategy which leads to attainment of organizational goals.

#### 2.2.1 The Michigan Model

It is also regarded as the matching model and was designed by the Michigan School and holds that HR systems and the organization structure should be managed in a way which is congruent with organizational strategy (Fombrun *et al.*, 1984). This model has two assumptions; first, that the most effective means of the managing people will vary from organization to organization and is dependent on organizational context. The second assumption is on unitarism, that is, the assumption that conflict or differing views are working together to

achieve the same goal of success of the organization (Beardwell & Clayton, 2007). In view of the listed assumptions, this model emphasizes on the necessity of tight fit between HR strategy and business strategy and the use of a set of HR policies and practices that are integrated with each other and with goals of the organization. The model projects that there is a human resource cycle which consists of four generic processes of functions namely: selection, training and development, performance management and compensation that are performed in all organizations (Armstrong & Taylor, 2014; Armstrong, 2009; Price, 2004). This model therefore underlines deployment of HRM practices such as effective selection, development, continuous performance management and fair remuneration aimed at motivating employees in order to achieve business objectives.

### **2.2.2 Contingency Theory**

According to Armstrong (2009), this theory is associated with fit, the need to achieve congruence between organization's human resource strategies, policies and practices and its business strategies within the context of external and internal environment. The strength of this model is that it provides a simple framework to show how selection, appraisal, development and reward can be mutually geared to produce the required type of employee performance. This theory explores the link between strategic management and HRM by assessing the extent to which there is vertical integration between an organization's business strategy and its HRM policies and practices (Beardwell & Clayton, 2007). Central to the fit or vertical integration is the notion of a link between business strategy and the performance of every individual in the organization. In addition, this theory is based on another form of fit referred to as the horizontal integration where all HR policies and activities fit together so that they make a coherent whole, are mutually reinforcing and applied consistently.

### **2.2.3 Resource Based View Theory**

This theory states that it is a range of resources in an organization including its human resources that produces its unique character and creates competitive advantage. This theory is based on the premise that differences in physical, organizational and human resources between firms cause a fundamental heterogeneity in their productive potential. The Resource based view as a basis of competitive advantage lies primarily in the application of the bundle of valuable resources at the disposal of the firm. The firm has to identify key potential resources which should fulfill the criteria of being valuable, rare, in-imitable and non-substitutable by the firms' competitors (Galbreath, 2005). There is strong evidence that supports this theory (Cook *et al.* 2008) which indicates that firms compete in an ever changing and dynamic business environment. Performance management enables continuous monitoring of employee's performance in order ensure high performance and to provide rationale for pay decisions. Remuneration packages which are attractive fulfill financial and material desire of employees who are motivated to perform high.

### **2.2.4 AMO Theory**

The formula  $\text{Performance} = \text{Ability} + \text{Motivation} + \text{Opportunity}$  to participate provides basis for developing human resource systems that attend to employees' interests namely their skills requirements, motivations and the quality of their job (Bailey *et al.*, 2001; Boxall & Purcell, 2003). According to Appelbaum *et al.* (2000), performance is considered as a function of employee ability (A), motivation (M) and opportunity to participate or to contribute (O). When the HRM practices that promote these variables are improved, the corresponding effect will be better engagement of employees' potential and discretionary decision. AMO theory is the prime building block of human resource architecture and for it to hold in organizations, the following conditions must apply: First, there must be an adequate amount of employees with required ability to do current and perhaps future jobs. Secondly, there must be satisfactory motivation for them to engage their abilities which could be in the form of financial or non-financial. Lastly, there must be an opportunity to engage in discretionary behaviour such as decision making. In a corporate setting where this kind of work reform is practiced, the expected outcome will be superior performance for both individual employees and the organization as a whole.

## **2.3 Conceptual Framework**

This study will be built on the framework of the contingency theory since coherent and internally aligned human resource management practices form powerful connections that create positive organizational outcomes such as employee retention. The study will have two human resource management practices namely: performance management and compensation as independent variables, management style as moderating variable and employee retention as the dependent variable.

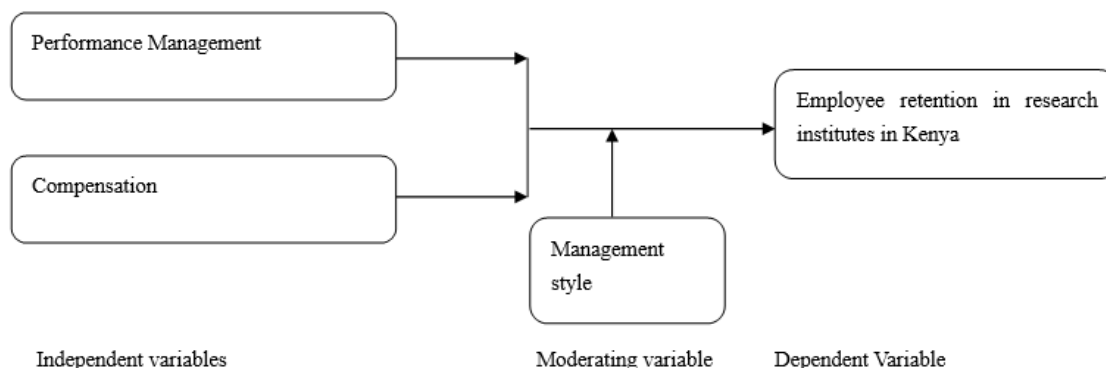


Figure 2.1 Conceptual Framework

### 3. Research Methodology

This study adopted descriptive research design. The target population comprised of 1413 middle and senior management employees working in Nairobi and Kisumu counties and their environs of research institutes formed under the Science, Technology and Innovation Act, CAP 250 (repealed). Stratified random sampling technique was used to draw a sample of 303 employees from all the employees who were in the scientific, technical and professional support categories of staff which represented 22% of the target population. Primary data was collected through self-administered questionnaires data while secondary data was gathered from available literature. The questionnaire was tested in one of the research institutes that was an outlier. Quantitative data was analysed using Predictive Analytics Software (PASW) version 23 and results presented using percentages, tables and regression tables. The statistical methods used for research analysis were mainly descriptive statistics and regression analysis.

## 4. Results and Discussions

### 4.1 Performance Management

The study sought to examine the influence of performance management on employee retention in research institutes in Kenya. The results of descriptive analysis conducted are presented in Table 4.1.

**Table 4.1: Descriptive analysis results for Performance Management**

Opinion Statements	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Total (%)
	(%)	(%)	(%)	(%)	(%)	
Performance appraisal is a mandatory exercise in our organization	1.7	4.3	5.2	47.0	41.8	100
I have a clear understanding of performance standards and expectations for my job	1.3	5.1	10.7	55.6	27.4	100
My supervisor involves me in the annual setting of my performance targets	4.7	6.8	12.4	51.3	24.8	100
I am provided with the necessary resources to perform my job	3.8	16.2	30.3	37.6	12.0	100
Our organization recognizes and acknowledges my good performance	8.5	17.5	29.9	30.8	13.2	100
I receive feedback on my performance	9.1	19.8	22.4	36.2	12.5	100

Majority of respondents at 88.8% agreed that performance appraisal is a mandatory exercise undertaken in their research institute. This is a strong indication that performance appraisal is a undertaken in research institutes. The participants were asked to state whether they had a clear understanding of performance standards

and expectations of their jobs. Majority of participants representing 83% indicated that they have a clear understanding of performance standards and expectations for their jobs. From the study 49.6% of respondents indicated that they are provided with the necessary resources to perform their jobs. These findings show that even though research institutes seem to be providing resources required for execution of duty, they may be inadequate or lacking in some areas thus there's need to ensure that employees are facilitated with the required resources to enable them perform their duties properly. Majority of respondents at 76.1% agreed that their supervisors involved staff in the annual setting of their performance targets. The study also found that 44% of respondents indicated that indicate that their organization recognizes and acknowledges their good performance. The study also sought to find out whether the employees received feedback on their performance and only 28.9% agreed.

#### 4.2 Compensation

The study sought to determine the influence of compensation on employee retention in research institutes in Kenya. The results of descriptive analysis conducted on compensation factors are listed in Table 4.2.

**Table 4.2: Descriptive analysis results for Compensation**

Opinion Statements	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Total (%)
	(%)	(%)	(%)	(%)	(%)	
There is a clear salary structure maintained by the organization	10.3	14.2	12.5	39.2	23.7	100
Our organization offers fair pay based on ability, skill and seniority	12.9	22.4	22.8	31.0	10.8	100
There is periodic review of salaries	15.0	24.5	18.5	34.3	7.7	100
Our company maintains salary levels that compare well to other state corporations	19.7	25.8	24.0	20.6	9.9	100
Our company provides benefits which are competitive with those offered by other organizations	19.0	23.3	22.0	27.2	8.6	100
There is fairness in the manner in which compensation is managed in our organization	12.4	17.6	35.2	28.3	6.4	100

The study sought to establish whether there is a clear salary structure maintained by the organization and majority of the respondents at 62.9% agreed. Respondents were also asked to state whether their organization offers fair pay based on ability, skill and seniority and 41.8% of the participants agreed. These findings indicate that although research institutes do offer fair pay based on ability, skill and seniority, their employees are not very sure whether the pay is fair. According to Bernardin (2003), the amount of pay and the way it is packaged and delivered to employees can motivate, energize, and direct behaviour. From the study, 42% of respondents indicated that the research institutes undertake periodic review of salaries. Majority of respondents at representing 45.5% disagreed that their research institutes maintains salary levels that compare well to other state corporations. These research findings indicate that there is no external equity between salaries paid by research institutes and those paid by other public institutions. From study findings, majority of respondents representing 35.2% were indifferent that there was fairness in the manner in which compensation is managed in research institutes.

#### 4.3 Results of regression analysis

Multiple regression was conducted on the relationship between performance management practices and compensation, and employee retention with management style as a moderating and the results are presented in Table 4.3.

**Table 4.3: Results of Regression Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients		Sig.	95.0% Confidence Interval for B	
	B	Std. Error	Beta	t		Lower Bound	Upper Bound
1 (Constant)	2.944	.179		16.420	.000	2.590	3.297
Management performance practices	.080	.117	.101	.679	.048	-.152	.311
Management compensation practices	-.282	.124	-.447	-2.283	.023	-.526	-.039
2 (Constant)	2.387	.442		5.407	.000	1.517	3.257
Management performance practices	.205	.148	.261	1.382	.038	-.087	.497
Performance Management compensation practices	-.021	.044	-.176	-.485	.021	-.109	.066
Compensation Management style practices	.088	.037	.732	2.357	.019	.014	.162
	.187	.136	.257	1.377	.007	-.080	.454

a. Dependent Variable: Employee retention

Using the values obtained in Table 4.3 the fitted model;  $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_1X_1Z + \beta_2X_2Z + e$  becomes:

$$Y = 2.387 + 0.205X_1 - 0.255X_2 + (0.205)(-0.021)Z + (-0.255)(0.088)Z + e;$$

$$Y = 2.387 + 0.205X_1 - 0.255X_2 - 0.0043Z - 0.022Z + e$$

Where;

Y= Employee retention

$\beta_0$ = Constant

$X_1$  = Performance management

$X_2$  = Compensation

$\beta_j$  = the coefficient for  $X_j$  (j= 1,2,3,4,5)

Z = Management style

e = error term

$X_iZ$  = the interaction term for management style with each of the independent variables ( $X_1$  and  $X_2$ )

Results in Table 4.3 indicate that a unit change in performance management will lead to an increase in employee retention at the rate of 0.205 whereas a unit change in compensation will lead to a decrease of 0.255 in employee retention. When the moderating variable was included in the analysis; a unit change in performance management leads to a decrease in employee retention by 0.021 whereas a unit change in compensation leads to a decrease of 0.088 in employee retention. These results therefore indicate that performance management has a positive influence whereas compensation has a significant negative influence on employee retention in research institutes in Kenya. Management style has a moderating effect on the relationship between performance management and compensation with employee retention in research institutes in Kenya.

## 5. Conclusion

This study found a positive significant influence of performance management on employee retention and a negative significant influence of compensation on employee retention in research institutes in Kenya. The study also found that there was a moderating effect on the relationship between performance management, compensation and employee retention in research institutes in Kenya. The study recommends that research institutes in Kenya should ensure effective communication and consistent implementation of human resource management policies and procedures on performance management and compensation. This will ensure that employees are fully aware of their employer expectations of them and will also ensure unit of direction for the organization thus ensuring effective and efficient service delivery. The study also recommends that research

institutes in Kenya should improve in compensation management. There's need to ensure periodic review of salaries, external equity and payment of competitive allowances and other benefits.

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