

**EMPLOYEE PERCEPTION OF COMPETITIVENESS OF
PERFORMANCE BASED REWARDS IN KENYA ELECTRICITY
GENERATING COMPANY LIMITED, KENYA**

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DECLARATION

This research project is my original work and has not been presented for the award of degree in any other university or institution for any other purpose.

Signature 

Date 15/11/2012

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This research project has been submitted for examination with my approval as University supervisor.

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DEDICATION

This piece of work is dedicated to my dear and loving late dad who encouraged me to pursue this course before he went to be with the Lord, dear and loving mother and son Baraka. It was your support and encouragement that made my study a success. You went without the services of daughter/mother and never complained when I was pursuing my degree.

ACKNOWLEDGEMENT

The process of this master's project writing has been a wonderful learning experience in my academic life. It was filled with challenges and rewards. The completion of my present study leads to a new beginning and a step forward in my endeavors.

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ABSTRACT

The competitiveness of an organization especially in the present day competitive business environment will be anchored on the employee motivation and their perception of the rewards being offered being commensurate to the work they perform. The never-ending problem of high attrition rate has seen most organizations offer a number of rewards with the idea of attracting and then motivating the employees to stay in the organization and in order to determine whether the rewards offered by the organization commensurate with the employee expectations, then the same should be established by assessing the employee perception on the same reward management.

The objective of the study was to determine employee perception on competitiveness of performance based rewards in Kenya Electricity Generating Company Limited. The research design adopted was a descriptive survey method. The population of the study consisted of three hundred and sixty employee form all the cadres in the company. The study used primary data which were collected through self-administered structured questionnaires. The data was analyzed and presented using mean and percentages.

The company found out that the company was using performance based rewards in order to satisfy its employees with the work and encourage the employees to work towards the attainment of the organizational objective. The use of the rewards by the company changed their perception and as a result leads to additional interactions with management and provides new opportunities for employees to develop trust in management. The company is however faced by challenges emanating from lack of promotion policy that ensures fair and equitable promotion, the rewards system in the organization being unpredictable and not based on employee performance, the company not embracing new compensation trends in the market depending on the employee performance and there lack of fairness and equity in the company on compensation practices.

TABLE OF CONTENTS

DECLARATION	2
DEDICATION.....	3
ACKNOWLEDGEMENT.....	4
ABSTRACT.....	5
CHAPTER ONE: INTRODUCTION	8
1.1 Background to the Study.....	8
1.1.1 Employee Perception	9
1.1.2 Performance Based Rewards	11
1.1.3 Concept of Reward Competitiveness	12
1.1.4 Kenya Electricity Generating Company Limited	14
1.4 Value of the Study	17
CHAPTER TWO: LITERATURE REVIEW	19
2.1 Reward Management.....	19
2.2 Types of Rewards.....	21
2.2.1 Performance Based Rewards.....	21
2.4 Competitiveness of Performance Based Rewards.....	25
CHAPTER THREE: RESEARCH METHODOLOGY	30
3.1 Research Design.....	30
3.2 Population	30
3.3 Sample Size.....	30
3.4 Data Collection.....	30
3.5 Data Analysis	31
CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION.....	32
4.1: Demographic Data	32

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS39

REFERENCES.....43

APPENDICES.....46

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Employees as a collective workforce are being exhorted to become more efficient, more quality oriented, more flexible and more innovative. This requirement of employees is intended to keep organizational costs down and to ensure its survival and to facilitate the same, employees are being encouraged to change the way they work and to accept different ways of being organized and managed in order to gain competitive advantage (Heneman et al., 2002). As a result of these transformations requirements of working practice, there is need for the employee to be satisfied with the work and all practices should be put in place that will encourage the employees to work towards the attainment of the organizational objective. The factors of recognition for performing well, chances of promotion, professional growth, compensation and incentive schemes, and rewards and gifts are perceived as motivating factors to employees (Dash et al. 2008).

In an organization, committed employees are regarded as being willing to build and maintain long-lasting relationships with their employer. Osterman (2000) posit that employees may be highly skeptical of the management initiatives and both actively and passively resist to the changes, resulting in unsuccessful change efforts, decrease in morale or productivity, and increases in turnover or subsequent organizational failures. Effective management teams need to recognize that positive employee attitudes are often vital to achieving organizational goals. When employees believe that they have the ability to participate in decisions, research suggests there will be a positive impact on the work environment (Lawler, 1994). Employee participation

in decision making changes their perceptions and as a result lead to additional interactions with management and provide new opportunities for employees to develop trust in management. Involved employees may also be more likely to believe they can impact or initiate changes in the organization and to perceive the organization as adaptive to change.

Most organizations try to boost employee willingness to work harder by incorporating various rewards in their compensation systems. Rewards range from merit increase of the salary to innovative non-financial rewards such as season tickets for their favorite sports team and hand-written thank you letters. Despite the common belief that people value their jobs mainly for the pay, Strumpel (2005) argues that employees with steady jobs who are fairly satisfied with their incomes are more interested in non-material aspects of the job. Mathios (1988) has found that highly-educated people consider non-monetary rewards to be more important and therefore increasing the view that there are differential effects of monetary and non-monetary rewards included in the compensation of employees.

1.1.1 Employee Perception

Employee perception is the attitude employees have towards policies concerned with pay, recognition, promotion and quality of working life, and the influence of the group with whom they identify (Armstrong, 2006). As Arnold *et al* (1991) comment, research evidence has shown that people's avowed feelings and beliefs about someone or something seemed only loosely related to how they behaved towards it and thus the study of employees' perception is critical toward formulation and management of policies in an organization. Dash *et al.* (2008) report that the factors of recognition for performing well, chances of promotion, professional growth, compensation and incentive schemes, are perceived as motivating factors by many employees. They

point out that the development of systems of rewards, recognition and career opportunities as one of several critical tasks of management in the information-based companies and in their research, employees named respectful treatment and recognition as one of the six less costly and perhaps more effective 'management levers' to be exercised by management in their efforts to attract, motivate and retain workers since employees consider such factors to be important.

In the opinion of Leigh (2005), one of the root causes of voluntary employee turnover is the lack of recognition. He thus suggests that the firms need not have any specific programs for retention of the employees but what they need to have is a 'reward and award' policy. When the company is growing, unless the person gets due recognition, he is bound to leave. In his opinion therefore, organizations need to adopt a transparent and predictable system with regard to the reward and recognitions so that whenever some award is given to an employee, there will be no grudges.

Ramakrishna (2002) opines that recognizing contributions will result in a world class working environment that motivates and propels people to work better and stay on. He contends that the lack of recognition is one of the serious demotivators for the employees and as a result most organization in India has introduced better reward and recognition schemes.

Ramakrishna (2002) opines that recognizing contributions will result in a world class working environment that motivates and propels people to work better and stay on. He contends that the lack of recognition is one of the serious demotivators for the employees of and as a result most organization has introduced better reward and recognition schemes. Strategies like building a high degree of recognition value into every reward offered, reducing entitlements and linking as many rewards as possible to performance, troubleshooting the reward system to make sure that what it is rewarding is what you really want to happen, rewarding promptly, giving employees a

choice of rewards, increasing the longevity of rewards will motivate the employees. Srikanth and Ramamirtham (2008) suggest that the recognition of innovations will ultimately reduce attritions and helps establishing correct expectations during interview along with rewards and recognition.

1.1.2 Performance Based Rewards

A reward is defined as all of the monetary, non-monetary, and psychological payments that an organisation provides for its employees (Bartol and Locke, 2000). A reward is presented after the occurrence of an action with the intent to cause the behaviour to occur again. This is done by associating positive meaning to the behaviour and it represents what the individuals want to obtain from work or what they perceive. A job reward has been found to be a strong determinant of job satisfaction and also rewards are significantly related to professionalism.

Reward management is concerned with the formulation and implementation of strategies and policies, the purposes of which are to reward people fairly, equitable and consistently in accordance with their value to the organization and thus help the organization to achieve its strategic goals. It deals with the design, implementation and maintenance of reward processes, practices and procedures that aim to meet the needs of both the organization and its stakeholders (Armstrong, 2006). He posits that reward management is based on a philosophy – a set of beliefs and guiding principles that are consistent with the values of the organization and help to enact them. These include beliefs in the need to achieve fairness, equity, consistency and transparency in managing the reward system. Appropriate rewards, benefits, and type of compensation program are also important for employees. Financially, the salaries must be fair according to employees' contribution. According to Togia et al., (2004), way of aligning the



business' interest with those of the employee is introducing profit-sharing plans that create plans in which employees receive bonuses according to the company's profits. Both employees and employer basically work for a common goal for mutual profit. This gives a great sense of ownership and an interesting financial advantage for the employees.

Appropriate rewards and benefits need to be devised in an organization because this action will help in motivating employees and minimize turnover. Financially, the salaries must be fair according to employees' contribution and according to Togia et al., (2004), one way of aligning the business' interest with those of the employee is introducing profit-sharing plans that create programs in which employees receive bonuses according to the company's profits. Towards this end, both employees and employer basically work for a common goal and mutual profit. This gives a great sense of ownership and an interesting financial advantage for the employees. Non financial reward should also be provided to employees for their contributions. Such recognitions include, paid time off, employee of the month programs, access to training programs, company paid holidays to mention a few.

1.1.3 Concept of Reward Competitiveness

Organizational competitiveness is concerned with the ability of the firm to be responsive and adaptable to change which will finally have an effect on the position of the firm in the marketplace. Implicitly, companies should become more customers focused (internally and externally) in both domestic and foreign markets by becoming quality orientated. To achieve a level of competitiveness, an organization should aim to achieve the desired competitiveness through the use of all its internal resources, including its employees. Organizations use different

methods to sustain their competitive edge. Lynn (1991:60) defined reward competitiveness as “core principles, process features and structural feature, actual reward system practices and structures and obtain some form of dominance over others through winning”. Rewards are assumed to be effective to the degree that the core principles, processes and practices are in alignment.

The task of developing a competitive outcome model for reward system is complicated by the fact that other systems in the organization may influence the same behaviors (Jenkins, et al., 2006). Thus, it is critical to identify which individual and organizational behaviors are going to be primarily driven by the reward system and which are going to be driven by other factors such as organization structure, or the information systems. The organization may decide that it needs individuals to focus on increasing individual performance regardless of its impact on others, but to demonstrate cooperative behavior with other people at critical times. In this situation the reward system might be used to reward both individual and organizational performance or it may be used to emphasize only one of these while work design or some other feature is focused on the other. For example teams can be created and their performance can be measured. This should clearly lead to individuals emphasizing team performance (Lawler and Cohen, 1992). If the right mix of organizational behavior calls for some emphasis on individual performance excellence, it may make sense to focus at least some of the reward system on recognizing outstanding individual performance. In this respect, the reward system would end up contributing to a carefully designed balance in the organization between motivating team behavior and individual behavior.

1.1.4 Kenya Electricity Generating Company Limited

Kenya Electricity Generating Company (KenGen) is a limited liability company, registered under the Company Act .The Company was incorporated in 1954 as Kenya Power Company Limited (KPC) renamed KenGen in 1997 following implementation of the reforms in the energy sector. Its core business is to develop, manage and operate power generation plants to supply electric power. The registered Office is Stima Plaza III, Kolobot Road, Parklands, in Nairobi, with regional offices at Gitaru, Turkwel, Murang'a, Olkaria, Mombasa, Eldoret and Kisumu. Until 17th May 2006, the Company was 100% owned by the government. In 2004, the Government of Kenya (GoK) privatized KenGen through Initial Public offering of 30% of its equity through the Nairobi Stock Exchange. The company operations are directly regulated by Ministry of Energy (MOE) and Electricity Regulatory Board (ERB). It is also indirectly regulated by the lenders, shareholders, Kenya Power & Lighting Company (KPLC), staff and final consumers of electricity. All regulators are also its customers.

The Kenya Electricity generating company has a number of opportunities and challenges in its operations. KenGen is the leading electric power producer in Kenya accounting for over 80% of electric power consumed in the Country generated through the hydro, geothermal, thermal and wind generating modes. It also has opportunities in the projected 9% growth in electric power demand in the country, supply electric power to the neighbouring countries, significant natural power potential in geothermal, coal and wind. However, KenGen has experienced significant challenges in hydropower due to climatic changes, poor economic growth currently, increased new customer connectivity enhanced by the rural electrification programme and new competitors in the energy sub-sectors. Employees reward policy has also been another challenge to the

organization as it is not clear the criteria used to demonstrate the Company's appreciation of employees or teams with exceptional contribution to business. To counter these challenges KenGen embarked on transformation program called "Good to Great" transformation in 2007. The Company rewards and recognizes employees but the employees' perception towards the reward management does not reflect fairness, equitable, performance driven, support business objectives and competitive based to an extent that it is perceived that reward is for non-performers, who is who is the KenGen family and/or how you relate with your supervisor (KenGen survey, 2011). Further, lack of proper reward management has been associated with the high staff turnover in the last five years.

1.2 Problem Statement

Employees should be rewarded according to their job performance and those who perform better should be rewarded according to their performance and those who perform better need to be offered a greater proportion of the available rewards and vice versa. Performance based reward (PBR) primarily refers to a variable pay anchored to a measurement of performance and by an organization shining the spot light on employees who perform, a company not only can encourage people to do it repeatedly, they also encourage other employees to emulate the same behavior themselves which will ultimately led to an increase in the organizational competitiveness (Harris, 2009). The competitiveness of an organization especially in the present day competitive business environment will be anchored on the employee motivation and their perception of the rewards being offered being commensurate to the work they perform. The never-ending problem of high attrition rate has seen most organizations offer a number of rewards with the idea of attracting and then motivating the employees to stay in the organization

and in order to determine whether the rewards offered by the organization commensurate with the employee expectations, then the same should be established by assessing the employee perception on the same reward management (Grant, 1994).

The Kenya Electricity Generating Company Limited plays a key role in the expansion of the country's economy through the generation of adequate electricity to power the economy and meet the demands of its consumers. In meeting its core objectives, the organization has recognized the critical role played by all its employees irrespective of cadre. This recognition does not come about automatically but through employees being recognized and rewarded on the basis of the results they generate in the organization and how their input has led to the improvement of the organizations competitiveness. Thus, the views of the same staff towards the competitiveness of performance based rewards in the organization can provide organizational leaders with valuable information regarding the efficacy of the change efforts being undertaken as well as their desires as far as the reward management is concerned. At KenGen, a number of performance based rewards are employed and these include merit pay, individual bonuses, profit/share based schemes and collective bonuses.

Two studies have been undertaken locally on the area of employee performance based pay. Mbithe (2011) undertook a research on the assessment of the influence of performance based rewards on job satisfaction on employees at the National Cereals and Produce Board. she found out that performance based rewards has had a greater effect on the job satisfaction of employees compared to the early pay in the organizations that was uniformly rewarding staff as per the job cadre. On her part Wangui (2010) researched on the influence employees culture on performance based pay at the Kenya Power and Lighting Company and concluded that the successful

implementation of a performance based pay in an organization will depend on the organizational and employee culture to abide to it. In addition, she found out that rewarding has a motivating effect on employees to do what managers expect of them and also rewarding can induce employees to deliver high-quality service. On the basis of above studies, there exists a knowledge gap on how employees perceive the competitiveness of performance based rewards and the current study wishes to investigate employee perception of the competitiveness of performance based rewards in Kenya Electricity Generating Company Limited in comparison with other firms in the industry.

1.3 Objective of the Study

To determine the perception of employees on the competitiveness of performance based rewards at Kenya Electricity Generating Company Limited in comparison to other firms in the industry

1.4 Value of the Study

The understanding of the perception of employees of competitiveness of Performance based rewards of the organization will help policy makers – governments and other stakeholders – to design targeted policies and programs that will actively stimulate creativity, innovation, growth and sustainability of the power firms in the country, as well as helping those policy makers to support, encourage, and promote the establishment of appropriate policies to guide the firms. Regulatory bodies such as ERC, Capital Markets Authority and the Kenya Revenue Authority can use the study findings to improve on the framework for regulation.

The study findings will benefit management and staff of KenGen who will gain insight into how their institutions can effectively manage their performance based rewards to be in line with their

employees' perception. This study will offer an understanding on the importance of maintaining an effective reward system that will provide the desired results and competitive advantage in the present day competitive business environment. Several rewards practices and their effects will be discussed for the managers to understand in a much in-depth way the best change process approach that they can adopt to suit their circumstances. As a result, power companies in the country and other affiliated firms will derive great benefit from the study.

This study will also create a monograph which could be replicated in other sectors of the economy. Most importantly, this research will contribute to the literature on the rewards especially in developing countries like Kenya. It is hoped that the findings will be valuable to the academicians, who may find useful research gaps that may stimulate interest in further research in future. Recommendations will be made on possible areas of future studies. This study is further justified since it will be of value to those interested in setting up power generation firms in the country since they will be able to understand what to do right to succeed and what if done wrong would bring the business down.

CHAPTER TWO

LITERATURE REVIEW

2.1 Reward Management

Employee rewards are concerned with both financial and non-financial rewards and embraces the philosophies, strategies, policies, plans and processes used by organisations to develop and maintain reward systems (Armstrong, 2002). Reward management is a key function in HRM systems in modern enterprises, playing an important role in attracting, retaining and motivating employees. However, scholars have not reached a consensus on whether reward management can improve innovation and job satisfaction in the workplace. Two theories have as a result come up to explain the appropriate reward system namely the utilitarianism and romanticism. Utilitarianism emphasizes extrinsic incentives such as monetary compensation to motivate the innovative behaviour of employees, while romanticism views rewards as self-motivated psychological behaviour that is typically sparked by intrinsic spiritual rewards (Hennessey and Amabile, 1998).

Utilitarianism provides the foundation for early behaviorist's arguments that suggest that people's behaviours are drivable and changeable and that extrinsic rewards can bring expected behaviours and performance (Pryor et al., 1969). Extrinsic rewards and resource investment have been seen as necessary to satisfy employee, especially in formalised tasks. According to Eisenberger et al., (1999) reveal that performance-linked salary increases and monetary rewards positively influence employee satisfaction. Long-term incentive plans (e.g. stock options), team-based rewards (e.g. profit-sharing plans), and security benefits are also empirically shown to have a positive effect on employee creativity (Laurson and Foss, 2003).

The total reward strategy consists of a number of key ingredients. Armstrong (2002) points out that an organizations reward strategy capture a financial rewards such as base pay and benefits which at all the time should remain slightly above the median for the location and benefits are more generous than its rivals. The reward strategy should also capture employee career development which should encourage everyone to develop as far as they are able using on-the-job training and course training. Despite of the importance of an organization having an effective reward strategy, Perrin (2009) provides evidence to demonstrate that organizations are having problems in implementing their reward strategies due to a number of reasons. He pointed out that the major reason for unsuccessful reward system include ineffective communication, lack of support system systems such as market data, poor performance management, the system not matching with organizational needs and a lack of management skills and support. Thus organizations should redesign their reward systems so as to avoid the same pitfalls.

According to Willems at al., (2004), the specific objectives of rewards and punishment are different. Rewards are in principle intended to encourage the type of behaviour which precedes them, while punishment are intended to prevent a repetition of previous behaviour. For the management, the criterion of success for reward policies is that they motivate employees to commit high levels of physical or mental effort towards performing required tasks well. Further, Tigio et al., (2004), observe that rewards should increase the predictability of employees behaviour so that they can be depended upon to carry out the duties requested of them consistently and to reasonable standards, e.g , opportunities for upgrading or even promotion will tend to increase the predictability among employees who have some ambition if it is apparent that certain types of behaviour enhance the prospect of career development. The management

will look at the reward policy to secure a degree of commitment and a level of effort from employees that goes beyond mere predictability.

2.2 Types of Rewards

Most organizations use different types of rewards. The most common types of rewards include basic pay; Job design, incentives and benefits; development opportunities, and performance based pay. According to Cox (2002), money is important because of the things it can buy and it also symbolizes an employee worth. An organization pay is considered important because if managed effectively, money can improve motivation and performance. While pay and benefits alone are not sufficient conditions for high satisfaction, it is an indispensable measurement in job satisfaction evaluation. Noe (2007) argue that for most people work is the primary source of income and financial security and an important indicator of status within the organisation as well as in society.

2.2.1 Performance Based Rewards

Performance based reward (PBR) refers to a variable pay anchored to a measurement of performance. It is based on the principle that employees should be rewarded (e.g. paid, promoted) according to their job performance, with those performing better being offered a greater proportion of the available rewards and vice versa (Harris, 2009). By shining the spot light on employees who perform, a company not only can encourage people to do it repeatedly, they also encourage other employees to emulate the same behavior themselves. Having an element of variable pay dependent on business performance is also considered as a sensible way of managing the wage bill in a recession (Gerhart and Rynes, 2003).

Conceptually all the components of attitudes e.g. cognitive (Belief), affective (Feeling) and behavioral are closely related with culture. Hofstede (1990) have observed that culture involves beliefs and behaviours, exists at various levels, and manifests itself in a wide range of features of organizational life. As such, organizational culture refers to a set of shared values, beliefs, assumptions, and practices that shape and guide attitudes and behaviours of employees in the organization (Wilson, 2001). Scholars like Hunt (1992) have also viewed culture to involve beliefs, values and attitudes in guiding organizational members to perceive and interpret events. Further, the successful implementation and functioning of performance based rewards is based on the willingness of employees to abide with the PBR principles. This willingness should be largely determined by the attitudes of employees towards the philosophy that underline PBR.

According to Bozionelos and Wang (2007), past studies have tended to consider the attitude of employees towards equality and equity as the basis to understand the attitude of employees towards a pay system. The equity principle states that rewards should be allocated according to the contribution of each party. Therefore, parties (e.g. individuals) who contribute more should enjoy a greater proportion of rewards than their less contributing counterparts. Whereas, the equality principle suggests that all parties (e.g. individuals) should be offered equal proportions of rewards regardless of their comparative contributions (Bozionelos et.al. 2007). According to the principle of equality, relative contribution must not be a factor in the allocation of rewards to the parties involved; and all individuals who perform the same or comparable tasks must receive exactly the same rewards regardless of their relative contributions (Deutsch, 1975; Leventhal, 1976). As Bozionelos et.al. (2007) observed 'Rewarding workers according to their personal performance essentially means differential allocation of available rewards according to individual contributions, which reflects the equity principle. Therefore, the more positive the

attitude of an individual towards equality-based rewarding, the more likely it should be that this individual would express a negative attitude towards PBR and vice versa; and the more positive the attitude of an individual towards equity-based rewarding, the more likely it should be that this individual would express a positive attitude towards PBR and vice versa.

2.2.2 Payment by Time Systems

Under this system of pay, an amount of money is paid to the employee at intervals of a month, week or in some cases each day as specified in the employment contract or other agreement. Payment is determined by the number of hours in attendance at the place of work and in most cases is determined by cyclical individual or collective bargaining and agreement. Time based payment system is preferred when it is needed to encourage cooperation among employees and recognise people's desire for a constant and predictable income (Shaw and Shaw Pirie, 2002). In addition, they point out that in the advance or more highly mechanized and automated technologies the need for effort is being replaced by a need for reliable monitoring using cognitive and judgmental skills. In addition, conflict over pay rates is confined to certain mechanism such as collective bargaining, and certain periods of the year.

According to Morrison et al. (2005), job designs that provide for high levels of employee control also provide increased opportunities for the development and exercise of skill. Also, meditational influence of perceived skill utilization on job control job satisfaction has been observed. They further concluded that perceived work demands, job control and social support through job design leads to high productivity. This means that the level of job satisfaction is determined by a combination of jobs, work and personal characteristics and rotating managers to different jobs adds the benefit of task variety, resulting in increased performance of employees. Further,

Bassey (2002) observed that task identity, task significance, autonomy, feedback, job security and compensation are important factors for the motivation of employees. Understanding the design implications of incentive systems is important to understanding of employee motivation and whether these incentive systems are related to satisfaction. The philosophy behind pay-for-performance plans draws upon reinforcement theory that suggests that pay be linked to performance by setting specific targets and then rewarding individuals for achieving these targets (Heneman, 1992).

Incentive plans that are oriented toward individual employees may cause increased competition for the rewards and some possibly disruptive behaviour such as sabotaging a coworker's performance, sacrificing quality for quantity, or fighting over customers. A group incentive plans on the other hand requires that employees trust one another and work together. Effective teamwork can motivate employees and improve employee performance and self-efficacy. This increases motivation and self-efficacy through teamwork can be a source of employee autonomy, significance, bonding with team members and satisfaction. For example, according to results of Rahman and Bullock's (2005) surveys performed with manufacturing companies in Australia and New Zealand, the use of teams has a significantly positive relationship with employee morale.

2.2.3 Collective Bonus Schemes

Incentive schemes based on the discrete performance of a particular performance of a particular work group attempt to encourage flexibility and cooperation among members of the group and to some extent provide opportunities for the employees to decide for themselves how to achieve the required results. According to Armstrong (2002, pp. 22), team based rewards are payment or non-financial incentives provided to members of a formally established team and linked to the

performance of that group. the rewards are shared among the members according to a formula, or on an ad-hoc basis for exceptional achievements. Rewards for individuals may also be influenced by assessment of their contribution to the team.

Employee training provides opportunities to employees to widen their knowledge and abilities for more efficient teamwork and achieve individual development (Jun et al., 2006). When workers receive self-development training, the level of their job satisfaction is higher than those without such training. According to Kerka (1998) career development is an organized approach used to achieve employee goals with the business needs of the agency workforce development initiatives. According to the author, the purpose of career development is to; enhance each employee's current job performance, enable individuals to take advantage of future job opportunities and fulfill agencies' goals for a dynamic and effective workforce. According Cole (2005), the benefits of employee development to an organizational include: increasing the employees' morale since training will improve the employees' confidence and motivation; lowering cost of production through better and economical use of material and equipment thereby reducing and avoiding waste. In addition, he observed that training of employees leads to a low turnover that comes as result of improved security in the workplace. Training helps improve change management by increasing the understanding and involvement of employees in change management process.

2.4 Competitiveness of Performance Based Rewards

Cognitive affective theory suggests employee's behaviors and attitudes are influenced by the interaction between enduring individual differences, such as personality, and employees' perceptions of a situation as well as the competitiveness of the performance based rewards in the

organization. In particular, cognitive affective theory proposes employees' personalities will determine the emphasis individuals place on certain attributes of their work environments when forming job attitudes. Based on this perspective, employees' reactions to fairness and reward imbalance in their work environment will vary based on their personality traits. Dash et al. (2008) report that the factors of recognition for performing well, chances of promotion, professional growth, compensation and incentive schemes, and rewards and gifts are perceived as motivating factors by organizational employees. Drucker (1988) on his part regarded the development of systems of rewards, recognition and career opportunities as one of several critical tasks of management in the information-based companies. He named respectful treatment and recognition as one of the six less costly and perhaps more effective management levers' to be exercised by management in their efforts to attract, motivate and retain workers.

Ramakrishna (2002) opines that recognizing contributions will result in a world class working environment that motivates and propels people to work better and stay on. He suggests that the implementation of golden banana concept i.e. immediate reward schemes is one of the parameters in the direction of reducing employee attrition and further stresses that the lack of recognition is one of the serious demotivators for the employees. Tripathy (2006) suggests that strategies like building a high degree of recognition value into every reward offered, reducing entitlements and linking as many rewards as possible to performance, troubleshooting the reward system to make sure that what it is rewarding is what you really want to happen, rewarding promptly, giving employees a choice of rewards, increasing the longevity of rewards will motivate the employees. Srikanth and Ramamirtham (2008) suggest that the recognition of

innovations will ultimately reduce attritions and as such establishing correct expectations during interview along with rewards and recognition can check attrition.

According to Elkins and Keller (2003) the relationship between an employee behaviour and firm performance are theorized to be moderated by situational variables which includes the characteristics of the task, environment, and subordinates. Sanda (2011) argued that desirable workplace transformations will require that all persons associated with a transformation organization are clearly informed and their understanding on the nature of the expected changes and the relationship between leadership and change also sought. Otherwise, any progress in such transformation will encounter unlimited constraints and may even regress. Even though considerable effort might be expended on such transformation, the result will be very little with the desired future success becoming elusive. This means that the characteristics of employees can influence the effectiveness of directive leadership behaviours.

House and Javidan (2004) as described this observation to argument that individuals have implicit beliefs, convictions, and assumptions concerning attributes and behaviours that distinguish leaders from followers, effective employees from ineffective employees, and moral employees from evil employees. They explained that such beliefs, convictions and assumptions characterize the individual's implicit theories of perception. This theory proposes that perception qualities are attributed to individuals, and those individuals are accepted as for example leaders on the basis of the degree of congruence between the leader behaviours they exhibit and the implicit leadership theory held by the attributers.

The perception process is subjective, judgmental and easy distorted. For example when presented with incomplete stimuli, a perceiver will fill in the missing information or when overloaded with information, perception simplification is done to make the information more understandable. The interpretation process is also subject to several factors in organization and social setting the most common being halo effect where a single favourable trait biases perception on other stimuli, stereotyping which is the tendency to judge people, impression and interference where judgement is done on the basis of the action.

Employee participation is the degree to which employees believe they can make decisions about how they do their work (White and Ruh, 2003). When employees believe they have the ability to participate in decisions, research suggests there will be a positive impact on the work environment (Sullivan, 2002). Employee participation may lead to additional interactions with management and could provide new opportunities for employees to develop trust in management. Involved employees may also be more likely to believe they can impact or initiate changes in the organization and to perceive the organization as adaptive to change. Four survey questions addressed employee participation.

Trust in management refers to the psychological contract established between individuals and organizations based on the messages an employee receives regarding organizational expectations and employee perceptions of desired managerial actions. Prior research has established that trust in management can be manifested in employee behaviors and attitudes (Kramer and Tyler, 2005). Other researches also suggest that the effectiveness of a manager, especially during a change effort, may depend upon gaining the trust of their employees. This variable examines whether management encourages employees to offer creative ideas and suggestions for work

improvements, supports the improvement efforts, and then rewards employees for the resulting improvements. A work environment where management is supportive of suggested employee changes provides a foundation for open employee participation and involvement.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

The study adopted a descriptive survey research design. The reason for using this design of study was because descriptive research determines and reports the way things are. In addition, this research design is deemed appropriate for this study because it allowed the researcher to draw conclusions about the variables under the study without the interviewee being manipulated and thus allow the measurements to be fully controlled.

3.2 Population

The population of the study consisted of all the employees of KenGen Co. Ltd. According to the organizations human resource department, there were 1850 employees in the organization as at 31st July 2012.

3.3 Sample Size

A sample of 360 employees was used. The employees were selected using a proportionate stratified sampling technique in which every 5th employee on the list of staff will be picked. The size is considered adequate as 20% of staff in each stratum were selected (Kotter, 2005).

3.4 Data Collection

The study used primary data which were collected through self-administered questionnaires. The questionnaire consisted of three sections; Section A covered the demographic data of the

respondents, Section B was on rewards and Section C focused on the perception of employees on the organizations performance-based rewards. The questioners were administered using the drop and pick later method.

3.5 Data Analysis

The data was analyzed by the use of descriptive statistics. Descriptive statistics techniques including mean, frequencies, modes and standard deviations were used to classify the responses on the human resource challenges in the target organization and determine the competitiveness of performance based rewards. The outcomes were presented in tables, charts and graphs to provide pictorial view. A factor analysis was carried out to establish the critical factors that influenced the competitiveness of the reward system in organizations.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

Of the 360 questionnaires issued out, only 297 were returned. This represented a response rate of 83%.

4.2: Demographic Data

The demographic information considered in this study was respondents cadre, gender, highest level of education attained, age bracket and length of continuous service with the company.

4.2.1 Respondents Cadre

The respondents were requested to indicate their current employment cadre. The results are presented in Table 4.1.

Table 4.1: Respondents Cadre

1	Cadre	Frequency	Percent
2	Senior management	12	4.2
3	Middle level management	57	19.2
4	Lower management	139	46.7
5	Unionisable	89	29.9
6	Total	297	100.0

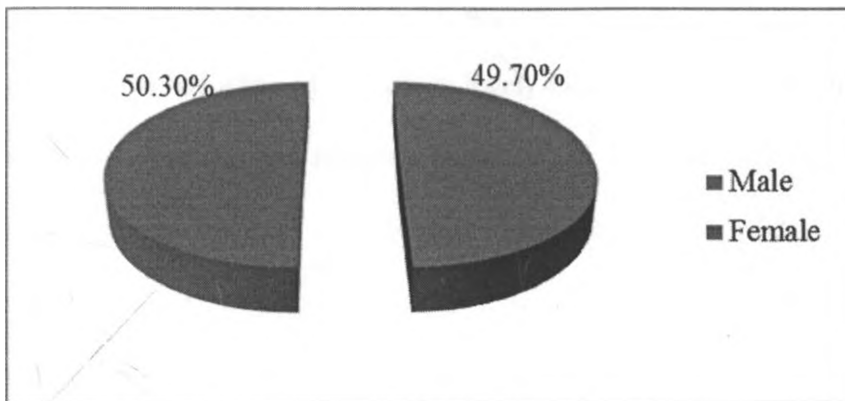
The results in Table 4.1 indicate that 46.7% of the respondents were in the lower level of management, 29.9% of the respondents were unionisable, 19.2% were in the middle level of management while 4.2% of the respondents were in senior management level. The results

indicate that the respondents were from all the cadres in the company and therefore the results of the study represent the views all employees.

4.2.2 Highest Level of Education

The respondents were asked to indicate the highest level of education in which they have attained. The results are presented in figure 4.1.

Figure 4.1: Highest level of education



The findings in Figure 4.1 indicate that 50.3% of the respondents were female while 49.7% were male. This therefore means that majority of the respondents were female but the difference is not significant.

4.2.3 Highest Level of education attained

The respondents were asked to indicate the highest level of education they have attained and the results as presented in table 4.2.

Table 4.2: Highest Level of education attained

Education Level	Frequency	Percent
Primary	5	1.8
Secondary	133	44.9
Bachelor degree	128	43.1
Master's degree	31	10.2
Total	297	100.0

The findings on Table 4.2 on the highest level of education attained was that 44.9% of the respondents had attained secondary level, 43.1% of the respondents had bachelor degree, 10.2% indicated that they had master's degree while 1.8% of the respondents indicated that they had attained primary level of education as their highest education. Although majority of the employees have attained university level of education, there is a significant high number of employees with no specific training or skills.

4.2.4 Respondents age bracket

The respondents were asked to indicate their age bracket and the results are as presented in Table 4.3.

Table 4.3: Respondents age bracket

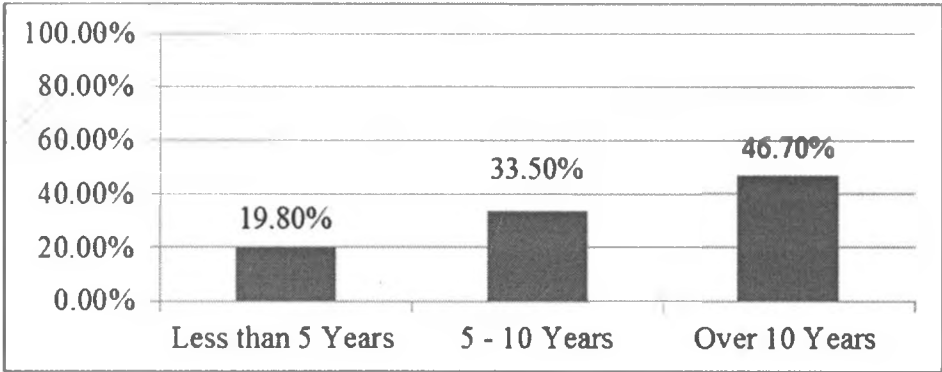
Years	Frequency	Percent
Less than 30	20	12.0
31-40	68	40.7
41-50	54	32.3
Over 50	25	15.0
Total	167	100.0

The results in Table 4.3 on the respondents age bracket was that 40.7% of the respondents were 31 – 40 years old, 32.3% were 41 – 50 years old, 15% of the respondents indicated that they were over 50 years, while 12% were less than 30 years old. Majority of the respondents were over 30 years an indication that they have been in employment for some time and they understand the need for performance based rewards.

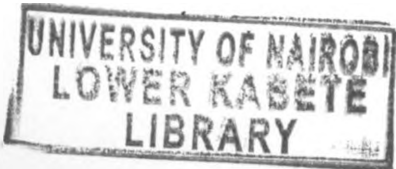
4.2.5 Length of continuous service

The respondents were requested to indicate the duration of time they have been working in the company. The results are presented in Figure 4.2.

Figure 4.2: Length of continuous service



The findings Figure 4.2 indicate that 46.7% of the employees have worked in the company for more than 10 years, 33.5% indicated that they have worked in the organization for 5-10 years while 19.8% said they have worked in the company for less than 5 years. The findings indicate that majority of the respondents have worked for more than five years in the company and thus they understand the company well in regard to the competitiveness of performance based rewards.



4.3 Rewards

Employee rewards are concerned with both financial and non-financial rewards and embraces the philosophies, strategies, policies, plans and processes used by organizations to develop and maintain reward systems. A reward, tangible or intangible, is presented after the occurrence of an action (behaviour) with the intent to cause the behaviour to occur again.

4.3.1 Use of rewards by the organization

The respondents were asked to indicate the rewards that are used by the company. The results are presented in table 4.3.

Table 4.4: Use of rewards by the organization

Type of reward	Yes	No	Total
Base pay	100.0	0.0	100.0
Either house allowance or Housing	100.0	0.0	100.0
Medical cover	100.0	0.0	100.0
Leave allowance	100.0	0.0	100.0
Sick leave	100.0	0.0	100.0
Promotion	100.0	0.0	100.0
Training	100.0	0.0	100.0
Life Insurance	100.0	0.0	100.0
Retirement benefits other than the legally required like NSSF	100.0	0.0	100.0
Any personal services(negotiated bank loans, cafeteria, transport, mortgages among others)	100.0	0.0	100.0
Performance based pay	100.0	0.0	100.0
Hardship allowance	0.0	100.0	100.0
Lunch or lunch allowance	0.0	100.0	100.0
Long service reward	100.0	0.0	100.0

The analysis in table 4.4 shows that the respondents were aware of the rewards that the organization employs and consisted of basic pay, either allowance or housing, medical cover, leave allowance, sick leave, promotion, training, life insurance, retirement benefits other than the legally required like NSSF, any personal services, performance based pay and long service reward. Lunch or lunch allowance and hardship allowance was not used by the company as a reward. The results show that the organization has used all the above results in its reward system and this is geared towards increasing the competitiveness of the employees.

4.4 Competitiveness of Performance Based Rewards

Organizational competitiveness is concerned with the ability of the firm to be responsive and adaptable to change which will finally have an effect on the position of the firm in the marketplace. To achieve a level of competitiveness, an organization should aim to achieve the desired competitiveness through the use of all its internal resources, including its employees.

4.4.1 Satisfaction with work related issues

The respondents were requested to indicate their level of satisfaction with work related reward system and its influence on their competitiveness in a five point Likert scale. The range was 'strongly disagree (1)' to 'strongly agree' (5). The scores of strongly disagree have been taken to represent a variable which had a mean score of 0 to 2.5 on the continuous likert scale; ($0 \leq S.E < 2.4$). The scores of 'neither agree nor disagree' have been taken to represent a variable with a mean score of 2.5 to 3.4 on the continuous likert scale: ($2.5 \leq M.E. < 3.4$) and the score of both agree and strongly agree have been taken to represent a variable which had a mean score of 3.5 to 5.0 on a continuous likert scale; ($3.5 \leq L.E. < 5.0$). A standard deviation of >1.0 implies a significant difference on the impact of the variable among respondents.

The findings indicate that the company's employees were in agreement that they feel valued by the employer due to their work (mean 3.9281), good work entitles the employee to more money (mean 3.8922), commitment to employer is as a result of the appreciation demonstrated through the benefits (3.7246), reward system would not be the reason for leaving the company (mean 3.6928), retirement benefit scheme offered by employer is satisfactory and reflects current level of performance (3.6886), the organization pay on employee performance is at par with other equivalent players in the market (mean 3.6048), rewards offered by the employer are comparable with what the market offers (mean 3.5749), performance and meeting targets by employees leads to enhanced promotion chances (mean 3.5669), initiatives on the part of employees led to an increase of rewards (mean 3.5520), medical scheme offered by the employer is comparable to what is in the market and reflects level of employee performance (mean 3.5310) and that initiative plans offered by the employer are adequate and depends with ones level of performance (mean 3.5112). The results indicate that the employees were to a great extent satisfied with the rewards they receive from the company.

On the other hand the employees disagreed that the promotion policy of the organization is fair and equitable (mean 2.1557), the rewards system in the organization is predictable and is based on employee performance (mean 2.2275), employer embraces new compensation trends in the market depending on the employee performance (mean 2.2335) and that there is fairness and equity in the company exist on compensation practices (mean 2.3832). The low standard deviation variations indicate that the respondents were in agreement with the level of satisfaction with the performance based rewards the company offers its employees.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The study established that the performance rewards systems that is employed by the organization is varied and includes basic pay, either allowance or housing, medical cover, leave allowance, sick leave, promotion, training, life insurance, retirement benefits other than the legally required by for example NSSF, any personal service, performance based pay and long service reward. These types of rewards can be considered to be varied and are intended to cater for the needs of staff both at the work place and also outside the workplace, during health and sickness for both the staff and the immediate family members. with such a varied reward system that caters for the needs of all the staff in almost all there working conditions, it is intended to have a motivated workforce that will give their attention and effort to the realisation of the organizations objective. With a motivated workforce, it is expected that the organization will witness a reduced labour turnover since staff will consider the rewards offered as a motivating factor for them to stay in the organization.

The study found out that the performance based rewards which are in use in the company were meant to make employees satisfied and in the process deliver their services to their utmost capacity with the result being the realization of the firms objective. A good work by the employee entitles them to more money and the realize the employee commitment the employer should come up with a competitive appreciation that is demonstrated through the benefits. The study found out that a reward system per se would not be a good reason enough for an employee

to leave a company and the at present, the rewards that KenGen offers is considered competitive by the employees. The retirement benefit scheme that is offered by the employer is considered satisfactory and reflects current level of performance and at the same time the organization pay on employee performance is at par with other equivalent players in the market. The study found out that the rewards offered by the employer are considered to be comparable with what the market players in the same category with KenGen is offering and that employee initiative was found to an increase rewards. The study also found out that for an organization to achieve its objectives through its staff, it needs to come up with a competitive reward system. Generally, the study found out that in the case of KenGen, the present day level of rewards is considered competitive by the employees and commensurate with the work and services they offer.

However, the findings showed that a number of aspects touching on employee satisfaction such as performance based rewards are not accorded adequate attention at the company. These include the promotion policy of the organization being fair and equitable and also the suggestion that employer embraces new compensation trends in the market depending on the employee performance and there being fairness and equity in the company on compensation practices.

5.2 Conclusion

Employee reward compensation system is an important mechanism that can be used by a company to motivate its employees to offer their services to their utmost capabilities. The reward system should not only be considered to be competitive by the employer but also from the employee point of view. The outcome of employees effort will be at the same time be influences by both factors within the working environment conditions as well as factors outside the work

place such as employees' family. In this regard, the reward compensation system need to be varied such that it will motivate both the staff and their immediate family beneficiary.

An organizations reward system should also commensurate with the effort that each individual staff offer as well as be at par with other firms of the same standard that operate in an economy. This can be achieved if frequent surveys are contacted to establish how competitive the organizations reward system is. This survey should be undertaken from both employees point of view as well as from external stakeholders to give their views on the level of competitiveness. It can also be concluded that an organizations compensation system should not only be financial but also non financial since the study showed that employees appreciate non financial rewards in equal measure to the financial rewards. The study found out that the competitiveness of the company was achieved through the adoption of rewards system that result in a world class working environment that motivates and propels the employees to work better and stay on.

5.3 Recommendations

The study found out that the employees in the company were not satisfied with some of the rewards being implemented by the company. It is recommended that the management and the board should work to ensure that promotion policy of organization is fair and equitable, there being fairness and equity in the organizations compensation practices and also that the rewards received from employer commensurate to work delivered by the employees. Equity in the reward system should also be observed since when there is glaring differences in the rewards of staff who are thought to be in the same cadre or a wide difference between any two successive cadres will lead to a dissatisfied employees.

The study established that the company has adopted various rewards systems in order to motivate its employees. It is recommended that other companies should follow the trend which has been set by the company as these would create a positive employee attitude which is vital to achieving organizational goals.

5.4 Suggestions for further research

The study confined itself to Kenya Electricity Generating Company Limited. This research therefore should be replicated in other public companies and the results be compared so as to establish whether there is consistency among the public companies on employee perception on competitiveness of performance based rewards in Kenya. In addition, a study on the relationship between employee reward system and organizational performance can be undertaken to establish the role of employee reward system on the financial performance of a firm.

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APPENDIX I
COVER LETTER

Miriam N. Mutuku

School of Business, University of Nairobi

P.O BOX 30197, Nairobi

August, 2012

Dear Respondent,

I am a postgraduate student at the University of Nairobi, School of Business. I am carrying out research on “Employee Perception on Competitiveness of Performance Based Rewards in Kenya Electricity Generating Company Limited, Kenya”. This is in partial fulfillment of the requirement for the degree of Masters in Business Administration (Human Resource Management) Degree program at the University of Nairobi.

This study uses Kenya Electricity Generating Company Limited as a case study. The success of this research substantially depends on your help and co-operation.

I hereby request you to respond to the questionnaire as honestly as possible and the best of your knowledge. The information provided will exclusively be treated with utmost confidence; neither your name nor any other details shall appear in my report.

Thank you in advance,

Yours sincerely,

Miriam N. Mutuku
(Student)

George Omondi
(Supervisor)

APPENDIX II

QUESTIONNAIRE

Please give answers in the spaces provided and tick (✓) in the box that matches your response to the questions where applicable.

PART A: DEMOGRAPHIC AND RESPONDENTS PROFILE

1.) Name of the respondent (Optional):

2.) What cadre of staff do you fall under?

a) Senior Management ()

b) Middle level Management ()

c) Lower Management ()

c) Unionisable ()

3.) Gender: male () Female ()

4.) Highest level of Education and training attained?

a) Primary [] b) Secondary []

c) Bachelors Degree [] d) Masters Degree []

5.) What is your age bracket? (Tick as applicable)

a) Under 30 years () b) 31 – 40 years ()

c) 41 – 50 years () d) Over 50 years ()

6.) Length of continuous service with the organization?

a) Less than five years ()

b) 5-10 years ()

c) Over 10 years ()

PART B: REWARDS

7) Please indicate whether your organization uses the following rewards by ticking (√) yes where it is used **or** no where it is not used:

NO.	TYPE OF REWARD	RESPONSE	
		YES	NO
a	Base pay		
b	Either House allowance or Housing		
c	Medical cover		
d	Leave allowance		
e	Sick leave		
f	Promotion		
g	Training		
h	Life Insurance		
i	Retirement benefits other than the legally required like NSSF		
j	Any Personal services (e.g. negotiated bank loans, cafeteria, transport, mortgages among others)		
k	Performance based pay		
l	Hardship Allowance		
m	Lunch or lunch allowance		
n	Long service reward		
o	Any other reward		

PART C: Competitiveness of Performance Based Rewards

8). I am satisfied with the following reward-related issues: Please indicate the extent to which you agree with the issues (Tick in the appropriate space)

KEY: SA– Strongly agree (5) A –Agree (4) N–Neutral 3) D – Disagree (2) SD- Strongly Disagree (1)

Seq	issue	Response				
		Strongly agree	Agree	Neither agree nor disagree	disagree	Strongly disagree
a	Doing good work entitles the employee to more money					
b	The organizations pay on employee performance is at par with other equivalent players in the market					
c	Performance and meeting targets by employees leads to enhanced promotion chances					
d	Fairness and equity in the organizations exist on compensation practices					
e	Initiatives on the part of employees led to an increase of rewards					
f	The promotion policy of my organization is fair and equitable					
g	The rewards system in the					

	organization is predictable and is based on employee performance					
h	Because of my work, I feel I am valued by my employer					
i	My commitment to my employer is as a result of the appreciation demonstrated through the benefits I receive					
j	The rewards offered by my employer are comparable with what the market offers					
k	The incentive plans offered by my employer are adequate and depends with ones level of performance					
l	The retirement benefit scheme offered by my employer is satisfactory and reflects my current level of performance					
m	The medical scheme offered by my employer is comparable to what is in the market and reflects my level of performance					
n	My employer embraces new compensation trends in the market depending on the employee performance					

THANK YOU FOR YOUR TIME