

**INFLUENCE OF COMPENSATION PRACTICES ON
PERFORMANCE OF EMPLOYEES IN THE SAVING AND CREDIT
INSTITUTIONS IN NAIROBI CITY COUNTY**

Isaac Nyabuto Masea

**A Research Project Submitted in Partial Fulfillment of the Requirement
for the award of The Master Degree of Business Administration (MBA)**

School of Business, University of Nairobi.

November, 2016

DECLARATION

This research project is my original work and has not been presented for another degree or my other qualification to any other university or institution.

Signature.....

Date.....

Isaac Nyabuto Masea

REG NO: D61/70847/2014

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

Signature.....

Date.....

Prof. Peter K' Obonyo

Department of Business Administration,

School of Business,

University of Nairobi.

ACKNOWLEDGEMENT

I glorify the Almighty LORD for giving me strength with divine inspiration as a means to undertake master of Business Administration course and all those who helped me in one-way or the other.

Many thanks to my supervisor for the patience during this time of research period. You gave me the chance to see my best side.

Appreciation to my colleague's students and lecturers of the University of Nairobi fraternity for the great support and guidance during my studies.

My special thanks goes to my parents and siblings for the encouragement, moral and social support for this entire period of my studies.

DEDICATION

This project is dedicated to my siblings. May you go beyond this! God may provide you strength and divine inspiration to achieve your best dreams.

TABLE OF CONTENTS

DECLARATION	ii
ACKNOWLEDGEMENT	iii
DEDICATION.....	iv
TABLE OF CONTENTS	v
LIST OF TABLES.....	ix
LIST OF FIGURES.....	x
ABBREVIATION AND ACRONYMS.....	xi
ABSTRACT.....	xii
CHAPTER ONE.....	1
INTRODUCTION	1
1.1 Background of the Study	1
1.1.1 Compensation Practices.....	3
1.1.2 Organizational Performance	4
1.1.3 Compensation Practices and Organizational Performance	5
1.1.4 Savings and Credit Co-operative Societies Registered with SASRA	6
1.2 Research Problem	7
1.3 Research Objective.....	10

1.4 Value of the Study	10
CHAPTER TWO.....	11
LITERATURE REVIEW	11
2.1 Introduction.....	11
2.2 Theoretical foundation	11
2.2.1 The reinforcement Theory.....	11
2.2.2 Expectancy theory.....	12
2.3 Compensation Practices	12
2.4 Measures of Organizational Performance.....	14
2.5 Compensation Practices and Organizational Performance.....	15
CHAPTER THREE.....	18
RESEARCH METHODOLOGY.....	18
3.1 Introduction.....	18
3.2 Research design	18
3.3 Study Population	18
3.4 Data Collection Procedures and Instruments	19
3.5 Data Analysis.....	19

CHAPTER FOUR	20
DATA ANALYSIS, RESULTS AND DISCUSSION	20
4.1 Response Rate	20
4.2 Background Information of the Respondents	21
4.2.2 Respondent’s department.....	21
4.2.3 Respondent’s designation	22
4.2.6 Respondent’s working period.....	24
4.3 Types of compensation systems	24
4.4 Compensation Programs in the SACCOs.....	25
4.4.1 Equity-Based Compensation	26
4.4.2 Equity Based Compensation and Employee Performance	27
4.4.3 Competency Based Pay Affect the Productivity of the SACCO.....	29
4.4.4 Effect of Competency Based Pay on the Employee Productivity	30
4.4.5 Incentive pay Compensation program	31
4.5 Compensation Practices and employee Performance	33
CHAPTER FIVE.....	35
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.....	35

5.1 Introduction	35
5.2 Summary of the Findings	35
5.3 Conclusion	37
5.4 Limitations of the study	38
5.5 Policy Recommendations	39
5.6 Area for Further Research	40
REFERENCES	41
APPENDICES	45
Appendix I: Introductory Letter	45
Appendix I: Questionnaire	46

LIST OF TABLES

<u>Table 4. 1: Response Rate</u>	20
<u>Table 4. 2: Respondents' Age Bracket</u>	22
<u>Table 4. 3: Respondents by length of service</u>	24
<u>Table 4. 4: Compensation Programs in the SACCOs</u>	25
<u>Table 4. 5: Equity-based Compensation Influence Employees Productivity</u>	26
<u>Table 4. 6: Equity Based Compensation and Employee Performance</u>	27
<u>Table 4. 7: Effect of Competency Based Pay on the Employee Productivity</u>	30
<u>Table 4. 8: Incentive Pay Compensation Program</u>	31
<u>Table 4. 9: Analysis of effect of Compensation Practices on employees Performance</u> ...	33

LIST OF FIGURES

Figure 4. 1: Gender Respondents	21
Figure 4. 2: Respondents Highest Level of Education	23

ABBREVIATION AND ACRONYMS

FOSA	- Front Office Services Activity
FSD	- Financial Sector Deepening
HRM	- Human Resource Management
SACCOs	- Saving Credit and Cooperative societies
SASRA	- Societies Regulatory Authority (SASRA)

ABSTRACT

Saving and Credit Cooperative societies (SACCOs) are adopting human resources practices such as compensation that are more attractive to employees of microfinance institutions. The business of credit institutions is unique in aspects such as group lending and therefore the loss of one employee through poaching or suitable replacement for effective on portfolio management. Sacco's institutions are facing competition in the market and this influence hiring competent employees. Despite adoption of human resource practices by SACCOs, so little but scanty study had been done focusing on compensation practices of performance on employee in SACCOs. The objective of the study was to determine influence of compensation practices on employee in regulated SACCO sector in Nairobi City County. The research done was descriptive research design in nature. The population targeted was comprised 33 SASRA SACCOs in Nairobi City County. The information collected was through questionnaires which could both quantitative and qualitative information data. The research revealed that regulated SACCOs had adopted various employee compensation programs such as direct remuneration and indirect payment for services rendered by the employee through commission, allowances and bonus, insurances schemes for health, dental, life, disability and vision and retirement benefits. It was found that compensation programs implemented by SACCOs focus on influencing employee performance as agreed. It was concluded that regulated SACCOs had adopted variable compensation pay program in rewarding of employees to improve performance. The study concluded that regulated SACCOs adopted equity-based compensation programs such as salary variation which influence long-term employee's productivity. The study concluded that regulated SACCOs adopted competency based pay which the productivity of the SACCO to a very great extent. The study concluded that adopted compensation practices which were matching with financial payment in improving productivity. The study concluded that regulated SACCOs implemented incentive pay compensation programs such as allowances, eliminate pay inequalities, pay employees on leave motivating employees paying overtime, paying compression as optimal on strict efficiency grounds influencing employee motivation.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The success or failure of any organization is dependent upon human resources. This is because other resources such as machines and equipment are inert factors, but human resource is not. Humans think, conceive, perceive, plan and interpret; thus, they are thus the most important resources for any organization (Waweru, 2007). Khatri (1999) argued that people are the most important factors in provision of flexibility and adaptability to organizations. Effective Human resource management requires sound human resource management of (HRM) practices. Various debates have been fronted by authors regarding the importance of human resource practices. Fisher, Shoenfedt & Shaw (2006) have pointed out that human resource practices are important in helping organizational management to anticipate the need for labor supply in order for an organization to ensure that it has the right mix of employees and skills when and where they are needed.

Compensation of employees plays important role since it's at the heart of the employment relationship, being vital to both employers and employees. Literally, employees typically rely on salaries, wages and among other factors to provide large income share and on benefits to provide health security and income (Milkovich, & Newman, (2002). Compensation decisions influence the employees cost of doing business thus, their competitive price selling ability in product market. Compensation decisions also influence the the ability of the employer to adequately compete for

employees in labor market ie retain and attract, including their behaviors and attitudes when dealing with the employer (Chhabra, 2001).

According to Huselid (1995), a comprehensive mix of compensation supported by an disbursement system plays a vital role in attraction of the best candidates, employees shaping, behavioral and performance outcome, and facilitation of talents retention. Competencies application leads to performance enhancement and improvement of effectiveness. Jackson and Mathis (2004) argued that a fair, balanced and competitive compensation and reward system do affect employees' retention and positively affecting performance of the firm.

The study done by Chiu et states, that an effective reward and compensation system leads to increase in sales, reduction of staff turnover, and improvement of the performance of the firm. Armstrong (2002) asserts that the rewards' aim management is support and attainment of the organizations' short term and strategic objectives by ensuring it has competent, skilled, committed and well-motivated needed work force. Reward systems vary (Mathis & Jackson, 2004) and they affect performance differently.

Compensation practices are adopted in banking institutions in Kenya (KUSCCO, 2015). Saving Credit and Cooperative societies (SACCOs) are setting new compensation systems as it faces high competitive in banking market (Sexton1986),). The credit unions operations are the very sensitive businesses globally. SACCOs play a vital role in the economy of Kenya. There is a need to determine impact of human resource practice on employee performance in Saving Credit and Cooperative societies (Wambugu, Stephen & Maina, 2008).

1.1.1 Compensation Practices

Compensation practices have been designed traditionally in attraction and retention employees and motivating them to increase output and effort towards achievement of goals of the organization. (Bergmann & Scarpello, 2001). Compensation practices should help in facilitation of the achievement of organizational objectives and to be effective, they must concur with the strategic plan cost effectiveness in relation to input-output ratio; that is within the ability of the firm to pay total compensation increase levels should be correlated with organizational goal's measure of achievement whether it led to productivity increment, retention of employee, compensation ,profitability or any strategic objective of the organization. In an increasing global competition environment, an organizations' success is influenced by international employees' quality. Compensation systems which attract, motivate and retain individuals who are outstanding into assignments can significantly impact on strategic goals' achievement. Compensation is carried out along time dimensions, culture, space and government policies (Jones, 2000).

Pay of variable be presented in many forms. (Abbott,1992). One characteristic of variable pay is that different employees' classes are normally offered different incentives' types or variable compensation .The organizations' ability to respond complex challenges and changes is greatly improved. Flexibility in variable pay allows employees' performance rewarding that which contributes to the success of the organisation. (Khalid, Rehman & Ilyas, 2014).). In addition, variable pay enables better compensation control costs during periods when the organization is less successful. Variable pay help in facilitation of the employee business partnership by linking of both parties fortunes in a positive manner.

(Dulworth, 1995) A major variable pay aspect is that part of pay is put at risk that portion is distributed evenly according to company's division, team performance and individual performance. Instead of issuing yearly merit increases to individuals, partially based on the previous year's increase in compensation, the company essentially makes an agreement with the employee.

1.1.2 Organizational Performance

High-performance organizations tend to have more precise approaches to customers and necessary infrastructure building and processes to boost their customer approach support. Thirdly, high-performance organizations tend to be specific about the behaviors employees need to exhibit to conduct the organization and departmental strategies (Milkovich, & Newman 2002). Fourthly, high performance organizations' performance have strategy reinforcement processes, tasks and workflows that enable employees to effectively meet external and internal customer needs within strategy limits. According to AMA (2007) high performing organizations have a set of well-established values that are steering drivers employees' behavior that are well understood by all the employees. The beliefs are values embedded within the organization and are consistent with the company's leadership approach.

(Horngren, Foster, & Datar, 2000). The ultimate business organizations' goal is maximization of wealth for stakeholders and high financial performance. (Katou & Budhwar, 2007) Despite this, attainment of the organization's goals depends on how organizational performance is reached. Effectiveness generally indicates organizational performance efficiency i.e. proper resource utilization, employees and customers

satisfaction, innovation, products and services quality, and ability maintenance of a unique human pool ability. This was supported by (Katou & Budhwar, 2007)

The organizational variables of performance presented in the study included features such as customer satisfaction, product quality, product development, employees attraction ability, employees retention ability, and relationship between employees and management . According to the earlier studies (Singh, 2004), the respondents were asked to do an assess of performance in their organizations in comparison to.of their competitors' performance.

1.1.3 Compensation Practices and Organizational Performance

Compensation systems are an integral part of the relationships organizations establish with their employees. If human beings are no compensated and motivated well, they will not effectively contribute to the control and management of materials and other resources for organizational goals' attainment (Khalid, Rehman. & Ilyas,2014). Well compensated employees highly contribute to growth of organisation and wealth creation for both organization and its shareholders. Majority of successful organizations engage in total employee compensation for attainment of goals of the organisation (Qureshi, Ramay, & Marwat, 2006).

Best paying programs to best performers do communicate to satisfactory performers the benefits of better performance and acceptance. The plans communicate also to less satisfactory performers that they must improve their performance or else they get encouraged where their abilities match organizations' expectation (Dessler, 2008)..Best company performers rewarded better and result retained by behaviors reinforcement that

gives them an edge in their industry thus organizations more competitive than competitions (Tabiu & Nura, 2013).

1.1.4 Savings and Credit Co-operative Societies Registered with SASRA

SACCOs in Kenya are required to have their financial statements audited at the end of the financial year by law. Although most SACCOs comply with the requirement, financial statements sometimes not available on a monthly basis (Bwoma, 2003). Moreover, the financial position of most SACCOs is not accurately reported since many statements are not compliant with accepted accounting practices. For transparency, SACCOs are supposed to provide timely financial -updates to their members and external auditors and they should be evaluated every three to five years using a competitive bidding process. An independent and qualified external auditor assures members and the general public about the authenticity of the SACCOs' books of accounts. SACCOs are required to comply with standards set by the regulatory body (Milkovich, & Newman, 2002).

Over the years, Kenyan SACCOs have catered for the needs of their membership. However, SACCOs are facing competition from banks which is further compounded by governance and financial management challenges. These issues have tainted the image of the SACCO sector. The board is the overall governing authority of a SACCO consisting of elected officials who oversee the running of the cooperative (WOCCU, 2009). While this process was put in place to ensure members are empowered to run their SACCO, there are several shortcomings related to this practice. Of concern is when elected officials are not necessarily qualified to assume leadership positions and fiduciary

responsibilities. This has contributed to a myriad of problems which many Kenyans have lost their savings due to bankruptcy of SACCOs because of weak financial management and governance. This failing is further complicated by the fact that the sector is not adequately regulated (FSD, 2009).

The introduction of FOSA has positively contributed to SACCOs' performance through profitability improvement which has resulted to high dividend rates declaration its members (IFSB, 2005). The government of Kenya established The SACCOs Societies Regulatory Authority (SASRA) under the Ministry of Marketing and Cooperative Development in efforts to reform SACCOs and ensures existence of public confidence towards the SACCOs sector and boosting the economic growth of Kenya through the mobilizing domestic savings (Ministry of Co-operatives and Marketing, 2008).

SACCOs that adequately compensate employee's influences to employee's voluntary turnover so as to compare to available pay in other credit unions. The highly compensated employee is advantageous for their company and leads organizations towards achievement of its objectives (Ali& Rizal, 2010). Compensation indicate the is benefit and output received by the employee inform of; wages, pay and monetary exchange rewards for the employee's increment of productivity .

1.2 Research Problem

Compensation is part of human resource management practices which is known as employee remuneration (Maimunah, 2015). It is a main need in the life of employees (Qureshi & Sajjad, 2015). Compensation disparities together with their consequences had been an economic research topic for long. Whereas many papers focus in description of

the development of compensation differences over time and seek identification of the reasons for observed patterns, little attempts have been in influence analysis of pay inequalities on economic outcome (Ratneser, 2000). According to Rogers and Ryals (2005), who studied the variable pays' impact on performance of account managers revealed that high levels of commission or bonus contribute to manager commitment and execution of tasks as expected. This was supported by Mcshane and Travaglione, (2007) asserts that compensation programmes is the process that arouses, energizes, directs, and sustains employees commitment behaviour and attaining of employees performance. They also argue that variable pay can leads concentration of efforts by sales staff on the picking of low hanging fruit instead of strategic sales. The view was also supported by Mphil (2014) who carried out a study on impact of compensation on employee performance. It is founded from different results that salary, rewards, indirect compensation has positive impact on employee performance.

Compensation disparity has received much attention recently. Various researchers have studied patterns of wealth and income inequalities and related consequences (Lehmann and Wacker, 2000).. DeBrock et al., (2001) also stated that low-powered incentives as cooperation requirement among the team members, owners tend to pay rather equal wages not closely related to differences in performance of individuals.

Studies in Kenya on compensation practices show that in spite of significant advances in human resource management in the last two decades the adoption of human resource management practices in banking institutions has been on the rise. Omoro, (2008) indicated that credit unions are enhancing career planning, employee training ,

compensation and recruitment to improve employee productivity. Nguku (2008) further indicated the microfinance institutions are instituting clear training and development programs as well as employee Performance Appraisal with a view of enhancing employee's performance and achieving competitive advantage in the long term.

SACCOs are adopting human resources practices such compensation practices that are more attractive to employees of microfinance institutions. The business of the SACCOs institutions targets a market segment that constitutes about 70% of population, hence the need to efficient decision that influences employee performance (SASRA, 2015). The business of credit institutions is unique in aspects such as group lending and therefore the loss of one employee through poaching or otherwise can have a devastating effect on portfolio management. SACCO's institutions are facing competition in the market and this influence hiring competent employees (Milkovich, &Newman, 2002).

Kenya is viewed as under researched in the compensation practices (Aycan 2010). In Kenya, most studies mainly focused banking sector, telecom sector and public sector but credit sector of Kenya requires great attention in determining the relationship between HRM practices and performance of the employee. Despite adoption of human resource practices in SACCOs, there has been scanty study that has focus on determine the impact of human resource practices on employee performance in SACCOs. This study sought to fill the existing knowledge gap by answering the question what is the influence of compensation practices on organizational performance in regulated SACCO in Nairobi County?

1.3 Research Objective

To determine influence of compensation practices on organizational performance in regulated SACCO in Nairobi County

1.4 Value of the Study

The contributions of this study are considered vital in providing insights to the various compensation practices needed on performance of employees in the SACCOS in Nairobi City County. The study shall assist management in SACCOS in understanding best compensation practices that are applicable on contribution and implementation toward employee performance. Exploring the influence of compensation practices in the SACCOS will provide an insight to management in SACCOS to identify the best compensation practices that will influence firm performance.

The study would be importance to compensation policy makers who will gain insight from the study on how compensation practices influence employee's performance in SACCOS institutions. This would provide new understanding on the impact of compensation practices on firm performance in credit unions industry.

The study will be significant to scholars and researchers in gaining knowledge on how compensation practices impact on employee performance. The findings of the study will provide the foundation for further study for instance impact of compensation practices on firm performance in Sacco's institutions.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

A review of relevant studies done by other researchers in the same field is presented in the chapter. Theoretical review, compensation practices and firm performance are widely covered. The chapter also presents the empirical review on human resource practices' impact and performance of firms in organizations.

2.2 Theoretical foundation

The relationship between HR practices with organizational effectiveness when examined theoretically show that HR practices do influence employee attitudes, behaviors perceptions, organizational climate and other performance measures of HR leading to effectiveness of the organisation. According to Bowen & Ostroff, (2004) theory on strength of the compensation system, consistency in employees pays and rewards systems, and perhaps the organization, than the sum of each compensation practices.

2.2.1 The reinforcement Theory

This motivation theory is based on the concept of Law of Effect which argues that an actions with positive consequences are likely to be repeated by individuals, those with negative avoid those with unpleasant outcomes (Tabiu & Nura, 2013). Consequence eliciting behaviors are called operant behavior and the reinforcement theory works on how operant behavior and the associated consequences relate therefore, is normally

referred to as Operant Conditioning. Operant conditioning which means, behavioral change resulting from given reinforcement after the response (Wambugu, Stephen & Maina, 2008). Reinforcement theory lays emphasis on environmental factors shaping the behaviors and thus, Skinner assumed that environment external to the organization and must be effectively designed so as to increase employees' motivation.

Thus, motivation' reinforcement theory focuses mainly on the outcome of an individual taking some action. It's observed, those activities which giving people pleasure are always repeated by people, while those with negative consequences tend to be avoided. (Milkovich & Newman, 2002)

2.2.2 Expectancy theory

Expectancy theory reinforcement theory, (Vroom, 1964) examines the relationship between behaviors and rewards although its emphasize are expected and not experienced rewards. Motivation is a two factor function; Expectancy, the perceived link between performance and effort, and valence, the outcomes value. Compensation systems vary according to their impact on these components of motivation. Instrumentality is determined by how it's affected by the pay systems: link between pay and behaviors, referred also as the pay literature line of sight. Pay outcomes valence should remain constant under different systems of pay. Oftenly, Expectancy perceptions dwell more with job training and job design than paying systems (Chhabra, 2001).

2.3 Compensation Practices

They are structured to attract, motivate and employees' retention in compliance with

legal regulations and rules. Compensation do not only refers to extrinsic rewards e.g benefits and salary but intrinsic such as personal goals achievement, job opportunities that are more challenging and autonomy (Carrell et al.,1995). Job valuation is used in systematic evaluation of jobs and assignment to grade payment. Standard evaluation methods include classification, ranking, point and comparison of factors. Pay systems are designed for compensating people's produced work, learnt and used skill, or the time spent on the job. Team-based, individual employee and wide systems of organisations such as sharing of profit and gained sharing are replacing increases in automatic pay to relate payments to performance. Compensation systems which are executive entail four components; bonuses, salary, benefits and long term- incentives.

Noe (2003), bonuses, wages and pay types have great influence on a living standard of the employees which carries two vital implications .Pay is a powerful motivating factor. An organization's success can be boosted by an effective pay strategy; equally, a poorly laid payment strategy can have negative effects. Secondly, the pays' relevance which means that employees care much about the fairness of process of pay. Thus pay programs must be administered in such that the employees understand their rationale and believe its fair.

Compensation is monetary value provision process to the employees for the performed duties. It used in hiring of skilled employees, rewarding the performance, encouraging company's loyalty through turnover reduction. It includes Overtime, Bonuses, basic pay Travel and Accommodation Allowances, Medical Allowance, Commissions and Sharing of profits. A recent studies done by Hay shows almost twenty percent employees in at

least five years plan to switch their current positions. Employee retention turnover is becoming a more prominent aspect of organizational life. Retention compensation strategies implementation has significantly grown over the last several years.

USA companies are moving towards strategically aligned and flexible paying systems with dynamic and complex business entities. This include, increased competency use type of pay, where payment is diverted to skills of a person and the skills contributing to success of the company than the job performed by individuals, and broad banding. An incentive program can be constructed in many ways. Majority compensation plans however focus on profitability and its related achievements with no or little incentives social responsibility.

Assuming that members of organisation compensation are considered as a whole structure and not a combination components determined separately, it would be misleading to scrutinize one employees' wage level find out appropriateness without putting it in competency' context (Lazear, 1995). Thus, the most vital question for each organisation is if a competency pay structure which pay higher good performance translates to positive, team performance consequences.

2.4 Measures of Organizational Performance

Organizational performance is a measurement method for the organization's success to ensure achievement in its goals which is presented in terms of growth and profitability, (Dreikorn, 1995) and Guest (2001) studied that as organizations link performance maximization with HRM practices, the HRM practices enhance the image of the organization, commitment to the organization and interpersonal relations. Organization'

success measured using many indicators i.e. quantitative and qualitative (Fry, 1998). This includes both non financial and financial performance. Performance measures can either be cost or non cost oriented and external or internal. Despite performance and non performance of the organisation being highly applied dependent variable in research of the organization, its unjustified and loosely defined (Wright and Rodgers, 1998). Performance is conceptualized traditionally in form of financial measures; though bigger construct of performance incorporating measures that are not financial just to mention a few ; product quality, market share and company image has been proposed by some scholars.

Financial measures of performance is criticized for lacking neutrality and encouraging short-termism. Most of the practices of management structured around the financial ones are not related with the progress of the company in achievement of long term objectives .They are also criticized for balance lack (Norton & Kaplan , 1996) since they focus more on physical assets and neglect perspectives of customers , and internal processes of the business.

2.5 Compensation Practices and Organizational Performance

Increased stock option plans' use for lowering employees' level is the most interesting variable trend. Stock options have for been significant for long components of compensation of USA top executives. However stock plans have recently have been expounded to employees of lower level. Several factors have been put forward for the expansion of these "broad -based option plans" (BBOPs). Stock- options are a way to make employee pay the performance of the firm which can increases employee s

performance and morale (Waite and Newsman, 1998.), and support the company in risk reduction, by compensation expense linking to output of the firm (Wiseman et .al, 2000.)

However, the most important trend is the increase in variable pay plans use. Variable pay plans refer to payments based on quantitative assessment or an objective of group, individual or performance of the company, not contributing to basic salary. This includes plans in gain sharing, bonuses, plans on stock basis, profit sharing. A report issued by Hewitt Associates on (August 28 2000), shows that 78 % of organizations currently surveyed have one variable payment type plan at least in place, up from the 70 % in 1999 and 47 % in 1990. Variable pay doesn't contribute to base salary, and thus much larger on average in any period, motivating and more noticeable. Variable payments being tied increasingly to team, unit, or performance of company, as opposed to performance of an individual, allowing individual rewarding by the organizations group or team hard work. Similarly, there declining merit pay use (Hewitt Associates, 2000). Emphasizing the relevance of fairness considerations, Lazier (1989), argues as follows (Levine 1993).

Compensation based on performance influences positively employee's output (Brown et .al, 2003). Huselid (1995) Employee performance and compensation and compensation firms are highly related. Integration of compensation and compensation system that enhances efficient and effective execution of duties by employees is demonstrated by a good HRM system (Wright, 2003).Huq and Moyeen (2001) studied the HRM practices among 92 large and medium businesses (private and public sector) situated in Bangladesh, Dhaka and only found 62% of organizations surveyed to possess HR/Industrial Relations (IR) department. HRM practices ten enterprises that were local

and private. involved in manufacturing listed under Dhaka Stock Exchange were critically studied by Akhter (2002) by measurement of correlation between opinions of employees in regard to HRM practices in their enterprises, education, experience and age. Mahmood ,(2004) the institutional context such as training system, regulatory frameworks, , national industrial relations system and overall societal context other than organizational contingencies had significant influence on HR development practices in Bangladesh.HR practices were also found to significantly impact on affective commitment in relation to Bangladesh (Azim &Haque, 2008) Thus, the above literature review shows that several studies have been done around the globally focusing on organizational performance and HR practices. However, very limited numbers of studies have been conducted on the impact of HR Practices on organizational performance in context of Bangladesh and other developing countries

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research Methodology in this chapter outlined the tools and techniques used in the research process. The researcher had indicated the procedure undertaken to conduct the study in this section, which included the study population, research design sampling method and procedures, data collection criteria, instruments used, data analysis and ethical issues.

3.2 Research design

The study adopted descriptive research design. Descriptive survey research shows persons' profiles, events, or account for the characteristics e.g opinions, behavior beliefs, abilities, and knowledge of particular individual, situations or group (Mugenda & Mugenda, 2003). This design was considered suitable because it helped in determining the compensation practices on the organizational performance in regulate SACCOs.

3.3 Study Population

It is population being targeted by researcher who wants to generalize the study results, (Mugenda & Mugenda, 2003). The target populations in a research study comprised 33 SASRA SACCOs in Nairobi County. The study respondents were human resource managers, assistance human resources officers and lower level human resources officers making a study population of 99 respondents working in the Human Resources Department in the SASRA SACCOs. Since the study population was small at 33 SASRA

SACCOs, the study carried a census study where all SACCOs were considered for the study as recommended by (Mugenda and Mugenda, 2003).

3.4 Data Collection Procedures and Instruments

Questionnaires were used to collect both qualitative and quantitative information. The study collected primary. Primary data was collected using semi-structured questionnaires, which also contain A 5 point Likert scale questions. The questionnaires were drop and pick method was used to administer questionnaires.

3.5 Data Analysis

SPSS was used to analyze collected data for easy analysis. Sorting and coding of data was done and descriptive statistics used in data analysis. The results were summarized and presented in tables and charts after analysis and computation of the data. The descriptive analysis techniques the frequencies, mean scores and standard deviations were also used in analysis of data. The study also used inferential analysis technique correlation analysis to establish relationship between compensation practices and performance of employee in SACCOs. Correlation analysis was used to establish whether there exist a significant correlation or association between compensation practices and employees performance in SACCOs.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

It presents results and discussion of the results based on the research objective which was to determine influence of compensation practices on organizational performance in regulated SACCO in Nairobi County. Data was analyzed using descriptive techniques such as standard deviation, means and frequencies. The inferential statistics and regression and correlation analysis was conducted to establish the relationship between variables. The findings are presented in charts and tables for ease of analysis and interpretations of findings.

4.1 Response Rate

Table 4. 1: Response Rate

Category	Frequency	Percentage
Questionnaires Distributed	99	100
Questionnaires Completed	89	89
Uncompleted Questionnaires	10	11

The study sample was 99 respondents. Response rate was 89 constituting 89% response rate. This is a commendable response rate.. This response rate was a sufficient response rate for the study. Mugenda and Mugenda (2003) indicated that a response rate of 50%, 60% or 70% of the response rate is sufficient for a study.

4.2 Background Information of the Respondents

This section present finding on respondent's gender, age, education level, cluster/category and professional qualification in project implementation process.

4.2.1 Gender Respondents

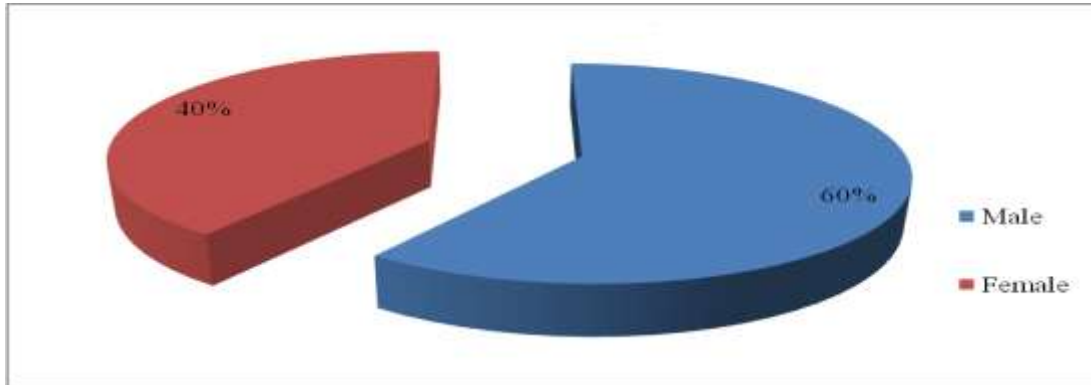


Figure 4. 1: Distribution of the Respondents by Gender

Respondents were asked to indicate their gender. From the findings, in figure 4.1, majority 60% were male while 40% were female. This implies that male respondents were more than female in the study. The findings demonstrated that male employees were the dominant workforce in the savings and credits institutions in Nairobi County.

4.2.2 Respondent's department

The respondents were requested to indicate the deployed departments in the SACCOS. From the findings, respondents were in finance department, supervision department, marketing, personal loans, public relations, human resources, operations and procurement

departments. From the findings, most of the respondents were in Information Technology, customer care, investments and holdings, general accounts and registry department. This implies that data was collected from actual respondents who were the employees in selected regulated SACCOs in Nairobi County and were in a position to give required information on influence of compensation practices on organizational performance in regulated SACCO in Nairobi County.

4.2.3 Respondent’s designation

The respondents were requested to indicate their designation. From the findings, majority were micro-credit managers, record managers, accountants, ICT managers, general managers, finance officers, customer care officers, marketing & Customer Relations Officer.

4.2.4 Age Composition

Table 4. 2; Age Bracket distribution of respondents

Category in years	Frequency	%
19- 24	5	6
30 – 34	36	40
35 – 39	44	50
40 – 49	4	4
Total	89	100

The respondents indicated their age bracket as indicated in Table 4.2. The results indicated that 50% were aged between 35-39 years of age and 40% of the respondents were aged between 30 – 34 years. The findings also indicated that 6% of the respondents were aged between 19-24 years old while 4% of the respondents were aged between 40-

49 years. This implied that regulated SACCO in Nairobi County employed staffs who were relatively young as they were aged between 19-49 years. This implied that the most reproductive human resource is considered in the regulated SACCO in Nairobi County.

4.2.5 Distribution of the respondents by Highest Education Level

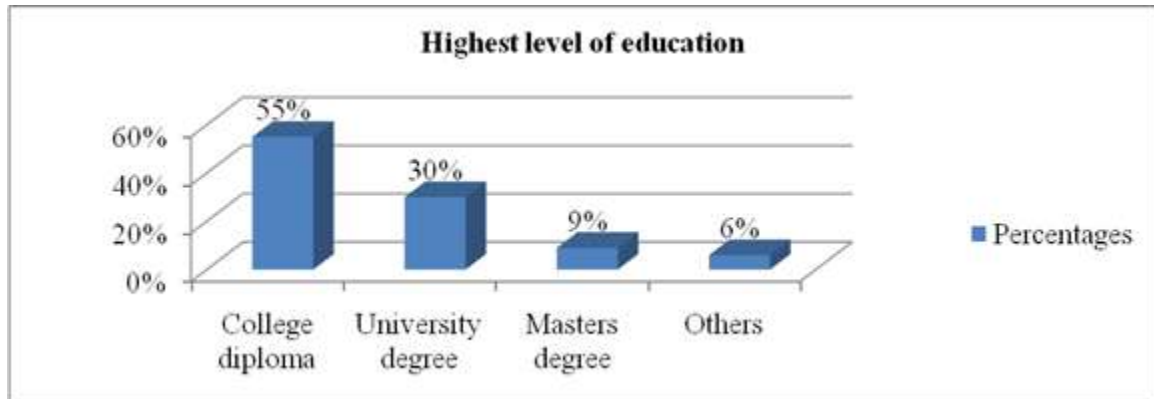


Figure 4. 2: Distribution of the respondents by Highest Level of Education

The study investigated highest education level shown in Figure 4.2. The findings indicated 55% to have attained college level of education, 36% had University degree level of education, 9% had attained master degree level of education while 6% of the respondents specified that they had other levels of educations such as post graduate and primary level of education. This implied that most of the workforce tasked with various responsibilities of the SACCOs had attained at least college education level. This demonstrates that the respondent were in a position of understanding and offering relevant information required to achieve the study objective on influence of compensation practices on organizational performance in regulated SACCO in Nairobi County.

4.2.6 Respondent's working period

Table 4. 3: Distribution of respondent by length of service

Respondent's working period	Frequency	Percentages
1-5 years	30	34
6-10 years	23	26
16-20 years	21	24
21-25 years	14	16
Total	89	100

The number of years they had been working in the SACCOs was indicated by respondents. Findings in Table 4.3 show that, most, 34% of the respondents indicated that they had been working in the SACCOs for 1 to 5 years, 26% have been working in the SACCOs for 6-10 years, 24% that they have been working in the SACCO for 16-20 years while 16% had been working in the SACCOs for 21-25 years.

4.3 Types of compensation systems

The respondents were requested to indicate the types of compensation system that are there at their SACCOs. From the findings, respondents unanimously indicated that the institutions had direct and indirect compensation systems. There is direct remuneration for services rendered by the employee; this is in form of salary, hourly, commission and bonus wages. The respondents further indicated that there are insurances for health, dental, life, disability and vision and retirement types of compensation offered by companies.

This implies that the institutions gave money to the employees for the duties performed. This is in line with Noe et al. (2003), who stated that bonuses wages and other types of payment determine living standards of the employee.

4.4 Compensation Programs in the SACCOs

Table 4. 4: Distribution of the respondents by compensation programs in the SACCOs

Compensation Programs in the SACCOs	Mean	Standard deviation
Compensation systems have SACCOs are designed in attracting and retention of employees and to motivating them in effort and output increment	4.326	.628
Compensation strategies at SACCO facilitate organizational objectives achievement.	3.697	.609
Compensation strategies and the strategic plan are in alignment and cost effective in terms of input-output ratios	4.277	.827
Employees' rewarding is made possible by Variable pay's flexibility for performance that making the organization successful	4.598	.531
Variable pay permits better compensation costs control when the SACCO is unsuccessful	4.344	.509
Employee-business partnership is facilitated by variable pay linking both parties' fortunes in a positive manner	4.686	.761

The study was also interested in the compensation programs adopted in SACCOs. The findings show that majority of respondents strongly agreed that variable compensation pay program facilitates the employee business partnership through linking both parties' fortunes positively and that variable compensation pay's flexibility allows for the employees' rewarding for performance making the organization successful as indicated by 4.686, 4.598 mean with a SD of 0.761 and 0.531 respectively. The respondents agreed that variable pay allows for better compensation costs control when the SACCO is unsuccessful as indicated by of 4.344 mean with SD of 0.509, that systems of

compensation have in SACCOs have been designed for efficient attraction and retention of employees and motivating them to increase their efforts and output and indicated by 4.326 mean with a 0.628 SD and agreed that compensation strategies are function with strategic plan are cost effective in relation to input output ratio in SACCOs as indicated by 4.277 mean with 0.827 SD . The respondents also agreed that compensation strategies at SACCO facilitate organizational objectives' achievement as indicated 3.697 mean with a 0.609 SD. This implied that compensation programs implemented in SACCOs focus on influencing employee performance greatly as agreed by the respondents.

4.4.1 Equity-Based Compensation

Table 4. 5: Extent of influence of Equity-based Compensation on Employees Productivity in Regulated SACCO

Extent equity-based compensation influence employees Productivity at the SACCO	Frequency	Percentages
Very -great extent	50	56
Great -extent	21	24
Moderate extent	18	20
Total	89	100

Table 4.5 shows the respondents response on the extent does equity-based compensation affect productivity at the SACCO. From the findings, majority (56%) of the respondents indicated that equity-based compensation affect productivity at the SACCO to a very great extent, 24% indicated that equity-based compensation affect productivity at the SACCO to a great extent while 20% of the respondents indicated that equity-based

compensation affect productivity at the SACCO to a moderate extent. The respondents explained that equity in compensating motivate employee and capture employee commitment influencing employee performance to a great extent. The respondents also indicated that equity in compensation make employee not discriminated and valued improving on productivity.

4.4.2 Equity Based Compensation and Employee Performance

Table 4. 6: Equity -Based Compensation and Employee Performance

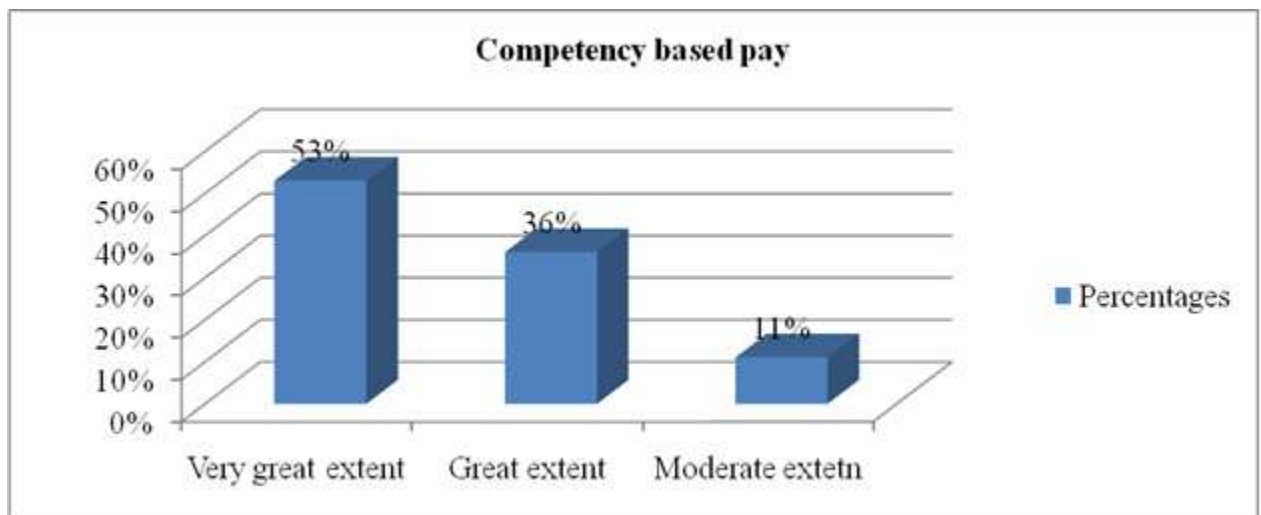
Equity based compensation statements	Mean	Standard deviation
Manager compensation and ownership structure influence employees performance	3.371	0.449
Wage dispersion influence job satisfaction of individual and motivation of employees	3.858	0.812
Salary variation influence on current and long-term employees productivity	4.692	0.505
Salary dispersion is reasonable	3.460	0.903
There is a positive firm performance reaction at the and announcement and issuance of general equity based compensation plan	3.885	0.564
SACCOs performance and equity-based compensation program are positively associated.	4.011	0.784
Compensation announcement provide a signal about possible future growth for firm performance.	4.582	0.609
Pay equity greatly influence employee performance of the SACCO	4.571	0.487
Salary differentials greatly influence the performance of professional at the SACCO	4.413	0.574
Composite measure of hourly equity pay	3.364	0.605
Pay equity' degree experienced by lower-level employees	4.308	0.728

The study sought the extent respondents agreed on influence of equity based compensation on employee Performance in SACCOs. From the findings, most respondents strongly agreed that salary variation influence long-term employees productivity, announcement of compensation is an indicator of possible future growth for SACCOs performance and that pay equity greatly influence employee performance in SACCO as indicated by 4.692, 4.582, 4.571 means with 0.505, 0.609 and 0.487 SD respectively.

The respondents also agreed that salary differentials greatly influence the performance of professional at the SACCO as indicated by 4.413 mean with 0.574 SD and that degree of pay equity experienced by lower level employees affected employees performance as indicated by 4.308 mean with 0.728 SD. The respondents agreed that existence of positive association between Sacco's performance and equity-based compensation program influence employee performance as indicated by 4.011 mean with 0.784 SD. The respondents agreed that existence of a positive Sacco's performance reaction at the issuance and announcement of general equity-based compensation plan influence employee performance as indicated by 3.885 mean with a 0.564 SD. The respondents moderately agreed that salary dispersion being reasonable and composite measure of hourly pay equity influence employee performance as indicated by 3.460 and 3.364 mean with 0.903 and 0.605 SD respectively. This implied that equity based compensation programs influence employees in SACCOs to a great extent.

4.4.3 Competency Based Pay Affect the Productivity of the SACCO

Extent to which competency based pay affect the Employee productivity of the SACCO



The study sought the extent to which competency based pay affect the productivity of the SACCO. From the findings, majority 53% of the respondents indicated that competency based pay affect the productivity of the SACCO to a very great extent, 36% of the respondents indicated that competency based pay affect the productivity of the SACCO to a great extent and 11% of the respondents indicated that competency based pay affect the productivity of the SACCO to a moderate extent. The respondents explained that competency based pay program consider the qualification of the employees, area of specialization, career development and experience as well as professional qualification which influence employees competency pay structure and motivate employees influencing employees performance in SACCOs.

4.4.4 Effect of Competency Based Pay on Employee Productivity

Table 4. 7: Means and standard deviation for Effect of Competency Based Pay on the Employee Productivity

Statement on effect of competency based pay on the Employee productivity	Mean	Std Dev
SACCO is moving towards strategically aligned and flexible pay systems with complex and changing financial environment	4.715	.487
The increased competency use based pay	4.416	.597
Most compensation plans focus more on profitability	4.035	.631
The compensation of an SACCO members were treated as an entire structure	4.576	.805
Efficient wage level of all employee based on competency	4.502	.511
Competency pay structure result to better performance	3.698	.449

The study sought the extent respondent agreed on the effects of competency based pay program on employee productivity. The findings show majority of the respondents s agreed strongly that SACCOs were shifting to pay systems that were strategically aligned and flexible with changing and complex financial environment improving productivity, that SACCO members' compensation were treated as an entire structure and that efficient wage level of all employee based on competency improve employee productivity as indicated by 4.715, 4.576 and 4.502 mean with a 0.487, 0.805 and 0.511 SD respectively .

The study also found that respondents agreed that the increasing use of competency based pay and that most SACCOs' compensation plans profitability improves employee productivity as indicated by 4.416, 4.035 mean with a 0.597 and 0.63 SD respectively. The findings also indicated that respondents agreed that competency pay structure in

SACCOs result to better employee’s performance as indicated by 3.698 mean with a 0.449 SD This implied that competency based pay compensation program contributed to employee performance in SACCOs.

The respondents were requested to indicate the extent variable pay/ incentive pay affect the employee’s productivity of the regulated SACCOs. From the findings, 56% of the respondents indicated that variable pay/ incentive pay affect the employee’s productivity of the regulated SACCOs to a very great extent, 34% indicated to a great extent while 10% indicated to moderate extent. This demonstrated that variable pay/ incentive pay affect the employee’s productivity of the regulated SACCOs to a very great extent. The respondents explained that variable pay/ incentive pay such as paid leave, offering of allowances and payment of overtime motive employee increasing employee’s productivity of the regulated SACCOs

4.4.5 Incentive pay Compensation program

Table 4. 8: Incentive Pay Compensation Program

Incentive pay Compensation program	Mean	Std Dev
The SACCO is increasing using salary pay for employees	4.579	.729
Payments that are objective based	4.306	.851
Employees are provided with allowances	4.614	.509
Variable pay does not add to base salary motivating employees	4.457	.826
Variable payments are being increasingly tied to team, unit, or SACCOs performance	3.457	.710
Employees are offered paid leave	4.512	.898
Pay compression is optimal on strict efficiency grounds	3.983	.548
A more pronounced inequality in payment team performance influence.	4.526	.687
Employees are given bonuses quarterly	3.421	.329
There is annual increment of salary for all the employees	3.905	.476
Individual are offered pay on overtime	4.001	.678

The respondents were requested to indicate the extent SACCOs use incentive compensation program in compensating employees. majority of the respondents strongly agreed that employees were provided with allowances as shown in the findings, that more pronounced pay inequality have a negative influence on team performance and that employees were offered paid leave as indicated by 4.614, 4.526 and 4.512 mean with a 0.509, 0.898 and 0.687 SD respectively.

The respondents agreed that variable pay does not add to base salary motivating employees, that payments that were based on an objective and that employees were paid overtime as indicated by 4.457, 4.306 and 4.001 mean with 0.826, 0.851 and 0.678 SD respectively. The respondents also agreed that pay compression was optimal on strict efficiency grounds as indicated by 3.905 mean with a 0.476 SD. The respondent also moderately agreed that variable payments were tied to team, unit, or SACCO performance employees were offered bonuses quarterly as indicated by 3.457 and 3.421 mean with a 0.710 and 0.329 SD respectively. This implied that incentive compensation programs adopted in SACCOs influence employees performance to a great extent.

4.5 Compensation Practices and employee Performance

Table 4. 9: Results of Pearson’s Correlation Analysis on the relationship between Compensation Practices and employee Performance

Employees Compensation program	Employee	
Compensation program	Pearson Correlation	ρ 0.837(*)
	Sig. (2-tailed)	0.000
	N	89

* Correlation is significant at the 0.05 level (2-tailed).

The study undertook correlation pearson’s analysis to examine the association between compensation programs and employees performance of regulated SACCOs. The correlation factor ranged from $-1 \leq 0 \leq 1$. The acceptance confidence level was 95% or significance level of 0.05. There was a strong positive correlation $r = 0.837$ between compensation programs and the employees performance of regulated SACCOs . The correlation was statistically significant $r = 0.837, p < 0.05$ level of significance.

The findings of the research of objectives shall assist management of SACCOs in understanding best compensation practices that are applicable on contribution and implementation toward employee performance. Exploring the influence of compensation practices in the SACCOs will provide an insight to management in SACCOs to identify the best compensation practices that will influence firm performance.

The study would be important to compensation policy makers who will gain insight from the study on how compensation practices influence employee's performance in SACCOs institutions. This would provide new understanding on the impact of compensation practices on firm performance in Sacco industry.

The study will be significant to scholars and researchers in gaining knowledge on how compensation practices impact on employee performance. The findings of the study will provide the foundation for further study for instance impact of compensation practices on firm performance in Sacco's institutions.

Theories such as Expectancy theory reinforcement theory, (Vroom, 1964) examines the relationship between behaviors and rewards although its emphasize are expected and not experienced rewards. Motivation is a two factor function; Expectancy, the perceived link between performance and effort, and valence, the outcomes value. Compensation systems vary according to their impact on these components of motivation.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presented the summary of major data findings, conclusion drawn from the findings highlighted and recommendation made to it. The conclusions and recommendations based on the study objective which was to determine influence of compensation practices on organizational performance in regulated SACCO in Nairobi County

5.2 Summary of the Findings

The study revealed that regulated SACCOs had adopted various employee compensation programs as direct remuneration for services rendered by the employee through salary commission, allowances and bonus wages, insurances schemes for health, dental, life, disability and vision and retirement types of compensation in the institutions.

The study established that SACCO's compensation systems are retain existing employees and attract new and constantly motivating the to increase output and effort .Compensation strategies work together with the strategic plan and be cost effective in terms of input/output ratio in SACCOs and that compensation strategies at SACCO facilitate the achievement of organizational objectives.This demonstrated that compensation programs implemented in SACCOs focus on influencing employee performance to a great extent as agreed by the respondents.

The study indicated that equity-based compensation affect productivity at the SACCO to a very great extent. The results denoted that salary variation influence long-term employees productivity, announcement of compensation signal about possible growth in future for SACCOs performance and that pay equity greatly influence employee performance in regulated SACCOs. The study established that salary differentials greatly influence the performance of professional in regulated SACCOs as and that pay equity' degree experienced by lower-level employees affected employees performance .the findings also demonstrated that existence of positive association between SACCOs performance and equity-based compensation program, positive SACCOs performance reaction at the announcement and issuance of general equity based compensation plan and salary dispersion being reasonable and composite measure of hourly pay equity influence employee performance.

The study revealed that SACCOs are moving towards pay systems that were and strategically aligned and flexible with complex and changing financial environment improving productivity, that the compensation of an SACCO members were treated as an entire structure and that efficient wage level of all employee based on competency improve employee productivity. Use of competency based pay and compensation plans in SACCOs focusing on profitability improve employee productivity. The study established that competency pay structure in SACCOs result into better employee's performance in regulated SACCOs.

The results demonstrated that implementation of variable pay/ incentive pay compensation programs influence employee's productivity of the regulated SACCOs.

The study indicated that providing employees provided with allowances, more pronouncement of pay inequality negative affect employees performance and payment of employees on leave influence employee performance in regulated SACCOs. The study revealed that variable pay does not add to base salary motivating employees that payments that were based on an objective and those employees were paid overtime, paying compression as optimal on strict efficiency grounds influence employee performance. Employment of incentive compensation programs adopted in SACCOs influence employees performance to a great extent.

5.3 Conclusion

The study concluded that regulated SACCOs had adopted variable compensation pay program in rewarding of employees to improve performance. The study concluded that compensation systems in SACCOs are designed to retain and attract employees and motivate them to increase their efforts and output. Employee's compensation strategies are in alignment with the strategic plan and are cost-effective in terms of input/output ratio in SACCOs and facilitate the achievement of organizational objectives.

The study concluded that regulated SACCOs adopted equity-based compensation programs such as salary variation which influence long-term employee's productivity. compensation announcement provide a signal about possible future growth for SACCOs performance and that pay equity greatly influence employee performance in regulated SACCOs. The study concluded that salary differentials, degree of pay equity experienced by lower-level employees and salary dispersion being reasonable and composite measure of hourly pay equity influence employee performance.

The study concluded that regulated SACCOs adopted competency based pay which the productivity of the SACCO to a very great extent. The study revealed that competency based pay program consider the qualification of the employees, area of specialization, career development and experience as well as professional qualification which influence employees competency pay structure and motivate employees influencing employees performance in SACCOs.

The study concluded that adopted pay systems that were flexible and strategically aligned with complex and changing financial environment improving productivity developed pay structure based on competency improve employee and compensation plans in SACCOs focusing on profitability improve employee productivity and establishment of competency pay structure in SACCOs improve employee's performance in regulated SACCOs.

The study concluded that regulated SACCOs implemented incentive pay compensation programs such as allowances, eliminate pay inequalities, pay employees on leave motivating employees paying overtime, paying compression as optimal on strict efficiency grounds influencing employee performance. Employment of incentive compensation programs adopted by regulated SACCOs contributed to improvement in employee's performance to a great extent.

5.4 Limitations of the study

This study only sampled selected regulated SACCOs thus most organizations were not included The study would have covered more organizations across all financial sector so as to provide a more detailed evaluation. Limited resources contributed to this constraint.

The study faced uncooperative respondents as they view information sought by the study as sensitive. The research explained to the respondents that the information they provided was confidential and was used for only academic purpose only

5.5 Policy Recommendations

The study recommends that management in SACCOs and other financial institutions should adopt compensation systems which are designed to retain and attract employees and motivate them to increase their output and effort. Employee's compensation strategies are in alignment with the strategic plan and are cost effective in terms of input-output ratio in credit unions and facilitate the organizational objectives' achievement.

From the findings, the study recommend that management in financial institutions especially the credit unions should adopt equity-based compensation programs such as salary variation, salary differentials, degree of pay equity experienced by lower-level employees and salary dispersion being reasonable and composite measure which influence long-term employee performance.

The study recommends that financial institutions and credit union should adopt competency based pay as it would increase employee's productivity. Competency based pay program consider the qualification of the employees, area of specialization, career development and experience as well as professional qualification motivating employees and influence achieving employees performance in the credit union and financial institutions.

From the findings, the study recommend that management in SACCOs and other financial institutions should adopted pay compensation programs that is flexible and

strategically aligned with changing and complex financial environment improving productivity, developed pay structure based on competency improve employee and compensation plans in financial institutions focusing on profitability improve employee productivity and improve employee's performance in regulated SACCOs.

The study recommend that management in financial institutions should implement incentive pay compensation programs such as allowances, eliminate pay inequalities, pay employees on leave , paying overtime, paying compression as optimal on strict efficiency grounds as this would motivate and earn employee commitment influence influencing employee performance.

5.6 Area for Further Research

This study focus on determine influence of compensation practices on organizational performance in regulated SACCO in Nairobi County. The study recommends that a further study should be carried out to determine influence of incentive pay compensation programs on organization performance in SACCOs.

REFERENCES

- Ahmad, S. & Schroeder, R.G. (2003). The impact of human resource management practices on operational performance: recognizing country and industry differences. *Journal of operations Management*, 21(1), 19-43.
- Armstrong, M., (2006). *A Handbook of Human Resource Management Practice* (10th edition), London & Philadelphia, Kogan Page Ltd.
- Boselie, P., Dietz, G., & Boon, C. (2005). Commonalities and contradictions in HRM and performance research. *Human Resource Management Journal*, 15(3), 67-94.
- Brown, P.B. (2005). The evolving role of Strategic Management Development, *Journal of Management Development*, 24, 209–222.
- Brown, M.P., Sturman, M.C., & Simmering, M.J. (2003). Compensation policy and organizational performance: The efficiency, operational, and financial implications of pay levels and pay structure. *Academy of Management Journal*, 46(6), 752-762.
- Collins, C. J. & Clark, K.D. (2003). Strategic human resource practices, top management team social networks, and firm performance: The role of human resource practices in creating organizational competitive advantage. *Academy of management Journal*, 46(6), 740-751.
- Cook, C.W.& Hunsaker, P.L. (2001). *Management and organizational behavior*. McGraw-Hill/Irwin.

- Delery, J.E., & Doty, D.H. (1996). Modes of theorizing in strategic human resource management: Tests of universalistic, contingency, and configurational performance predictions. *Academy of management Journal*, 39(4), 802-835.
- Dessler, G. (2008). *Human Resource Management* (11th edition), New Delhi, Prentice Hall, of India Private Ltd.
- Rizwan Q.D and Ali U.(2010). Impact of reward and recognition on job satisfaction and motivation. An empirical study from Pakistan. *International journal of business and management*.
- Financial Sector Deepening, (2009), *Saving Credit Cooperative Societies Large SACCO Restructuring Facility outline*, Retrieved 18 February 2010,
- Gardner, T. M., Wright, P.M., & Moynihan, L.M. (2011). The impact of motivation, empowerment, and skill-enhancing practices on aggregate voluntary turnover: The mediating effect of collective affective commitment. *Personnel psychology*, 64(2), 315-350.
- Guest, D.E. (2011). Human resource management and performance: still searching for some answers. *Human Resource Management Journal*, 21(1), 3-13.
- Huselid, M.A. (1995). The impact of human resource management practices on turnover, productivity, and corporate financial performance. *Academy of management journal*, 38(3), 635-672.
- Jackson, S.E. & Schuler, R.S. (2000). *Managing Human Resources: A Partnership Perspective*. Ohio, South-Western College Publishing.

- Khalid, M. M., Rehman, C. A.& Ilyas, M. (2014). HRM Practices and Employee Performance in Public Sector Organizations in Pakistan: An Empirical study. *International Journal of Management Sciences and Business Research*, 3(2), 69.
- Munjuri, M.G. (2011). The effect of human resource management practices in enhancing employee performance in catholic institutions of Higher Learning in Kenya. *International Journal of Business Administration*, 2(4), p189.
- Purcell, J. (2003). Understanding the People and Performance Link, *Unlocking the Black Box* (CIPD)
- Bwoma B. N. (2003), Effects of liberalization on the investment practices of reserve funds and payment of dividends in Savings and Credit SACCOs in Nairobi- *Unpublished MBA Project, University of Nairobi, Nairobi.*
- Qureshi, M.T., Ramay, I.M. & Marwat, Z.A. (2006). *Impact of human resource management practices on organizational performance in Pakistan*. Muhammad Ali Jinnah University Islamabad.
- Sels, L., De Winne S., Maes, J., Faems, D., Delmotte, J.& Forrier, A. (2003). How HRM affects corporate financial performance: Evidence from Belgian SMEs. Working Paper Steunpunt OOI: 2003.
- Milkovich, G.T., & Newman, J.M. (2002). *Compensation* (7th ed.). NY: McGraw-Hill, New York, NY.
- Singh, K. (2004). Impact of HR practices on perceived firm performance in India. *Asia Pacific Journal of Human Resources*, 42(3), 301-317.

- Milkovich, G.T., & Newman, J.M. (2002) *Compensation* (7th ed.). NY: McGraw-Hill, New York, NY.
- Wambugu, K. Stephen, W. Maina, .D. (2008), .A Survey of Credit Risk Management Practices by Micro-Finance Institutions in Kenya, *Unpublished MBA research project*, UoN, Kenya.
- Sexton, R. J. (1986), The Formation of SACCOs: a game theoretic approach with implications for SACCO finance, decision making and stability. *American Journal of Agricultural Economics*, 68:214-
- Snell, S. A. (1992). Control theory in strategic human resource management: The mediating effect of administrative information. *Academy of management Journal*, 35(2), 292-327.
- Chhabra, T. N. (2001): *Human Resource Management, Concepts and Issues*, 2nd Revised Ed., Delhi: Dhanpat Rai & Co. (P) Ltd. view of Economic Studies 71, 514-534.
- Tabiu, A., & Nura, A.A. (2013). Assessing the effects of human resource management (HRM) practices on employee job performance: A study of Usmanu Danfodiyo University Sokoto. *Journal of Business Studies Quarterly*, 5(2), 247-259.

APPENDICES

Appendix I: Introductory Letter

Isaac Nyabuto Masea

P.O .Box8057....00100

Nairobi

Kenya.

Dear Respondent,

REF: REQUEST FOR RESEARCH DATA

I am a postgraduate student in The University of Nairobi . I am conducting a study on the ***INFLUENCE OF COMPENSATION PRACTICES OF PERFORMANCE OF THE EMPLOYEES AMONG THE SAVINGS AND CREDITS INSTITUTIONS IN NAIROBI COUNTY***

Your organization is selected and you have been selected to participate in the study. I kindly therefore request you to provide the necessary information for this study.

The information you will provide will be purely for academic purpose and thus will be treated with utmost confidence it deserves. A final copy of the report will be availed to you at your request.

Yours faithfully,

Isaac Nyabuto Masea

Student

Appendix I: Questionnaire

PART i: GENERAL INFORMATION

1. State your gender.

Female

male

2. Indicate your department

3. What is your title.....

4. What is your age category?

19 – 24 Yrs

30 – 34 Yrs

40 – 49 Yrs

35 – 34 Yrs

25 – 29 Yrs

50- above yrs

5. State the highest academic of qualification?

High school

Masters degree

College diploma

University degree

6. Indicate the years of experience you have worked in this SACCO?

1-5 years

16-20 years

26-30 years

6-10 years () 21-25 years () 30-above years ()

11-15years ()

PART ii: BUSINESS INFORMATION

1) What types of compensation system are there at your SACCO?

.....

.....

.....

.....

2) Indicate in your own opinion how do you agree with the following statements that relate to compensation at the SACCO?

	1	2	3	4	5
Compensation practices in SACCOs are structured to attract, retain and motivate employee to increase effort and output.					
Compensation strategies at SACCO facilitate the achievement of organizational objectives					
Compensation benefits are aligned with the strategic plan in SACCOs be cost-effective in terms of input/output ratio					
Compensation is carried out along the dimensions of time, space, culture and government policy					
Variable pay's flexibility allows for the rewarding of employees					

for performance that makes the organization successful					
Variable pay allows for better control of compensation costs when the organization is less successful					
Variable pay facilitates the employee-business partnership by linking the fortunes of both parties in a positive manner					

SECTION I: EQUITY-BASED COMPENSATION

3) To what extent does equity-based compensation affect productivity at the SACCO?

Very great extent ()

Great extent ()

Moderate extent ()

Little extent ()

Not at all ()

Please explain briefly to support your answer.

4) What is your level of agreement with the following statements that relate to equity based compensation? Use a scale of 1-5 where 1 strongly agree and 5 strongly disagree.

	1	2	3	4	5
Board of directors compensation and membership structure in SACCOs might affect firm performance					
Wage dispersion influence individual job satisfaction, research output, and the willingness to work					
Salary variation influence on current as well as long-term research productivity					
Salary dispersion is reasonable					
The aspect that compensation plan is attractive due to lower taxation					
There is a positive firm performance reaction at the issuance and announcement of general equity-based compensation plan					
There is market reaction to introductions of short-term executive compensation plans.					
There is a positive association between firm performance and the percentage of director's compensation that is equity-base					
Compensation announcement provide a signal about possible future growth for firm performance.					

Pay equity greatly influence the performance of the SACCO					
Salary differentials greatly influence the performance of professional at the SACCO					
Composite measure of hourly pay equity					
The degree of pay equity experienced by lower-level employees					

5. To what extent does competency based pay affect the productivity of the SACCO?

Very great extent ()

Great extent ()

Moderate extent ()

Little extent ()

Not at all ()

Please explain briefly to support your answer.

6. To what extent do you agree with the following statements that relate to effect of competency based pay on the productivity? Use a scale of 1-5 where 1 strongly agrees and 5 strongly disagree.

	1	2	3	4	5
--	----------	----------	----------	----------	----------

SACCOs are moving toward pay systems that are flexible and strategically aligned with complex and changing business environments and broad banding.					
The increasing use of competency based pay					
Most compensation plans tend to be focused on profitability					
The compensation of an organization's members are treated as an entire structure					
Efficient wage level of all employee based on competency					
Competency pay structure result to better performance,					
The is equal pay distribution					

7. To what extent do variable pay/ incentive pay affect the productivity of the SACCO?

Very great extent ()

Great extent ()

Moderate extent ()

Little extent ()

Not at all ()

Please explain your answer.

8. To what extent do you agree with the following statements that relate to effect of variable pay/ incentive pay? Use a scale of 1-5 where 1 strongly agree and 5 strongly disagree.

	1	2	3	4	5
The SACCO is increasing using salary pay for employees					
Payments that are based on an objective					
Employees are provided with allowances					
Variable pay does not add to base salary, and thus can be much larger on average in any one time period, and more noticeable and motivating.					
Variable payments are increasingly being tied to team, unit, or company performance					
Employees are offered paid leave					
Pay compression is optimal on strict efficiency grounds.					
A more pronounced pay inequality has a negative influence on team performance.					
Employees are given bonuses quarterly					

There is annual increment of salary for all the employees					
Individual are offered pay on overtime					