EFFECT OF REWARD AND COMPENSATION STRATEGIES ON THE PERFORMANCE OF COMMERCIAL BANKS IN KENYA.

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This paper will examine the effect of reward and compensation strategies on the performance of commercial banks in Kenya.

ABSTRACT

During the last decade, the Human Resource Management (HRM) field has shifted from a micro focus on individual HRM practices to a debate on how HRM as a more holistic management approach may contribute to the competitive advantage of the organization. The shift from examining single HRM practices to systems of practices entails focusing on the interrelationship between the various elements of the HRM system. This has created a lot of interest on the specific effect of human resources management strategies on performance. However, review of available literature indicates a serious lack of empirical studies designed to investigate whether a good alignment between human resources management and firm strategy has a positive or negative effect on performance of commercial banks in Kenya. This has led to a high desire by bank managers to know the contribution of human resource strategies to performance. This study, therefore, sought to investigate the effect of reward and compensation strategies on the performance of commercial banks in Kenya. The research adopted a mixed method approach which consisted of both qualitative and quantitative approaches. This allowed the two approaches to complement each other for better results. Specifically the study adopted the survey method. The study targeted a population of 46 banks and 2,738 employees who included: the CEOs, HR managers, Operations managers and other employees. The Nairobi head office of each bank was purposively sampled since strategies and policies are made at the headquarters and then cascaded to the branches. To ensure representation of the various subgroups in the population a sample of 349 employees was selected using stratified random sampling. Data was collected using self-administered questionnaires and interviews. Statistical data analysis involved first editing and coding the questionnaire and interview responses;

tabulating the data; and then performing several statistical computations including averages and percentages. Statistical computer software (SPSS and Ms Excel) were also used in data analysis. Analyzed data was then presented using tables, pie charts and percentages. Analyzed data was interpreted to get the meanings. From this study it was found that reward and compensation strategies have a significant positive effect on performance of commercial banks in Kenya. The study established that banks are currently emphasizing on rewarding and compensating their employees. Therefore, bank performance is influenced by specific HRM related actions. From this study it is concluded that financial and non financial rewards can combine to enhance firm performance. Based on the findings, it is also concluded that there is a positive relationship between strategic reward and compensation and employee performance among commercial banks in Kenya. The study recommends that commercial banks should embrace the use of both financial and non financial rewards in addition to other incentives and performance related pay schemes. All this should be linked with the overall banks strategy. Banks also need to develop and document strategies for rewarding and compensating firm performance.

INTRODUCTION

People are a firm's most valuable resource. Labour productivity has been of concern to organizations in the current competitive environment. It is now commonly accepted that employees create an important source of competitive advantage for firms (Goel, 2008; Pattanayak, 2008). There is ongoing debate on how HRM strategies affect the performance of banks. Efforts have been made by human resources management theorists to try to establish a causal link between human resource management and performance (Cook, 2000). While there is a growing body of theory and empirical research demonstrating positive relationships between HRM policies, collective employee attributes, and firm outcomes, additional studies in this area are needed (Harter, Schmidt, & Hayes, 2002; Purcell & Kinnie, 2007). Furthermore, there is a great need for additional evidence to support the HRM-performance relationship and show exactly how the different strategies affect each other. The present study is therefore, an attempt to fill part of this gap using the Kenyan Banking sector.

Background of the study

According to Barney, (2000) firms that use resources and capabilities to exploit opportunities and neutralize threats will see an increase in their net revenue or a decrease in their net costs or both and vice versa. However it may not be very easy to establish the contribution of each resource to performance of employees and the organization. This is because performance is affected by how you utilize each resource and thus the various resources (human, financial, physical and technological) support each other and it may not be easy to single out one resource and give credit to it.

There is need for a theoretical link on how specific human resources management strategies and performance are related. Cook (2000) argues that there is a symbiotic relationship between human resources strategy and performance. Other scholars such as Armstrong (2010) argue that human resources management practices can improve productivity by: (1) increasing employee skills and abilities (2) promoting positive attitudes and increasing motivation and 3) providing employees with expanded responsibilities so that they can make full use of their skills and abilities. However still much has not been done to establish the role of specific human resource strategies on performance of banks.

There is need to understand the effect of specific HR strategies on employee performance in banks since currently there is a lot of interest in this area. This study seeks to fill this gap by investigating the effect of reward and compensation strategies on performance of commercial banks in Kenya.

Commercial Banks in Kenya

Banks in Kenya have existed since the colonial times. During this period the banking sector was dominated by foreign owned banks that were significantly unable to meet the demands of all the Kenyans in need of banking services. The banks were located in the urban centers and also charged exorbitant account opening and maintenance balances which most low income earners in Kenya were unable to raise. As a result banking continuously remained a preserve of the few rich Kenyans and therefore only had a minor contribution on the economy. The performance of banks then in terms of customer numbers, profits and other performance indicators remained very low (CBK, 2010).

According to the CBK (2010) recently the banking sector has recorded a very fast growth rate and huge profits. The current global trend of deregulation of the banking industry, increased expenditure on development of human resources coupled with technological developments like internet banking and ATMs have opened up many new businesses to the banks in Kenya. There has been substantial growth in the number of banks and branches country wide. Other growth indicators include the increase in the number of account holders as well as an increase in the number of banks listed in the Nairobi Stock Exchange. Share prices of listed banks have continuously gained value showing the current growth trend in the sector. The sector has also experienced growth in profits with most banks reporting very high profits after tax; this further confirms the growth of the sector despite the global financial meltdown which had a very negative effect on world financial performance especially in the banking sectors.

Players in this sector have experienced increased competition over the last few years resulting from increased innovations among the players and new entrants into the market. Under such competitive environments bank employees have had a lot of pressure to try and come up with creative ideas and products that enable them survive in such an extremely turbulent and competitive environment. Such creative innovations include the introduction of the M-Kesho account through partnership between Equity Bank and Safaricom, PesaPap by Family Bank and KCB Connect by KCB.

This demands a lot of emphasis on the human resource aspect of the banks. As a result human resource strategies need to be in place to guide the organization to success. Under such competitive environments bank employees have had a lot of pressure to try and come up with creative ideas and products that will enable them survive in such an extremely turbulent and competitive environment. It is based on the recent successes and improved performance of the banking sector that this study was undertaken in order to establish the human resource strategies that affect the performance of the banking sector.

Statement of the problem

The banking sector in Kenya has over the years faced a number of challenges including increasing competition, increased regulation by the government and high rate of technological growth especially the mobile phones that now offer banking services. The shift by commercial banks in Kenya to strategic management has created a lot of interest on the effect of HRM strategies on organizational performance. Many studies have shown a positive relationship between HRM strategies and performance in the manufacturing sector (Huselid 2007; Armstrong & Baron, 2009; Katou, 2008; Ahmad & Schroeder, 2003; Bae & Lawler, 2000; Batt, 2002; Delery & Doty, 1996; Guthrie, 2001; Gardner & Moynihan, 2003). Despite these findings most SHRM studies have been characterized by lack of a solid theoretical foundation explaining the mechanisms causing the observed enhanced performance. Specifically, so far there is no consistent agreement on how to measure HRM strategies and what to measure with regards to organizational performance. The available literature also indicates a serious lack of empirical studies designed to investigate exactly how a good alignment between HRM and firm strategy leads to improved performance. Researchers, for example, Purcell (2004); Gerhart (2005) and Katou (2008) have termed the link between HRM and organizational performance to be a 'black box', that is, lack of clarity regarding 'what exactly leads to what'.

Considering that previous researchers do not agree on the HRM practices, policies and systems employed, and accordingly the constructs developed, the results derived from these studies are not comparable. Serious gaps also still remain with respect to the causal ordering of the variables involved in the HRM – performance relationship. Without a clearly delineated theoretical model of HPWS and their effects on performance of commercial banks in Kenya, scholars cannot adequately validate the efficacy of such practices, let alone provide useful suggestions to practitioners. While some investigations have been initiated in emerging markets and in transitional countries (Ahlstron, Foley, Young, & Chan, 2005; Zupan & Kase, 2005), the available literature highlights that most of the studies examining the relationship between HRM and organization's performance have been conducted in the manufacturing sector mostly in the United States (Huselid, 1995; Guest, Michie, Conway, & Sheehan, 2003). Very few studies have been done in Kenya particularly in the banking sector.

There is, therefore, a great need for additional evidence to support the HRM-performance relationship from different sectors and contexts. It is from this background that this study was conducted in order to investigate the effect of reward and compensation strategies on the performance of commercial banks in Kenya and provide a better understanding of the relationship between the variables.

Objectives of the study

i. To investigate if reward and compensation strategies have a significant effect on the performance of commercial banks in Kenya.
ii. To investigate the effect of financial rewards on the performance of commercial banks in Kenya.
iii. To investigate the effect of non financial rewards on the performance of commercial banks in Kenya.

Research hypotheses

In order to achieve the objectives designed for this study, the following research hypotheses were stated based on the revelations in the review of literature concerning HRM strategies and firms' performance.

H0: Employee reward and compensation strategies do not have a significant effect on the performance of commercial banks in Kenya.

HA: Employee reward and compensation strategies have a significant effect on the performance of commercial banks in Kenya.

Research questions

i. To what extent do reward and compensation strategies affect the performance of commercial banks in Kenya?
ii. What is the effect of financial rewards on the performance of commercial banks in Kenya?
iii. What is the effect of non financial rewards on the performance of commercial banks in Kenya?

Significance of the study

The study results will enable the management to establish the effects of human resource strategies on employee performance, hence identify the areas where improvements can be done. It will also help the management in planning for the development and implementation of effective and efficient human resource strategies that will lead to improved performance of the banks. This will in turn help in ensuring economic growth and stability of the country.

Other researchers who may need reference to information on role of human resource strategies on employees' performance will also benefit by being able to assess previous approaches used to solve similar management questions and revise their research on human resources strategic plans. In addition they will be able to spot flaws in the logic, errors in assumptions or even management questions that are not adequately addressed by the objectives and designs.

Scope of the study

The study was done covering all the commercial banks in Kenya. However the headquarters of each bank branch was purposively sampled for the study. The study was done mainly in Nairobi province where the researcher was able to get all the relevant officers. This included Bank CEOs, HR Managers, Operations managers and other employees. The study was only limited to human resources strategies, their development, use and effect on organizational performance in the banking sector in Kenya. It did not include the effect of human resource strategies on the performance of other sectors of the economy. The researcher distributed questionnaires as well carried out a few interviews with the respondents among the sampled departments in the area. The research was conducted within a period of fifteen months which was enough to exhaustively examine all the issues at stake.

Limitations of the study

Some of the respondents were not co-operative to the interview and attempted to ignore the questionnaires; this threatened to reduce the response rate. The researcher minimized non response cases by taking and collecting summary questionnaires by hand from each respondent. Also, by having trustworthy people (especially one bank employee in each sampled bank) to distribute and collect the questionnaires and knowing how best to deal with those reluctant to interviews. Those who did not respond were also called later and interviewed via telephone.

LITERATURE REVIEW

Human resources are a significant organizational asset if properly used and managed. The application of appropriate strategies for the development of human resources can lead to improvement of corporate performance both in the short and long term. This chapter describes available literature in the topic. It also offers a critical analysis of previous studies that have been done by other scholars in the area. It finally presents the research gap which the research intends to explore.

Theoretical review

Tyson (1995) as quoted in Torrington et al (2005) described human resource management strategy as the intentions of the corporation both explicit and covert, towards the management of its employees, expressed through philosophies, policies and practices. Effective human capital strategy and practices are directly related to higher levels of financial and market success. Strategic human resource management has three theoretical approaches (Torrington et al, 2005; Armstrong, 2009). The first is founded on the concept that there is one best way of managing human resource in order to improve business performance. The second is based on the need to align employment policies and practices with the requirements of the business strategy in order that the later will be achieved and the business will be successful. The third is derived from the resource based view of the firm and the perceived value of the human capital. This approach is grounded in the nature of the reward–effort exchange and, more specifically, the degree to which managers view their human resources as an asset as opposed to a variable cost.

A further analysis of the literature on the HRM-performance relationship by Boselie, Dietz and Boon (2005), found that the theoretical frameworks which dominate this field are the resource-based view (i.e., HRM influences performance according to the human and social capital held by the organization) (Barney, 1991), the AMO theory (i.e., HRM influences performance in relation to employees' Ability, Motivation and Opportunity to participate) (Appelbaum, Bailey, Berg, & Kalleberg, 2000; Katou, 2008) and the "contingent framework" (i.e., HRM influences performance in relation to contingent factors such as business strategies).

Ability, Motivation, Opportunity Theory (AMO Theory)

Expectancy theory of motivation explains the link between motivation and performance. The theory proposes that performance at individual level depends on high motivation, possession of the necessary skills and abilities and an appropriate role and understanding of that role (Savaneviciene & Stankeviciute, 2010). It is a short step to specify the HRM practices that encourage high skills and abilities, for example careful selection and high investment in training; high motivation, for example employee involvement and performance-related pay; and an appropriate role structure and role perception, for example job design and extensive communication and feedback. According to Vroom (1964) "the effects of motivation on performance are dependent on the level of ability of the worker, and the relationship of ability to performance is dependent on the motivation of the worker." The effects of ability and motivation on performance are not additive but interactive. Vroom proposed the following formula showing that performance is a function of ability and motivation:

Performance = f(Ability x Motivation) or P = f(A, M).

Boxall and Purcell (2003) summarize it as: P = f(A,M,O)

Where P is performance, A is ability, M is motivation, and O is opportunity.

In other words, HR systems will be most effective when they foster ability, motivation, and opportunity to contribute to effectiveness (Boselie et al., 2005; Purcell & Hutchinson, 2007).

Different HR practices/policies have many effects on ability, motivation, and to some degree, ability requirements/opportunity (Purcell et al., 2003; Lepak et al., 2006; Katou, 2008). Recruitment and selection, training and development policies are expected to have their primary effect on ability (and related expectancy motivation perceptions). Job design and job analysis primarily determine ability requirements/opportunity and to some degree, (intrinsic) rewards offered. Compensation has its primary effect on rewards offered and instrumentality perceptions (motivation). Motivation needs/values are primarily influenced by employee selection and training as well as compensation. Thus the AMO theory thus states that performance is the function of employee ability, motivation and opportunity (Musah, 2008).

Scholars have argued that a skilled, motivated, and flexible workforce can help develop a company's sustainable core competencies (Levine, 1995, Hsi-An Shih, Yun-Hwa Chiang, Chu-Chun Hsu, 2006; Musah, 2008). A committed and motivated workers are less likely to want to leave the organization (Gould-Williams & Davies, 2003). The AMO theory claims that people will perform well when they are able to do so (because they have the necessary knowledge and skills to the job), they have the motivation to do so (they will do the job because they want to) and finally, there will be enhance performance if their work environment provides the necessary support (for example through functioning technology) (Musah, 2008). Whitener (2001) argued that the organization may adopt a high-commitment strategy, including employment practices, appraisal, competitiveness, fair compensation, and comprehensive training and development in order for employees to have high commitment and motivation.

Performance of Commercial Banks

Performance has been used synonymously with productivity, efficiency, effectiveness and competitiveness. According to Bohlander and Snell (2007) organizational performance comprises the actual output or results of an organization measured against its intended outputs (organizational goals and objectives). Various scholars have defined performance management in different ways, for example, Armstrong (2006) defines performance management as a systematic process for improving organizational performance by developing the performance of individuals and teams. Armstrong and Baron (2004) view performance management as a discipline of acting upon intelligence and reported information in planning ahead and in managing service operations both directly and through partnerships with other service delivery agents. They describe it as a process which contributes to the effective management of individuals and teams in order to achieve high levels of organizational performance. It establishes a shared understanding of what is to be achieved and an approach to leading and developing people which will ensure that it is achieved. Supported by joint strategies, shared outcomes and shared targets performance management should be exercised at all levels of the organization (Armstrong, 2008). It is a holistic process bringing together many of the elements which go to make up successful people management including learning and development.

Employee reward and compensation strategies

Motivation has been defined differently by different scholars, for example, it has been defined as the psychological process that arouse and direct goal directed behavior (William & Kinicki, 2008); a psychological process that gives purpose and direction (Reinter 1995); a predisposition to behave in a purposive manner to achieve specific unmet needs (Buford, Bodlein & Lindner, 1995), an internal drive to satisfy an unsatisfied need (Higgins, 1994); and the will to achieve (Boldleian, 1993).

To motivate behavior, the organization needs to provide an effective reward system. A reward strategy is a declaration of intent that defines what the organization wants to do in the longer term to develop and implement reward policies, practices and processes that will further the achievement of its business goals and meet the needs of the stakeholders (Armstrong, 2006). An effective reward system has four elements: rewards need to satisfy the basic needs of all employees; rewards need to be included in the system and be comparable to ones offered by a competitive organization in the same area; rewards need to be available to people in the same positions and be distributed fairly and equitably (Goel, 2008). Managers often use rewards to reinforce employee behavior that they want to continue. According to Perce and Robinson (2007) reward power is available when the manager confers rewards in return for desired actions and outcomes. A reward is a work outcome of positive value to the individual (Armstrong, 2006).

According to Barney and Hesterly (2008), an organizations employee compensation policy and practice is important in implementing a strategy. A company that adopts a compensation policy that is consistent and reinforces its strategies is more likely to implement those strategies than a firm that adopts compensation policies that are inconsistent with its strategies (Armstrong, 2006). A reward strategy should enhance commitment and engagement and provide more opportunities for the contributions of people to be valued and recognized.

According to Rudman (2003) paying for performance is a big issue in contemporary human resources management; organizations have long believed that productivity improve when pay is linked to performance and payment by results systems and incentives are developed to support this belief. Studies have found a positive relationship between performance related pay and performance (Huselid, 1995; Dotty, 1996; Goel (2008). People receive extrinsic or intrinsic rewards (Armstrong, 2008, Dessler, 2006, Goel 2008). Extrinsic rewards e.g. pay bonuses, promotions, time off, special assignments, office fixtures, awards and verbal praise are externally administered (Dessler, 2006; Armstrong, 2008). Intrinsic rewards are self-administered (Dessler, 2006).

The overall reward system needs to be multifaceted. Because all people are different, managers must provide a range of rewards—pay, time off, recognition, or promotion (Armstrong, 2008).

Rewards demonstrate to employees that their behavior is appropriate and should be repeated. Different scholars have spoken strongly on the use of team incentives, for example, Dessler (2008) says that firms that rely on teams to manage their work must develop incentive plans that encourage teamwork and focus team members attention on performance. Goel (2008) argues that performance related pay is an effective motivator and conveys a clear message that high levels of performance are expected and will be rewarded. However they should not be distributed on the basis of narrow definition of the output of each individual, but also on the basis of appraisals of how well the individual contributes to the performance of the team, unit or company as a whole depending on the company structure. According to Johnson, Scholes and Whittington (2006) planning of rewards should take on board the reality of more team working in delivering strategy.

Establishing meaningful incentives for performance is a difficult task because individuals are unique and maintain different value systems. What may reward one employee may not be a reward to others (Dessler, 2006). Maslow in 1943 proposed a theory of motivation in which he said that money is motivator; however later Hertzberg in his two factor theory of motivation differs with that and instead classifies money as an hygiene factor. Financial incentives and rewards can be true motivators, but only when balanced against the potential drawbacks and packaged with ongoing verbal recognition, encouragement and support. How targets, budgets and rewards are structured will affect the way in which managers and other people behave and pursue the organizational objectives (Johnson, Scholes & Whittington, 2006). According to Armstrong and Murlis (2006), it is also important to consider non financial rewards which vary according to the nature of the employment relationship and also the personal characteristics of the employee. Lewis et al (2003) identify the following non financial rewards: feeling part of a community, a sense of personal achievement, social recognition and social and societal responsibility.

Motivated employees are very productive (William & Kinicki, 2008); and hence help to improve performance. However according to scholars motivation is one of the very complex roles of a manager (William & Kinicki, 2008; Dessler, 2008, Armstrong, 2006). This is because it is difficult to actually see it or know it in another person; it has to be inferred from ones behavior (William & Kinicki, 2008). Scholars have also based their arguments on the complexity of motivation from the fact that what motivates employees changes constantly (Bowen & Radhakrishna, 1991,) and also that what motivates one employee may not motivate others (William & Kinicki, 2008; Dessler 2008, Armstrong, 2008). To some extent, a high level of employee motivation is derived from effective management practices.

According to Locke (1997) motivation is determined by goal directness, human volition or free will and perceived needs and desires, sustaining the actions of individuals in relation to themselves and to their environment. To develop motivated employees, a manager must treat people as individuals, empower workers, provide an effective reward system, redesign jobs, and create a flexible workplace. It is through behavior that people influence the organizational environment. Dessler (2005) argues that the HR managers should create value by engaging in activities that produce the employee behavior the company needs to achieve its strategic goals.

The challenge of motivating employees has long been recognized as an integral part of managing organizations. Studies have suggested that motivation is very important to organizations that want to improve performance (Moorhead & Griffin, 1998, Ambrose & Kullik, 1999, Selden & Brewer, 2000). Scholars for example William & Kinicki (2008); Dessler (2008) and Armstrong (2008) have also suggested that organizations must motivate employees to be productive. According to Noe et al (2006) an employee with high job motivation produces high quality and more quantity of work leading to high level of job satisfaction hence lead to high performance. Research has established that as employee income increases, money becomes less of a motivator (Armstrong, 2007; Dessler, 2008). Managers therefore should be aware of the motivational bases of incentive plans.

Employees are bound to be much more productive when they work in a positive, supportive environment. Managers must strive to maintain an enjoyable, family-oriented atmosphere in which all employees focus on achieving team goals. According to Dessler (2008) recognition has a positive impact on performance either alone or in conjunction with financial rewards. Praising employees for achieving their goals is important in maintaining an enjoyable work environment. Recognizing success is critical, and equally important is inspiring employees to work toward achievements. Employees will be inspired by knowing their contributions are valued and that management is confident in their capabilities.

RESEARCH DESIGN AND METHODOLOGY

Research design

This study adopted the mixed method approach utilizing both qualitative and quantitative methods. Qualitative approach was used to supplement and strengthen the quantitative aspects and provide an opportunity for the researcher to observe the application of HRM strategies first hand. The method adopted by this study was specifically a survey research**.**

Target population

The population of the study was all the headquarters of the 46 banks in Kenya. The study targeted the CEOs, HR managers, Operations managers and other employees of the commercial banks in Kenya. The total population targeted was 2,738 people located at the head quarters of the banks. This is because most of the strategic decisions of banks are made at the headquarters and then cascaded down to the branch levels. Hence the strategies at the headquarters are normally the same strategies used at the branches. The target population was stratified as shown in Table 1.

Table1. Target population

Category	Population
CEOs	46
Operations managers	46
Human resources managers	46
Other employees	
Supervisors	920
Tellers	1400
Support staff	280
Total	2738

Sample design

It was not possible to study all members of the population since it would have involved tremendous amounts of time and resources (Mugenda & Mugenda, 1999; Kothari, 2004). As a result a sample of 349 employees was selected and studied to represent the entire population. This enabled the researcher to gain information about the population. The Yamane (1967) formula for calculating sample sizes was used to calculate the sample size at 95% confidence level and P = 0.5.

$$n = \frac{N}{1 + N(e)^2}$$

Where n is the sample size, N is the population size, and e is the level of precision.

$$N = \frac{2738}{1 + 2738/(0.05\times.05)}$$

$$N = \frac{2738}{1 + 2738/0.0025}$$

$$= 2738/\ 7.845 = 349$$

The CEOs, operations managers, and HR managers were purposely selected from each bank. Other employees were selected using stratified random sampling because this method enables the researcher to achieve the desired representation from the various subgroups in the population (Mugenda & Mugenda, 1999; Kothari, 2004; Cooper & Schindler, 2006). The sample size is shown in Table 2.

Table 2. Sample selection

Population categories	Number	Sample
CEOs	46	46
Operations managers	46	46
Human resources managers	46	46
Other employees		
Supervisors	920	75
Tellers	1400	114
Support staff	280	22
Total	2738	349

Data collection instruments and procedures

Both primary and secondary data were collected. The major primary data collection instruments (information collected for the first time) that were used are questionnaires and interviews which were self administered. Questionnaires were distributed and a period of two weeks given to fill them. Secondary data (the already available data which had been collected and analyzed by someone else) was collected from relevant documentaries as well as company publications.

Data analysis procedures

The collected data was processed and organized for statistical analysis. This involved first coding the responses; tabulating the data; and then performing statistical computations (i.e. averages, frequencies and percentages among others). To begin the data analysis process, descriptive statistics were calculated on the independent variables to summarize and describe the data collected. This helped in determining the extent of adoption of employee reward and compensation strategies in the banks. Inferential statistics were used to reach conclusions and make generalizations about the characteristics of populations based on data collected from the sample.

Item analysis was conducted to determine the internal consistency and reliability of each individual item as well as each subscale. Cronbach's Alpha test was used to test internal reliability. The Pearson's correlation coefficient was used to show the direction and magnitude of the interrelationship between variables. The predictor powers and moderation effect of the variables on organizational performance were tested by conducting a moderated regression analyses suggested by Pedhazur (1982).

Validity and Reliability

An instrument is valid if it measures what it is intended to measure and accurately achieves the purpose for which it was designed (Patten, 2004; Wallen & Fraenkel, 2001). According to Patten (2004) content validity is determined by judgments on the appropriateness of the instrument's content. To provide content validity of the survey instrument, the researcher formed a focus group of five to ten experts in the field of HRM to provide input and suggestive feedback on survey items. Members of the focus group were senior employees of the banks and other employees who had worked in the sector for more than five years. Reliability relates to the consistency of the data collected (Wallen & Fraenkel, 2001). Cronbach's coefficient alpha was used to determine the internal reliability of the instrument. The survey instrument was tested in its entirety, and the subscales of the instrument were tested independently.

DATA ANALYSIS AND PRESENTATION OF FINDINGS

Response rate

The sample for the study comprised of a total of 349 employees in 46 commercial banks in Kenya. Out of this a total of 325 questionnaires were filled and returned by employees from 38 commercial banks, however, only 314 questionnaires were usable for this study and met the required inclusion criteria as discussed in the previous chapter. This represented 82.6 % response by the commercial banks and 89.7% of the individual employees.

Gender differences of the participants in the sample

Participants were asked to indicate their gender by placing a tick next to the relevant option provided (male or female). Three hundred and thirteen (313) out of the valid 314 participants

(100%) responded to this question. Of the 313 respondents 169 were male and 144 were female. Therefore, it was found that 54% of the respondents were male while 46% were female. This is indicative of the male domination of the jobs in the banking industry. Historically banking has been a male dominated profession although more females are joining the profession in current trends.

Academic qualification

Most promotions to management level depend on one's academic qualification. In terms of educational attainment, 75% (235) had received at least an undergraduate or a first degree. It was found that 94% of the respondents held a diploma qualification and above, implying that the banks have highly educated staff and at the same time, they understood the issues under discussion in the research questionnaire.

Monthly salary

When the employees were asked to state their monthly salaries 183 (58.3%) indicated that their salary was over 80,000 shillings, 16 (5.1%) said that they earned between 60,000 shillings and 80,000 shillings, 71 (22.6%) earn between 40,000 shillings and 60,000 shillings while 42 (13.4%) earn between 20,000 shillings and 40,000 shillings. This shows that most bank employees are well paid in comparison to other sectors of the economy.

Research hypotheses

In order to achieve the objectives designed for this study, the following research hypotheses were formulated and tested based on the revelations in the review of literature concerning human resources management strategies and firms' performance. The statistical test results (regression and correlation analyses) of each null hypothesis at 95% confidence level are as shown in the hypotheses that follow:

H0: Employee reward and compensation strategies do not have a significant effect the performance of commercial banks in Kenya.

A regression analysis was used to test the null hypothesis that there is no significant effect of employee reward and compensation strategies on the performance of commercial banks in Kenya. Since P (0.000) is less than alpha (.05), we reject the null hypothesis and conclude that with the obtained data, there is evidence of significant effect of employee reward and compensation strategies on the performance of commercial banks in Kenya (F (32.9, df=1, and $P<0.05$).

The findings show that banks use compensation as a means towards ensuring that they achieve their strategic goals. It was found that commercial banks in Kenya use both financial and non financial rewards to motivate their employees. Incentives have a positive and statistically significant relationship with bank performance as measured by its sale of loans**.** The results of the hypothesis test are presented in Table 4.4. This results are consistent with the results of the survey by Adegoroye, Oladejo & Moruf , 2012 on the Strategic Human Resources Management practices in the Post Consolidated Nigerian commercial banks which found that the compensation practices were ranked higher at influencing the performance of banks.

Table 4. ANOVA results on effect of employee reward strategies on performance

ANOVA(b)

Model		Sum of squares	Df	Mean square	F	Sig.
1	Regression	18.013	1	18.013	32.851	.000(a)
	Residual	171.078	312	.548		
	Total	189.091	313			

a Predictors: (Constant), REWARD AND COMPENSATION STRATEGIES
b Dependent Variable: PERFORMANCE

To what extent do reward and compensation strategies affect the performance of commercial banks in Kenya?

When a correlation was done to establish if there is a relationship and also the nature of the relationship between reward and compensation and performance of commercial banks in Kenya, it was found that there is a positive correlation (r=0.309) between employee reward and compensation strategies used and performance of commercial banks in Kenya. Rewarding and compensation strategies used explains a significant 37.7% (B=0.377, p=0.000) variance in the performance of commercial banks in Kenya. The results of the correlation analysis are presented in Table 4. The regression model exemplified by the results is as shown below:

$$Y=1.505 + 0.377(x) + 0.159$$

Table 4.10. Correlation results on relationship between reward and compensation strategies and performance

Coefficients(a)

Model		Unstandardized coefficients		Standardized coefficient		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	1.505	.159		9.443	.000
	Reward and Compensation	.377	.066	.309	5.732	.000

a Dependent Variable: PERFORMANCE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Summary of major Findings

The role of HR is generally seen in ensuring that firms are able to attract, retain, motivate and develop human resources according to current and future requirements in line with the findings from an earlier study done by Som, 2008. From this study it was found that reward and compensation strategies were ranked high at influencing banks performance. When these strategies were used, the performance of commercial banks improved by 67%. This improvement was in terms of profits, sales, market share.

Reward and compensation strategies

This study found that rewards and compensation offered to employees by commercial banks in Kenya affect their ability to attract applicants, retain employees, and ensure optimal levels of performance in meeting the bank's corporate goals. This was supported by 57% of the respondents. Thus from the study it was found that there is a positive correlation (r=0.579) between employee reward and compensation strategies used and performance of commercial banks in Kenya. When the bank offered good rewards and compensation to its employees, the performance of employees in terms of quality of output, level of sales and customer service were found to improve by 37%. When rewards were not good the performance also declined by over 30%. For instance it an interview with human resources managers in 25% of the sampled banks said that the performance of employees improved by over 30% when the salaries of employees were reviewed upwards last year. The employees were more satisfied with their jobs when the rewards and compensation offered was attractive and this enabled them to be more committed to achieve the goals of the bank. Rewarding and compensation strategies used explain a significant 37.7% (B=0.377, p=0.000) variance in the performance of commercial banks in Kenya. As described by Mello, 2006 very rigid compensation systems inhibit the flexibility needed by most contemporary organization's competitive strategies.

In this study it was also found that education level had an effect on the perception of the employees on whether the rewards and compensation offered by the bank was attractive or not. In all the sampled banks (100%) those employees with a diploma qualification were paid comparatively lower than those with degrees and masters qualification. However, 89% of the diploma holders felt that they were well paid and therefore devoted most of their effort to achievement of the goals of the bank. Seventy one percent (71%) of the degree holders on the other hand felt that they were poorly paid and hence sought alternative sources of income by engaging in businesses to earn extra income. Forty seven percent (47%) of the degree holder said that engaging in businesses greatly affected their commitment to work which in turn affected their output. With the obtained data, there is evidence of significance effect of employee reward and compensation strategies on the performance of commercial banks in Kenya (F (32.9, df=1, and $P<0.05$). Commercial banks that reward their employees well were found to perform better than their competitors, this is because when an employee is well rewarded their motivation to work increases leading to improved commitment towards achieving the goals of the bank.

The findings show that banks use compensation as a means towards ensuring that they achieve their strategic goals. The analysis examined the type of incentives offered by the organization from the respondents involved in the study. The findings illustrated that 9% of the respondents mentioned that the organization offered financial incentives, 4% non financial incentives and 87% both financial and non-financial incentives. The findings also revealed that the financial reward system as compared to non - financial reward system had the greatest impact on employee motivation. Eight six percent (86%) of the respondents said that they are motivated to work by financial rewards while only 18% of the respondents said that they are motivated by non financial rewards. It was found that 78% of the commercial banks in Kenya use both financial and non financial rewards to motivate their employees. Both financial and non-financial reward system are used to complement each other in enhancing employee motivation which in turn leads to improved performance. Sixty five percent (65%) of the banks reported that performance improved by 92% when both financial and non financial rewards are used.

Based on results of the study, it is clear that using only financial or non-financial rewards is not sufficient to motivate employees to increase employee performance. If commercial banks in Kenya keep both types of rewards for the employees then they will increase their employees' performance because there is a strong correlation between financial and non financial rewards. Incentives also have a positive and statistically significant relationship with bank performance as measured by sale of loans, market share and increased profits**.** From the study it was found that banks that use incentives reported 84% improvement in performance. These results are consistent with the results of the study by Adegoroye, Oladejo and Moruf (2012) which found that the compensation practices influenced the performance banks highly.

Conclusions

Human resources are one of the most critical components of strategic success across all organizations. For one to objectively judge the human resources management practices as effective; they must contribute to the organization's bottom line. Reward and compensation strategies have a greater role in influencing the performance of bank employees hence contribute heavily to the performance of commercial banks in Kenya. Human resources managers must therefore pay attention to compensation systems that motivate bank employees to productivity and innovation. The researcher concludes that the implementation of reward and compensation strategies that result in better organizational outcomes in terms of employee commitment, flexible and quality staff, and administrative efficiency and cost effectiveness will assist in achieving organizational bottom-line results.

Recommendations

Based on the findings and conclusions of the study the researcher provides the following recommendations aimed at ensuring that the human resources strategies adopted by commercial banks in Kenya play a positive role in ensuring the improved performance and competitive advantage of the commercial banks that adopt them. Commercial banks in Kenya need to re-evaluate their compensation programs within the context of their corporate strategy and specific HR strategy to ensure that they are consistent with the necessary performance measures required by the banking sector. The reward strategy used by the commercial banks should align the performance of the organization with the way it rewards its people, in order to provide the necessary incentives and motivation required for the employees to deliver the goals of the bank. In this endeavor, commercial banks should use both financial and non financial rewards in addition to providing other incentives that will help motivate employees.

Commercial banks in Kenya need to develop and document strategies for rewarding employees in order to enhance employee and organizational performance. Since all banks use the same set of human resources strategies, it is how they apply/ implement them that matters. Commercial banks that want to improve their performance should therefore ensure that the way they use these strategies is unique in order to ensure that they are able to have a competitive edge over their competitors.

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