



**INFLUENCE OF SALARY ON EMPLOYEE PERFORMANCE IN SELECTED PUBLIC INSTITUTIONS IN RWANDA**

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## INFLUENCE OF SALARY ON EMPLOYEE PERFORMANCE IN SELECTED PUBLIC INSTITUTIONS IN RWANDA

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### ABSTRACT

*The purpose of this study was to examine the influence of salary on employee performance in public institutions in Rwanda. The study was anchored on human capital theory and supported by agency theory. The study adopted a descriptive research design to establish the problem that is under investigation. It was appropriate because it explored and described the relationship between variables in their natural setting without manipulating them. The target population of the study was 4 Public Institutions located in Kigali Rwanda. Purposive sampling technique was adopted to select the sample of the study. Structured questionnaires were instruments of data collection due to their effectiveness of capturing respondent information in a structured manner and the opportunity of respondents giving their views freely without interference from the researchers. Primary data was collected using questionnaires and interviews while secondary data was collected through review of relevant literature. The questionnaires were coded and edited for completeness and consistency and entered into Statistical Package for Social Sciences (SPSS version 21). Analysis involved descriptive statistics and inferential analysis. Descriptive analysis technique gave simple summaries about the sample data in quantitative descriptions and included, mean, standard deviation, frequencies and percentages. Inferential statistics were used to determine the relationships and significance between independent and dependent variable. Correlation and linear regression were used to analyze the data with F-test being applied to the test hypothesis at 5% level of significance. Content analysis was used for the qualitative data. The data was presented using tables, graphs and charts. The findings showed that the respondents agreed with the various statements on the influence of salaries on their performance. This is because all the mean values were above 3.5. The findings specifically showed that the respondents agreed that their performance is more Motivated by a Reasonable Salary that they earn from their current Employer (M=3.982, SD=1.37) and that they always get Encouraged to work due to the salary that comes on time (M=3.889, SD=1.381). Respondents also agreed that their salary increment motivates their dairy performance at their work place in their organization (M=3.777, SD=1.275); salary is the sole motivator that enables them to perform to their employers' Expectations (M=3.738, SD=1.32); and that salary is not the only sole Motivator that influences Performance at their Work Place (M=3.698, SD=1.331).*

*The findings established that salary had significant influence on employee performance in in Public Institutions in Rwanda since the p-value obtained was less than the selected level of significance. The finding further showed that the influence of salary on employee performance in Public Institutions in Rwanda was positive. Based on the findings, the study concluded that there is a positive significant relationship between salary and employee performance in selected Public Institutions in Rwanda. Salary was found to have positive significant influence on employee performance. The study recommended Public Institutions in Rwanda to consider the salary they offer their employees because it will determine their level of performance which in return affects the performance of the organization. Also, since monetary rewards are seen as a right rather than a reward, their serving as motivating factors has diminished and therefore the companies should focus on combining it with other motivating factors like social recognition and feedback.*

**Keywords:** Salary, Employee Performance, Public Institutions, Rwanda

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## **INTRODUCTION**

Compensation of employees accepts significant job since it's at the center of the employment relationship, being crucial to employers and workers. Literally, workers consistently rely upon salaries, wages and among various factors to give large income share and on advantages to give health security and income (Maina, 2009). Compensation decisions impact the laborers cost of doing business consequently, their competitive price selling limit in product market. Compensation decisions also impact the capacity of the employer to adequately seek for employees in labor market ie retain and attract, including their behaviors and attitudes when dealing with the employer (Moragwal, 2013).

According to Namusonge, (2014) Kabare and Kagwiria. A diverse combination of disbursement-supported incentives plays a key role in recruiting the best applicants, influencing workers, behavioral and performance results and promoting the retention of talents. Application of competencies contributes to performance development and productivity improvement. Guffey and Loewy (2012) 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 (2012) suggests that the compensation task management is to help and accomplish the short-term and strategic goals of the companies by ensuring that they have the trained, dedicated and well-motivated employees they need. Reward schemes vary, with varying effects on success (Stuart, 2011).

Job compensation plays a vital and practical role since it is the heart beat of handling the human resources. It is equally important for workers and employers alike. This is because workers usually depend on salaries and benefits, which must be commensurate with the work performed. For managers, however, compensation influences the cost of doing business and ultimately their ability to sell at a reasonable price on the product market (Abdul et al. (2014). It is a plain truth that effective implementation of favourable wage policy will not only direct the

recruitment and retention of employees, but will also help to minimize workforce turnover within the company. Employee compensation can be seen as all sorts of financial gains and tangible benefits that employees receive as a significant part of an employment arrangement. It can be called the sum of the financial and non-financial rewards that an employee earns as an end-result of his / her labor or services. Bal, Bozkurt and Ertemsir, (2012) considers compensation as the output and the benefit that employee receive in the form of salary or compensation, rewards and incentives and indirect compensation. Most of these come in form of rewards like monetary exchange with the aim of motivating employee's to increases their Performance (John & Morris, 2011). On the other hand, Abdullah (2014) observed that compensation and rewards influences employee decision making to either stay or work in an organisation or leave an organisation. In other words, compensation aids the employees to accept the responsibility that an organisation puts on them. Chebet, 2015) further observed that if a compensation is tied to employee performance there is ultimately good quality and quantity of work is done. Ultimately organizational compensation directly influences employee voluntary turnover as employees compare their compensation to that of other organisations. Ligare (2010) further observed that reward is the centre piece of the employment contract. This encompasses both extrinsic and intrinsic earned as a consequence of the organisation's employment. In similar Habbash (2010), compensation was seen as a return in trade between the workers and themselves as a right to be an organisation's employee, or as a reward for a well-done job.

Dauda, Akingbade, and Akinlabi (2010) further considers employee compensation as the complete of all prizes gave to workers in return for their service, the general reasons for which are to attract, retain and motivate employees. In a research by Lamba and

Choudhary (2013) outcomes demonstrated that there was a positive connection between employee compensation and execution. This implies that if rewards being offered/to employees was to be modified, and afterward there would be a relating change in satisfaction and work inspiration while the periodic salary increments, allowance, bonuses, fringe benefits and other compensations on normal and specific periods keep worker morale high and makes them more motivated (Danish and Usman 2010).

The study considered the employee motivation in some selected Public Institutions in Rwanda. The study will also look at other motivating factors like salary, incentives and rewards, recognition schemes and indirect compensation. This study was interested in analysing these compensations and also examining the effect of these on employee performance.

#### **Statement of the Problem**

The challenge for Rwanda Public Institutions today is therefore is to come up with an efficient reward strategy for retaining these core employees for the success of the organizations. Another challenge is that the employer is unable to predict the future needs of their employees. The fundamental issues for organizations are to keep track of the ever-changing needs of employees so that they can become an employer of choice to employees. It is very imperative for organizations to have knowledge of these attributes so that they may be able to match their attraction and retention strategy to the needs of the workforce.

Further, public institutions in Rwanda are facing different challenges in compensation practices for their employees, some of those challenges facing by organizations is retention of employee, lack of training, unskilled labor in Public Institutions etc. (Caragan, 2009) states that many professional companies are in a dilemma as a result of the competition that is present in attracting and retaining highly skilled workers because they fail to match the

salaries being offered by their competitors or to offer more than their competitors. The compensation in Rwanda Public Institutions is poorly managed and most of the time performance is affected adversely (Tumwine, 2014). Therefore, the problem the researcher intends to investigate in order to understand to what extent compensation practices contribute to employee performance in Selected Public Institutions in Rwanda. Pate *et al.* (2010) found out that a positive relationship existed between employee compensation and performance. This implies that employee compensation is a very vital human resource factor and is also an important factor in employee performance. Moreover, compensation is relevant to employee morale and performance. However, those research studies were mostly conducted in the private Institutions. Some research however has been conducted around the effect of employee incentives in the public organizations (Dessler 2013; Hall *et al.*, 2013; Snelgar *et al.*, 2013; Uzman, 2010; Baloch *et al.* 2010), but those studies are mainly conducted in the international context and some are conducted in industrialized countries where social, economic and cultural factors are different.

To surmount this scenario public Institutions in Rwanda, require the input of their employees. These employees are supposed to be well remunerated in order to unleash their full potential. But rewarding and recognizing employees is a tricky business because of the diverse needs. As such, public Institutions in Rwanda need to device a compensation system that will enable them meet their employees' expectation. However, designing such a compensation system is not easy since it is aimed at influencing human behavior. Therefore, this current study sought to ascertain how salary influences employee performance in Selected Public Institutions in Rwanda.

## LITERATURE REVIEW

### Resource based View Theory

This theory suggests that a company can achieve competitive advantage by recruiting and maintaining the best human capital, resulting in either theoretical or empirical development of the universalistic and contingency output correlation models (Helfat & Peteraf, 2009). The universalistic model implies that a specified set of human resource planning practices and rewards (the so-called "best practices") will always deliver superior business results whatever the circumstances entail. The contingency model argues that the collection of policies and practices of an organization would be successful when compatible with other organizational strategies. There is no agreement among researchers in regards to which model is the dominating one (Grant, 2012). With regard to the human resource-performance linkage model building literature, despite the fact that Cummings and Worley, (2009) supports the view that human resource development model does not have a unifying model that might be utilized to comprehend human resource issues, most current human resource development models are following the universalistic instead of the contingency perspective. Training and employability are thought to be the fundamental components for individuals to get skills that in turn will essentially improve organizational performance (Kieselbach *et al.*, 2009). There is a small number of authors, who advocate that investment in HR might be dependent upon the particular qualities and commitment of groups of employees to the organization. In breaking down the effect of human resource development on organizational execution every one of the human resource management performance linkage models developed complements the others by including constructs, variables or relationships (Pearce, 2010).

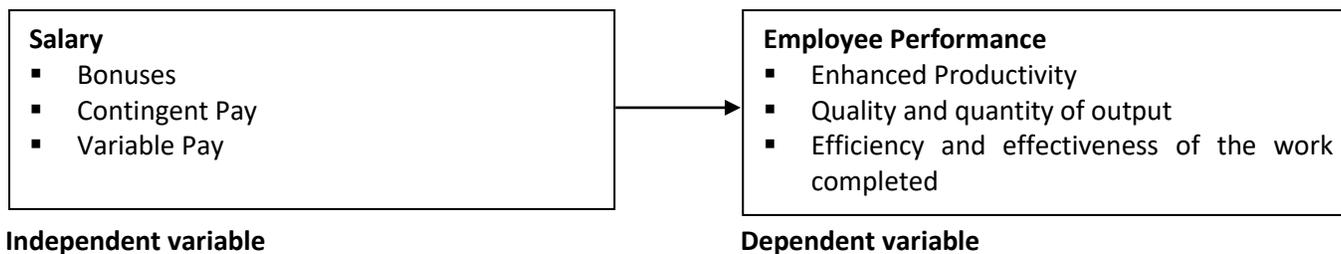
On applying the concepts of value, rareness, inimitability, and substitutability, they argued the HR policies could not form the basis for sustainable

competitive advantage since any individual HR policy could be easily copied by competitors. This theory has overlooked the people perspective or the entrepreneur (his/her abilities) as one of the crucial sources of competitive advantage of a firm. This is because of the fact that it views employees as a bundle of resources.

### Conceptual Framework

A conceptual framework is a scheme of concepts or variables which the researcher operationalizes in

order to achieve set objectives. It is a schematic or diagrammatic presentation of the theory. The theory is presented as a model where research variables and the relationship between them are translated into a visual picture to illustrate the interconnections between the independent and dependent variables (Oso & Onen2009).



**Figure 1: Conceptual framework**

### METHODOLOGY

The study adopted cross-sectional survey research design which is a procedure in research whereby investigators administer a survey to a sample or to the entire population of people to describe the attitudes, opinions behaviors, or characteristics of the population. A cross sectional survey research design helped the researcher in unravelling the purpose of the study; the period of time over which the data was collected and the type of analysis. The design provided information in a short period of time, such as the time required for administering a survey and collecting information. Cross-sectional design allowed for the description of relationships between variables under study which enabled the researcher collect and compare several variables in the study at the same time. The study also utilized both quantitative and qualitative research approaches that were ideal in collection of data through the instruments of questionnaires and interview schedules. Quantitative research approach was relevant to the study as it enhances the

collection of numeric data from a large number of respondents.

This approach was also instrumental with pre-set questions and responses, analysis of trends, comparing groups, and relation of variables using statistical analysis. It was also ideal in the interpretation of results by comparing them with previous predictions and past research, and in writing the research report using standard, fixed structures and in taking an objective and unbiased approach. While qualitative research approach enabled the researcher to explore the problem and developed a detailed understanding of a central phenomenon. The research used the literature review to play a minor role but justified the research problem. Data was collected based on words from a small number of respondents so that the participants' views were obtained. Data was also analyzed for description and supplemented its interpretation by using qualitative data then interpreted the larger meaning of the findings.

The target population of the study was the selected Public Institutions in Rwanda. According to (RURA, 2014) the total Public Institutions in Rwanda are fifty-six. The target population is the population that the researcher wants to generalize results to (Mugenda &

Mugenda, 2013). The study population is the key focus elements of the study. The study population was 4 Public institutions which have completed the restructuring process.

**Table 1: Sample Distribution**

Organisation	Population	Sample Size
WASAC	800	193
REG	230	56
RDB	134	32
BNR	90	22
<b>Total</b>	<b>1,254</b>	<b>303</b>

Basing on the above formula, the researcher used 95% as the confidence level of which Alain Bouchard says is more reliable. The sample size was fully calculated then, the interviews were conducted to those respondents selected and questionnaires were filled by them.

This study used questionnaires to get the necessary information. The researcher used both open-ended and close-ended questionnaires. These are set of questions designed to extract information relating to a survey. It is also referred to as a series of questions

asked to individuals to obtain statistical information about a given topic or to collecting a wide range of information from a large number of individuals, often referred to as respondents (Punch, 2009).

## RESULTS

### Salary

#### Factor Loading for Financial Reward

Factor analysis was conducted on statements salary. Factor loading to salary are as shown in Table 2.

**Table 2: Factor loading for salary**

Statement	Factor Loading
My Performance is more Motivated by a Reasonable Salary that I earn from my current Employer	0.658
I always get Encouraged to work due to the salary that comes on time	0.722
My salary increment motivates my dairy performance at my work place in my organization	0.659
Salary is the sole motivator that enables me to perform to my employers' Expectations	0.642
Salary is not the only sole Motivator that influences Performance at my Work Place.	0.635

Table 2 indicates the set of sub variables under the variable salary. Which according to Mabert *et al.* (2003), factors loading with Eigen values greater than 0.5 should be extracted and below 0.49 not considered. All the sub variables had values more than 0.5 and therefore they were accepted and thus no sub variable was dropped.

### Descriptive statistics on Salary in Selected Public Institutions

Respondents were asked to indicate the duration it takes for them to receive salary increment. Table 3 presents the findings obtained.

**Table 3: Salary Increase Interval**

Duration	Frequency	Percent
Annually	59	21.3
Quarterly	34	12.4
Monthly	0	0.0
Performance based	184	66.3
<b>Total</b>	<b>277</b>	<b>100.0</b>

The findings in Table 3 show that 184(66.3%) of the respondents received their salary increased based on their performance, 59(21.3%) received it annually and 34(12.4%) received it quarterly. The findings also show that none of the respondents received salary increase on a monthly basis. These findings therefore suggest that majority (66.3%) of employees in Public

Institutions in Rwanda received salary increase based on their performance. i.e., Salary increase in Public Institutions in Rwanda is mainly Performance based.

Respondents were also asked to indicate how often they received their salaries. Table 4 presents the findings obtained.

**Table 4: Intervals for Salary Payment**

Duration	Frequency	Percent
Daily	1	0.5
Weekly	4	1.6
Monthly	270	97.4
Annually	1	0.5
<b>Total</b>	<b>277</b>	<b>100.0</b>

From the findings in Table 4, 270(97.4%) of the respondents received their salaries on a monthly basis, 4(1.6%) received on a weekly basis, 1(0.5%) received daily, and 1(0.5%) annually. Therefore, a very high percentage (97.4%) of employees in Public

Institutions in Rwanda receives their salaries on a monthly basis.

The study also sought to determine the motivating factor for employees to continue working with their respective organizations. Table 5 presents the findings obtained.

**Table 5: Reasons for Continuing Working with the Organization**

Reason	Frequency	Percent
Due to the advance salary	204	73.6
To benefit from the employer	107	38.6
To Maternity and annual leave is paid	136	49.1
To benefit from trainings	188	67.9

The findings presented in Table 5 show that 204(73.6%) of the respondents continue working with their respective companies because of the advance salaries, 188(67.9%) is because they benefit from the

training, 136(49.1%) is because their maternity and annual leaves are paid, and 107(38.6%) is because they benefit from the employer. These findings therefore show that the employees continue working

with their organizations because of different reasons but the leading one is advance salary followed by benefits from training.

Respondents were further asked to indicate their level of agreement on the following statements regarding how salary influences performance in their organisation. Table 6 presents the findings obtained.

**Table 6: Descriptive Statistics for Salary**

Salary	1	2	3	4	5	Mean	Std. Dev.
My Performance is more Motivated by a Reasonable Salary that I earn from my current Employer	7	5	7	222	35	3.982	1.37
I always get Encouraged to work due to salary that comes on time	7	7	16	224	22	3.889	1.381
My salary increment motivates my dairy performance at my work place in my organization	13	13	20	209	22	3.777	1.275
Salary is the sole motivator that enables me to perform to my employers' Expectations	16	7	24	215	15	3.738	1.32
Salary is not the only sole Motivator that influences Performance at my Work Place.	5	15	40	215	2	3.698	1.331

The findings in Table 6 show that the respondents agreed with the various statements on the influence of salaries on their performance. This is because all the mean values were above 3.5. The findings specifically show that the respondents agreed that their performance is more Motivated by a Reasonable Salary that they earn from their current Employer (M=3.982, SD=1.37) and that they always get Encouraged to work due to the salary that comes on time (M=3.889, SD=1.381). Respondents also agreed that their salary increment motivates their dairy performance at their work place in their organization (M=3.777, SD=1.275); salary is the sole motivator that enables them to perform to their employers' Expectations (M=3.738, SD=1.32); and that salary is not the only sole Motivator that influences Performance at their Work Place (M=3.698, SD=1.331).

The study findings agree with Bernadian (2008) that employees' primary aim is to earn a better living. Money is an extrinsic reward, and can be used to influence the behaviour of employees. He also explained that incentives as the basic material requirements for the employee which management must meet. The findings also concur with Omotayo (2015) that money is significant, yet it isn't a definitive instrument for inspiration. For many individuals, the sentiment of being recognized and valued appears more significant than money.

**Regression Analysis for salary**

Regression analysis was conducted to determine whether there was a significant relationship between salary and employee performance as shown on Table 7.

**Table 7: Model Fitness for salary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.403	0.162	0.159	0.49614

Table 7 presents the regression model on salary versus employee performance. As presented in the table, the coefficient of determination R Square is 0.162 and R is 0.403 at 0.01 significance level. The

model indicates that salary explains 16.2% of the variation in performance (R-squared=0.162). This means 16.2% of the employee performance is influenced by salary. This implies that there exists a

positive significant relationship between salary and employee performance. The Analysis of Variance (ANOVA) results are shown in Table 8. The findings further confirm that the regression model of

performance on financial rewards index is significant and supported by  $F=52.089$ ,  $p<0.01$ ) since p-values was 0.00 which is less than 0.05.

**Table 8: Analysis of Variance for salary**

	Sum of Squares	df	Mean Square	F	Sig.
Regression	12.822	1	12.822	52.089	.000
Residual	66.214	269	0.246		
Total	79.036	270			

Table 8 shows the coefficient for salary. The fitted model from the result is

$$Y = \beta_0 + \beta_2 X + \epsilon$$

$$Y = 2.222 + 0.427X$$

This implied that a unit change in salary would increase employee performance by the rate of 0.427.

**Table 9: Salary and Employee Performance**

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	2.222	0.243		9.151	0.000
Salary	0.427	0.059	0.403	7.217	0.000

In terms of significant association found between salaries versus employee performance with regard to the entire tested sample, it was concluded that the alternative hypothesis “salary have a positive significant influence on employee performance in public institutions in Rwanda” is accepted. This corroborates with a study conducted by Aktar, Sachu and Ali (2012) which revealed that financial rewards such as performance bonus and basic pay have a positive influence on employee work performance. Similar study conducted by Saleem (2011) revealed a significant association between salary and employee commitment. The author argued that increase in financial incentives such as promotion and bonuses enhanced employee commitment which increases the employee’s performance and reduces turnover. Moreover, Saleem (2011) contended that employees can only be loyal when their wants and desires are satisfied.

### CONCLUSIONS AND RECOMMENDATIONS

The findings established that salary had significant influence on employee performance in in Public

Institutions in Rwanda since the p-value obtained was less than the selected level of significance. The finding further showed that the influence of salary on employee performance in Public Institutions in Rwanda was positive. Based on the findings, the study concludes that there is a positive significant relationship between salary and employee performance in selected Public Institutions in Rwanda.

Salary was found to have positive significant influence on employee performance. The study recommends Public Institutions in Rwanda to consider the salary they offer their employees because it will determine their level of performance which in return affects the performance of the organization. Also, since monetary rewards are seen as a right rather than a reward, their serving as motivating factors has diminished and therefore the companies should focus on combining it with other motivating factors like social recognition and feedback.

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