



**FINANCIAL COMPENSATION ON EMPLOYEE PERFORMANCE OF ROTASSAIRWA LIMITED**

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### ABSTRACT

*Over the last two decades compensation has been one of the products that motivate employees in return ensuring their performance towards achieving organization goals and visions. Compensation is either an output or a benefit that employee receives in form of pay, wages and rewards like monetary exchange for the employee's to increases the performance. The purpose of the study was to examine the importance of financial compensation on employee performance of Rotassairwa Limited. In this study researcher adopted a descriptive research design, where quantitative approach was used. The total population of this study was 281 employees from Rotassairwa Limited. Using Slovin's formula a sample size of 165 respondents was determined. The study used questionnaire to collect primary data. Stratified random sampling technique was used. Using Statistical Package of Social Science (SPSS) version 21 both descriptive and inferential statistics were used to analyze the data. The study findings revealed that 53.3% of the respondents strongly agreed that good salary influence employee performance, 57.0% of all respondents agreed that the employees performed well their job because they were being paid well, the findings revealed that 42.4% of respondents strongly agreed that Rotassairwa Limited paid the employees' bonuses on time, 39.4% of respondents agreed that Rotassairwa Limited paid the employees' bonuses on time. The study recommended that the policy makers to formulate policies than embrace reward systems that could be implemented by existing banks to give them a competitive advantage and for the new banks in setting structures that support employee performance. Rewarded employees are strongly enthusiastic about their work and function as a critical source of inspiration for others. Rewards systems are critical for and important elements in the success of organizations. It was in a company's best interest, therefore, to concentrate on rewarding employees, both financially and non-financially. Based on the findings from this study; the study concluded that the results of correlation between financial compensation and employee performance was at 0.804 meaning financial compensation influence employee performance at the level of 80.4% (strong correlation) which prove a significant relationship between financial compensation and employee performance. Therefore, the researcher concluded a significant relationship between financial compensation and employee performance. The study recommended that more study on the effect of working environment on employee's productivity and factors influencing employee turnover in manufacturing firms.*

**Keywords:** Financial Compensation, Employee performance, Rotassairwa Limited

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## INTRODUCTION

Globally, compensation has been one of the physical needs that motivates employees ensuring which in turn will affect the employee performance (Mathis, Jackson & Valentine, 2013). According to Ali and Akram (2012) compensation package should be tied to the vision strategy, culture, business models and goals of the organization. A good communication system must exist to ensure there is a clear understanding of the organization's future (Aslam, 2015). Every organization needs a strategic compensation system for its employees that address compensation, benefits, recognition and appreciation (Kim, 2015).

A study conducted by Gohari and Kamkar (2013) investigating compensation practices for employees in American organizations revealed that firms had designed compensation practices that motivate employees who contribute most. However, designing such reward systems is not an easy thing because they aim to influence human behaviour. A similar study was conducted among the leading commercial banks in United Kingdom, Greece and Slovenia by Emmanuel, Kominis and Slapnicar (2014). The study revealed that motivation leads to increase in employees performance. However, not all rewards led to motivation. Cash bonus, personal development, promotion and salary increase were most frequently identified rewards, though they were perceived to be of a relatively smaller value to motivate employees. This is because they regarded these as normal recompense for their current and future efforts. Further results showed that a compensation practices which promotes identification of accomplishment and recognition were highly valued to cause motivation. Therefore, a compensation practices that causes a feeling of accomplishment and recognition should be embraced to increase employees performance. Despite financial reward being regarded to be of low value in European countries, a study in India conducted by Priya and Edirisooriya, (2014) revealed that financial rewards boost employee's

motivation to perform their jobs better in commercial banks in India.

Organizations especially in the banking industry in African countries have also recognized the significance of a compensation practices in increasing their employees performance. A study conducted in Ghana by Apeyusi (2012), found out that, there was a positive relationship between a reward and corporate performance. The major reason leading to increase in performance was because majority of employees were motivated by the reward to work harder. It was also revealed from the study that there were enormous reward packages in the organization but some of the staff members were not aware. Therefore, employees should be made aware of the compensation practices components in their employment contract.

In Ethiopia, a study carried by Dauda, Akingbade, and Akinlabi (2010) further considers employee compensation as the total of all rewards provided to employees in return for their service, the overall purposes of which are to attract, retain and motivate employees. In a study by Lamba and Choudhary (2013) findings indicated that there was a positive relationship between employee compensation and performance. This implies that if rewards being offered/ to employees was to be altered, and then there would be a corresponding change in satisfaction and work motivation while the periodic salary increments, allowance, bonuses, fringe benefits and other compensations on regular and specific periods keep employee morale high and makes them more motivated (Danish & Usman 2010).

Compensation practices can improve the performance of employees when their institution can make them better off than worse off by contributing to employee satisfaction and development (Delaney & Huselid & al., 2010). Many organizations do not give emphases to the effective utilization of compensation practices so as to ensure employees performance in developing countries. Organization pay directly influences to

employee voluntary turnover employee compare to their pay available in other organization. People stay or leave the company more reasons they satisfied with their job promotional opportunity and work environment (Mitchall et.al. 2013). In Rwanda compensation practices can improve the performance of organizations by contributing to employee and customer satisfaction, innovation, productivity, and development of good reputation among firm's community. Series of studies have been conducted on compensation Practices in Europe, America, and different parts of Asian continents but little have been conducted in Africa in general and Rwanda in particular.

Rotassairwa Limited manufactures and markets plastics and employs a lot of people in Rwanda. There was need to understand compensation practices and how they affect performance while setting goals and designing strategies to achieve such goals. It's against this imperative that the study investigated the importance of financial compensation on employee performance of Rotassairwa Limited.

### **Statement of the problem**

Manufacturing companies in Rwanda operate under extreme pressure and in a highly competitive environment. The compensation practices include not only salary, but also the direct and indirect rewards and benefits the employee is provided with in return for their contribution to the organization. Some of the benefits of employee's performance include health insurance, disability income protection, retirement benefits, daycare, tuition reimbursement, sick leave, vacation (paid and no-paid), funding of education as well as flexible and alternative work arrangements.

Today Rotassairwa Limited is 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 tea industry (Muogbo, 2013) 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 challenge for Rotassairwa Limited. Today is therefore is to come up with an efficient reward strategy for retaining these core employees for the success of the organization. Another challenge is that the employee is unable to predict the future needs of their employees.

According to (Birt & Winternitz, 2014), the fundamental issue 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. The compensation in Rotassairwa Limited is poorly managed and most of the time performance is affected adversely (Tumwine, 2014). This problem can be overcome by conducting this study to understand the relationship between Compensation practices and Employee Performance. Therefore, the problem the researcher intends to investigate in order to understand to what extent compensation practices contribute to employee performance in Rotassairwa Limited.

## **LITERATURE REVIEW**

### **Human Capital Theory**

Human capital signifies the combined intelligence and experience of staff as a source of competitive advantage that cannot be imitated by rivals Resick (2007). This theory advocates for attracting, engaging, reward and developing people in organizations. In the context of Agriculture and business sector, because some of the employee compensation practices in this research are meant to ensure that the performance of employees is enhanced this theory is relevant. However, this theory has been criticized for not addressing other underlying components of employee performance. Scholars have argued that ultimately, it's only the

characteristics that enhance employee performance. The theory is relevant in this study. This is because it considers reward which is also a component of compensation. This means that employees can be rewarded for their efforts despite the fact that the theory does not examine the effect of the rewards.

Human capital arises out of any activity able to raise individual worker productivity (Abdullah, 2014). In practice full-time education is, too readily, taken as the principal example. For workers, investment in human capital involves both direct costs, and costs in foregone earnings. Workers making the investment decisions compare the attractiveness of alternative future income and consumption streams, some of which offer enhanced future income, in exchange for higher present training costs and deferred consumption. Returns on societal investment in human capital may in principle be calculated in an analogous way (Afsal, 2013).

Human capital in a real sense is an 'invisible asset' (Bal, Bozkurt, & Ertemsir, 2012). The importance of the human capital pool (the collection of employee capabilities), and how it is managed through HR processes, becomes apparent, then, to the strategic aims of the organization. If the types and levels of skills are not equally distributed, such that some firms can acquire the talent they need and others cannot, then (*ceteris paribus*) that form of human capital can be a source of sustained competitive advantage. This emphasis on human capital also chimes with the emphasis in strategy research on 'core competencies,' where economic rents are attributed to 'people-embodied skills (Chebet, 2015).

The organization also has to leverage the skills and capabilities of its employees by encouraging individual and organizational learning and creating a supportive environment where knowledge can be created, shared and applied (Chebet, 2015). Despite that fact that Human Capital Theory is founded on the ideology of employee development, it is noted by Dauda, Akingbade and Akinlabi (2010) that

human beings are dynamic in nature and keeps on changing their goals from time to time. Further, they argue that developing human capital can be a costly venture to an organization since employees can resign, die or look for new jobs in other organizations. This theory is applicable in this study on the concept that microfinance institutions have to invest in employee skills and knowledge in order to maximize productivity.

### **Financial compensation**

Employees receive financial payment from employers in the form of a salary or commission. This payment is expected as a result of the work the individual was hired to complete. In addition to regular compensation, financial rewards are monetary incentives that an employee earns as a result of good performance. These rewards are aligned with organizational goals. When an employee helps an organization in the achievement of its goals, a reward often follows. All financial rewards are extrinsic. Extrinsic motivation is based on tangible rewards, such as pay raises, bonuses, and paid time off (Mckinney, 2015).

According to Yousaf, Latif and Aslam (2014) bonuses are offered to the employees when they achieve certain standards and quotas. While pay is the compensation given to employees of their actions which is proportionate to the skills, knowledge and their expectations. Money is ranked at the top because it enables employees to fulfill their basic needs of life. At the same time, money is considered as the sign of triumph and accomplishment because it allows the people to fulfill the needs of belongingness. It enables the human to establish status, rank and authority.

Murphy (2015) contends that financial rewards are important in managing employee's performance, because they motivate one to perform a certain function. In line with Murphy, a research conducted in Pakistan by Ali and Akram (2012) revealed that some organizations were offering good financial rewards to their employees, which motivated them in performing their duties and be satisfied with their salary and job position. Similar study by

Yousaf, Latif and Aslam (2014) found that financial rewards are important for employee motivation in third world countries, where the inflation rate is so high that people are struggling hard to retain their social status. Another study by Saleem (2011) revealed a significant association between financial incentives 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.

### Conceptual Framework

Figure 1 show the relationship between the independent variables (financial compensation) and the dependent variable (employee performance). The figure also suggests an interrelationship between the two groups of variables as identified and explained in the literature review.

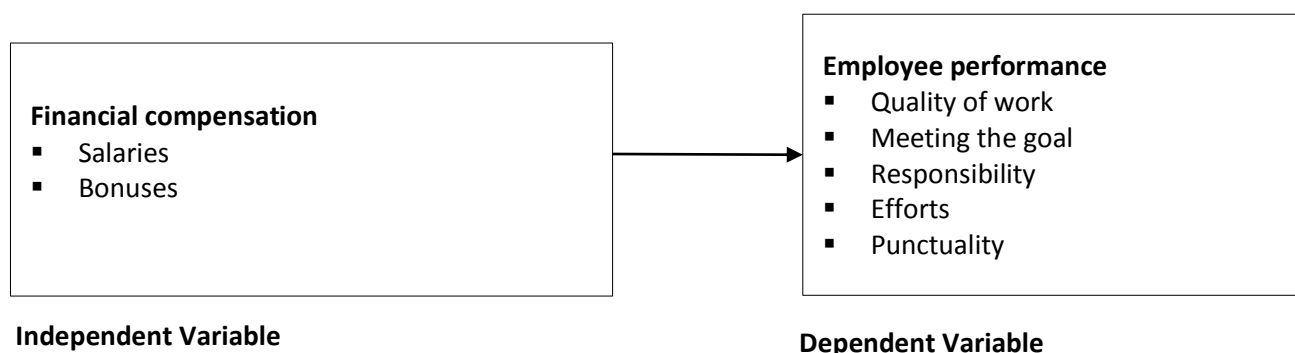


Figure 1: Conceptual Framework

### METHODOLOGY

This study applied both descriptive and quantitative research designs. The main use is to provide information on characteristics of the chosen population or phenomenon. Descriptive research was considered prior to be quantitative research design as it provided an overall overview as to what variables to test quantitatively. The total population of this study was the employees from Rotassairwa Limited which equivalent to 381 employees. A sample size of 195 respondents was determined from total population of 281 employees by using the formula of Sloven's.

Stratified random sampling was used to select the respondents. The Stratified Random Sampling technique ensured that different groups of a population are adequately represented in the sample since it divided the population into homogenous groups such that the elements within each group are more alike than the elements in the population.

### RESULTS AND FINDINGS

#### Financial compensation on employee performance Rotassairwa Limited

The objective was to examine the importance of financial compensation on employee performance of Rotassairwa Limited.

Respondents opinion was sought on whether good salary influence employee performance. Mmajority of the respondents 96.7% (69.4% + 27.3%) 69.4% agreed, 2.2% were undecided and 1.1% disagreed. This is an indication that Rotassairwa Limited give good salary to their employees.

Another statement related to salary was asked. The respondents were required to rate their opinion as to whether if being paid on time salary can influence the employee performance. Majority of 71.3% agreed, 8.9% were undecided, 6.3% disagreed and 1.8% strongly disagreed. This is an indication that salry was paid on time to motivate workers. The study further sought an opinion of the

respondents as to whether the employees of Rotassairwa Limited perform well their job because were paid well. Majority of 88.4% agreed, 21.8% were undecided, 2.6% disagreed and 4.4% strongly disagreed. These results are an indication that majority of Rotassairwa Limited give contingent pay to their employee.

Respondents were tasked to give their opinion on whether Salary is a major factor of employee performance. The findings showed that the majority of the study respondents equivalent to 44.2% agreed and 39.4% strongly agreed that the salary was the major factor of employee performance. 12.1% of respondents strongly disagreed on salary as a major factor and 4.2% were undecided. Mckinney (2015) contends that variable pay is given as a form of financial reward to motivate employee to put extra effort in their work to boost their performance.

Respondents opinion was sought to ascertain whether Manufacturing companies pay the bonuses on time. The result in table 4.9 shows that a

majority of 83.1% agreed, 11.2% were undecided, 3.0% disagreed and 2.6% strongly disagreed. The study sought to find out whether the bonuses influence the employee performance of Rotassairwa Limited. Majority of 71.3% agreed, 8.9% were undecided, 6.3% disagreed and 1.8% strongly disagreed. On whether, the employees of Rotassairwa Limited satisfied with the bonus's percentage. Majority of 71.3% agreed, 8.9% were undecided, 6.3% disagreed and 1.8% strongly disagreed.

Lastly, an opinion was also sought from the respondents as to whether the bonus given by manufacturing companies is equally for all employees. The results revealed that a majority of 46.0% were undecided, 13.3% strongly agreed, 30.0% agreed, 5.7% disagreed and 4.9% strongly disagreed. Majority are not certain whether someone will return favour if they helped them. Based on the expectancy theory, if one does not expect a favour then he/she is unlikely to offer help (Saleem, 2010).

**Table 1: Financial Compensation**

Statement	Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree	Mean	S.D
Good salary influence employee performance	0.0%	1.1%	2.2%	27.3%	69.4%	4.6	0.5
Being paid on time salary can influence the employee performance	4.4%	2.6%	21.8%	36.2%	35.1%	3.9	1.0
The employees of Rotassairwa Limited perform well their job because were paid well.	1.9%	3.0%	6.8%	30.5%	57.9%	4.3	0.8
Salary is a major factor of employee performance	2.6%	3.0%	11.2%	61.8%	21.3%	3.9	0.8
Manufacturing companies pay the bonuses on time	1.9%	7.1%	25.1%	46.8%	19.1%	3.7	0.9
Bonuses influence the employee performance of Rotassairwa Limited	4.9%	5.7%	46.0%	30.0%	13.3%	3.4	0.9
The employees of Rotassairwa Limited satisfied with the bonus's percentage.	1.8%	6.3%	8.9%	55.7%	27.3%	4.0	0.8
The bonus given by manufacturing companies is equally for all employees	1.1%	1.8%	7.4%	56.8%	32.8%	4.1	0.7
<b>Average</b>	<b>1.9%</b>	<b>3.7%</b>	<b>14.1%</b>	<b>46%</b>	<b>34.3%</b>	<b>4.0</b>	<b>0.7</b>

Source: Field Data (2019)

### Correlation between financial compensation and employee performance

The results of correlation between financial compensation and employee performance was at 0.804 meaning financial compensation influence employee performance at the level of 80.4% (strong correlation) which prove a significant relationship

between financial compensation and employee performance. If the researcher considers the level of significance which is 0.05, there is therefore a significant relationship between them because their p-value (0.000) is statistically significant at 5% level of significance.

**Table 2: Correlation between financial compensation and employee performance**

		Financial compensation	Employee performance
<b>Financial compensation</b>	Pearson Correlation	1	.804**
	Sig. (2-tailed)		.000
	N	165	165
<b>Employee performance</b>	Pearson Correlation	.804**	1
	Sig. (2-tailed)	.000	
	N	165	165

### Discussion of Results

Regression of coefficient revealed that there was a positive and significant relationship between financial reward and employee performance ( $r=0.290$ ,  $p=0.000$ ). This was supported by a calculated t-statistic of 3.950 that is larger than the critical t-statistic of 1.96. This means that a unitary improvement in financial reward leads to an improvement in employee performance by 0.290 units holding other factors constant.

This is in agreement with Baloch (2014) who stated that financial rewards such as bonuses are given to bank employees to reward performance. Sal further contends that the number of bonuses granted to the employee is usually determined by the individual contribution to the business goals that are determined by the bank management.

In addition, this study agrees with Aktar et al (2012) which revealed that Commercial Banks in Kenya offered contingent pay in form of additional allowances for special kind of jobs in order to motivate employees. Contingent pay is not regular but is given when a special task occurs and a staff is allocated to perform it. Therefore, some employees may not know whether they exist.

### CONCLUSIONS AND RECOMMENDATIONS

Based on the findings from this study; the study concludes that the results of correlation between

financial compensation and employee performance was at 0.804 meaning financial compensation influence employee performance at the level of 80.4% (strong correlation) which prove a significant relationship between financial compensation and employee performance. Therefore, the researcher concluded a significant relationship between financial compensation and employee performance.

The study recommended the policy makers to formulate policies than embrace reward systems that could be implemented by existing banks to give them a competitive advantage and for the new banks in setting structures that support employee performance. Rewarded employees are strongly enthusiastic about their work and function as a critical source of inspiration for others. Rewards systems are critical for and important elements in the success of organizations. It was in a company's best interest, therefore, to concentrate on rewarding employees, both financially and non-financially.

### Areas for further research

The study contributed to the body of knowledge in the following ways; the findings of the study will assist the manufacturing firms to evaluate financial benefits, non-financial benefits, and health benefits as the study discovered that the stated factors contribute to employee performance. Future



studies can incorporate other variables like employee motivation practices for example employee recognition and promotion since they can influence employee performance. Other studies can

explore the effect of working environment on employee's productivity and also the factors influencing employee turnover in manufacturing firms in Rwanda.

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