



**EFFECTS OF REWARD SYSTEMS ON PERFORMANCE OF THE HEALTH
ORGANIZATIONS IN KENYA: A CASE STUDY OF AGA KHAN HOSPITAL -
KISUMU**

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Abstract

The concept of total rewards is strategy that organizations employ with emphasis on employee engagement as critical component to organizational performance. Aga Khan Hospital Kisumu like most organizations in healthcare service industries, processes like recruiting and keeping talent in an environment filled with diverse and mobile employees is a complex activity. This study purposed to investigate the effects of reward systems on performance of the Health organizations at Aga Khan Hospital, Kisumu. The specific objectives were: to determine how team based reward system, total reward system and performance based related system affect the performance of Aga khan Hospital – Kisumu. Descriptive research design was used. Target population was 449 employees. The study sample size was 327 respondents. Primary data was collected using research questionnaires. Data analysis was done using descriptive statistics and inferential statistics. The results showed that a relationship exist between the variables indicated that employee performance is a function of reward systems adopted; reward systems have a strong association with Performance of Health Organizations ($R = 0.916^a$), further the rewards systems can explain up to 83.8% of the variation in Performance of Health Organizations and this is indicated by R Square ($R = 0.838$) the model used in this study can be relied on by its users up to 83.7% (adjusted $R^2 = .837$) and this result is statistically significant. The study concludes that rewards systems adopted in an organization positively and significantly influence the performance of its employees and hence Performance of Health Organizations.

Keywords: Rewards, organizational performance, healthcare services

1.1 INTRODUCTION

Globally there is a growing number of expectations from business organizations operating on an international level and are expected to deliver greater value. Glenn (2001) argued, “The key thing is a real push for benefits to deliver value and move the needle in the employee engagement conversation. Employers are frustrated by expensive benefits that don’t even create the basics of employee goodwill.” Employees are instead looking to their employers to provide global benefits that actually help to enrich their work-life balance. It is important for managers and human resource professionals to carefully consider certain values when designing a rewards system to fit their organizations. Some reward practices may be universally effective regardless of culture; others may be culturally sensitive. However, besides the areas related to tools, methodologies, work environment, management and reuse, the area of personal incentives (Brown, 2008; Glenn 2001). The theories

of motivation in support of the above thinking, argue that the people who contribute more to a company should receive more for their effort (Campbell, 2009). This expectation has a significant influence on the design of incentive systems, and payment by merit programs reflects.

Laakso (2012) argues that American firms are ruthless at rapidly rewarding and promoting good employees and retraining or firing bad employees. This for long has been attained due to the America's tougher levels of competition. It is worth noting that large and open U.S. markets generate the type of rapid management evolution that allows only the best-managed firms to survive. Human capital is important. America traditionally gets far more of its population into college than other nations. Conversely, being in a world-class environment like the U.S. does not guarantee success. Even in America, more than 15% of healthcare firms are so badly managed that they are worse than the average Chinese or Indian firm (Nicholas, 2010). Other countries equal or better than U.S. in some of the other areas of healthcare and reward management exist. Such countries such Germany as has put more focus on careful monitoring, lean production, and sensible targets through the support of the updated technologies. The manufacturing process of Germany, which has helped it weather the recent downturn so well, is built upon such advantages. Furthermore, although Chinese management practices are well below U.S. standards, they have shown the fastest improvement in the recent years.

O'Donnell and O'Brien (2000) study of employees within the Australian Public Service (APS) found that employees were concerned about the subjective nature of the appraisal process when their supervisors measured their (employees) performance. Employees complained that the appraisal process was often ambiguous and left too much discretion to supervisors to make judgments about employee performance. The issue of subjectivity in the evaluation of employees' performance brings to the fore lack of trust and opposition to performance based reward schemes by employees (Malen, 1999). Employees often question the fairness of the performance evaluation criteria used for purposes of determining their rewards (Milkovich and Newman, 1999). This lack of trust in the performance evaluation criteria is sometimes driven by employees' perceptions of inequity between their inputs relative to compensation, as compared against other employees performing the same task.

Wilson (2003) competition alongside immense pressure to achieve results in the private sector organizations in Africa has forced these firms to think strategically. Paying employees for productivity has been the cornerstone of industrial and business development for centuries. Financial reward has been identified as one of the critical aspects of managing employee's performance. However, over the last 25 years other elements of compensation have developed to provide employers with more scope to reward, and thus, motivate employees. Armstrong and Taylor (2010) state that "performance is defined as behavior that accomplishes results". Performance management influences performance by helping people to understand what good performance means and by providing the information needed to improve it. Reward management influences performance by recognizing and rewarding good performance and by providing incentives to improve it.

Torrington et al., (2011) both public and private sector organizations South Africa continue to tackle concern about the ageing population and the burden of the reward and pension obligations to their workers in the future. While there are plenty of people who enjoy working and who claim they would not stop working even if they were to win a big cash prize in a lottery, most of the employees from these sectors chose to work irrespective of their age since it is their only means of earning the money as a way of sustaining their families. Remuneration and reward is the only aspect that keeps employees motivated to work in the entire organizational aspects. Wilson (2003) manipulation of both sectors' compensation policies, in terms of pay or pensions and other

conditions of service) will have immediate consequences for fiscal budgets, workforce composition, delivery of services, inequality and relative remuneration it is necessary to carefully evaluate any proposed changes in any element of the total remuneration package.

Many developing-country firms, even while trying to implement new techniques like Lean Management, ignore the fact that labor is different from other “inputs.” Controversy continues to surround relative value of public and private sector remuneration in the developing nations. Torrington et al. (2011) describe the importance of workplace rewards where reward is clearly central to the employment relationship. While there are plenty of people who enjoy working and who claim they would not stop working even if they were to win a big cash prize in a lottery, most of us work in large part because it is our only means of earning the money we need to sustain us and our families. How much we are paid and in what form is therefore an issue which matters hugely to us. Wilson (2003) describes rewards and their purpose as including systems, programmes and practices that influence the actions of people. The purpose of reward systems is to provide a systematic way to deliver positive consequences. Fundamental purpose is to provide positive consequences for contributions to desired performance. Weightman (2004) argues “the main construct of performance management is that work groups and individuals see what they have to do to make their contribution to the organization’s overall effectiveness. There is need for a clear link of rewards with the organizational objectives and this involves good communication of clear objectives that everyone understands.

Reward management is a key concern of business organizations in Kenya. Employees form the main drivers of corporate performance. Corporate entities adopt employee performance reinforcement strategies to sustain and grow realized performance levels. Rewards constitute one of the key employee performance sustenance and growth strategies. Rewards are positive performance reinforcers and include financial and non-financial types. State corporations in Kenya have regulated reward systems guided by the public sector compensation regulations. The guidelines enable management in such institutions to creatively develop instruments and facilities to attract, retain and enhance performance of staff in these institutions. National Hospital Insurance Fund is one of the key state corporations in the Ministry of Medical Services in Kenya. The reward policies in the Kenyan firms advocate for equal pay for equal work, nondiscrimination in rewards, internal and external equity in rewards, competitive reward structure, and performance based rewards (Mutua, 2011).

Kenya’s health care system faces critical human resources for health demands which are similar to the health systems in many African countries. Recognizing that human resource demands are an integral part of the challenges confronting the National Health System, the Kenya Human Resource Health (HRH) Strategy is one of the steps the national and county governments in collaboration with partners are taking to strengthen the human resources for health in order to deliver quality health services more efficiently. There are myriads of challenges facing the Kenya’s human resources for health which includes severe shortages of essential cadres, persistent inability to attract and retain health workers, poor and uneven remuneration among cadres, poor working conditions, inadequate or lack of essential tools and medical and non-medical supplies, the unequal distribution of staff, diminishing productivity among the health workforce, and poor leadership and governance. Human Resources for Health (HRH) have long been recognized as the cornerstone of health sector to produce, deliver and manage services. (Health Sector Human Resources Strategy, 2014).

Morrison, et al. (2007) indicated that lack of engagement and high turnover rates impact health care organizations. Some of these factors include turnover costs, which according to Waldman and Kelly (2004) range between 3.4% and 5.8% of their operating budget. High turnover rates are thought to lead to higher discharge costs. Therefore when employees feel unsatisfied and unappreciated they leave the organization this

puts higher workloads and stress levels on those who remain and ultimately further drives down satisfaction for both employees and patients (Fukuyama, 1995). Lack of recognition and appreciation is a big barrier to good clinical practice in Kenya unlike in Uganda where 69.9% health workers reported use of performance appraisal for rewarding employees. Most study surveys in Kenya indicate that mechanisms for staff appraisal are more objective than the criteria for staff promotion (Ndavi et al., 2009; Githemo, 2006; Nzinga et al., 2009).

Shields (2007) study reported that there is very limited success with performance based reward systems particularly in the Public Service. Competition and individualism among employees may actually work against the intention of performance related reward schemes (performance enhancement), especially in services where a group of employees all contribute to the ultimate service outcomes (Chamberlain et al., 2002). In this case rewards would foster competition as opposed to cooperation as individual employees try to compete with each other in the race for better rewards (Heneman and Werner, 2005). Therefore likely to cause conflict arising from competition for rewards which could be damaging especially where employees depend on one another for the completion of the task. It on this fundamental principle that operations in health service providers are effective and efficient. For instance, in Aga Khan Hospital Kisumu operations for customer service delivery entirely depend on inputs from one employee desk to the next for action. Despite mixed results from past studies on rewards and employee performance; this study's unit of analysis which is Aga Khan Hospital Kisumu operations is considered "efficient". Can this efficiency be linked to rewards systems in the health sector. Linking rewards to performance may sometimes lead to greater individual and unit performance but a decline in the performance of the entire organization may be attributed to lack of synergistic interrelationship of different organizational units. This is not desired; therefore the effectiveness of compensation schemes requires synergy between the schemes and the organizational strategies. This implies that the success of performance enhancement schemes requires that schemes be incorporated within the overall strategic focus of the organization. This study therefore seeks to explore the link between rewards adopted and organizational performance with reference to the performance of employees in Aga Khan Hospital of Kisumu, Kenya.

Markova and Ford (2011) Aga Khan Hospital, Kisumu is committed to the provision of quality health care while ensuring safety for patients, their families and staff in the hospital. On February 26th 1951, His Highness, Prince Aly Khan laid the foundation stone for the His Highness, the Aga Khan Dispensary and Maternity Home which was opened in 1952. The hospital had an 8 bed general ward. In 1960, there was increased demand for services and the hospital was enlarged to two General wards with a capacity of 17-beds and an outpatient department. In 1975 a small laboratory was established and a portable X-ray machine was purchased (Aga Khan Hospital Kisumu Quality Improvement & Safety Manual, 2012). Due to further increase in demand, the year 1982 saw the laying of the foundation stone for its extension to the Aga Khan Medical Centre Kisumu, by His Highness Prince Karim Aga Khan. On March 21st 1985, Her Highness the Begum Salima Aga Khan, formally opened the 46 bed General Hospital, which included four Private Rooms in the General Ward, Two Private Rooms in the Maternity Ward and two Operating Theatres. By 1992 the capacity had increased to 76 beds including a Paediatric Ward, a VIP wing and an Acute Care Unit. Today, the 63 bed hospital has 464 staff of various skills sets. It has a well-equipped 24-hour emergency service.

The Hospital has undergone major refurbishment that has seen the installation of a Computerized Tomography Scan, expansion and modernization of the laboratory, pharmacy and Physiotherapy Departments and the introduction of a Haemodialysis Unit. As part of the Aga Khan Hospital Kisumu's objectives, to enhance access to quality health, the Hospital has eight satellite Medical Centres, in Kisii, Kakamega, Busia, Kibuye, Bungoma, Kitale, Kericho and Homa-bay towns. (Aga Khan Hospital Kisumu Quality Improvement & Safety

Manual, 2012). The real success of organizations originates from employees' willingness to use their creativity, abilities and know-how in favor of the organization and the organizations' task to encourage and nourish these positive employee inputs by putting effective reward practices in place (Markova and Ford, 2011). The Aga Khan Hospital Kisumu forms the focus for this research because of "its role" as a private health facility visited for medical services by many patients from the Western regions of Kenya.

1.2 Statement of the Problem

Managers of organizations believe that they can adequately motivate their workers through higher pay, bonuses and paid vacations; but in most cases there exist an 'extrinsic incentive bias' which is perpetuated by both managers and employees; this bias does not stem from reality but are rather rooted in myths surrounding employee satisfaction (Morse, 2003; Atchison, 2003). Past research works have however shown that monetary incentives do not motivate workers and may in certain circumstances become demotivators. Shanks (2007) asserts that monetary reward 'motivates only to a point; that is, when compensation isn't high enough or is considered to be inequitable, it's a demotivator'. Despite all scholarly arguments for rewards and against rewards it difficult to measure, assess and evaluate employee, especially if such evaluation is required for determining employee rewards; it is often difficult to determine a fair and accurate evaluation of performance, and this creates problems in implementing the reward schemes (Gomez-Mejia and Balkin, 1992; Pearce and Perry, 1983; Beer and Cannon, 2004). Cutler and Waine (2000), the central issue against the use of performance related reward schemes is lack of consistency associated with performance measures.

Performance measures are susceptible to manipulation this negatively affect the authenticity of the reward process (Cutler and Waine, 2000). It is even more difficult to determine an individual's level of rewards where the accomplishment of task performance involves a team (Gomez-Mejia and Balkin, 1992; Harvey-Beavis, 2003). This occurs mainly where several employees' inputs are required to complete a given task and such inputs are "inextricably tied" so that it is not possible to judge each individual employee's contribution to the overall task (Gomez-Mejia and Balkin, 1992). The problem of measuring and evaluating performance emanates from appraising performance may not be completely objective because of the subjective human evaluation (Baker et al., 1988; Cardona, 2002). The appraisal process is often ambiguous and left at the discretion of supervisors to make judgements about employee performance. The issue of subjectivity in the evaluation of employees' performance brings to the fore lack of trust and opposition to performance based reward schemes by employees. Employees often question the fairness of the performance evaluation criteria used for purposes of determining their rewards. In addition, trust and transparency of performance evaluation increases acceptance of performance based reward schemes as valid, further less regard for unrewarded tasks forms the challenge and another possible pitfall of performance based reward schemes. This may encourage employees to focus too much on tasks and goals specified in the performance contract at the expense of important unrewarded tasks. Therefore this study is anchored on this inconsistencies to assess the effects of reward systems on performance of the Health organizations in Kenya, particularly the performance.

1.3 Research Objectives

The main objective of this study was to assess the effects of reward systems on performance of the Health organizations in Kenya, particularly the performance of The Aga Khan Hospital, Kisumu. The study was guided by the following specific objectives;

- i. To find out the effect of team based reward system on the performance of the Aga Khan Hospital, Kisumu.

- ii. To find out the effect of total reward system on the performance of the Aga Khan Hospital, Kisumu.
- iii. To find out the effect of performance related pay reward system on the performance of the Aga Khan Hospital, Kisumu.

2.1 Theoretical literature

2.1.1 Maslow's Hierarchy of Needs Theory

Maslow's need hierarchy theory (1943), supposed to be a motivation basis has been used to interpret the entire spectrum of human behavior. Maslow proposed that motivation is a function of five basic needs-physiological, safety, love, esteem and self-actualization-which are arranged in the predictable stair-step fashion and that a person's physiological needs must be firstly met followed by safety needs, and so on up the need hierarchy (Kreitner & Kinicki, 2007). When designing total reward strategy, employees' multifarious needs must be well considered, Maslow's points will help the organization reach its expectation.

2.1.2 Expectancy Theory

Expectancy Theory predicts one's level of motivation depends on the attractiveness of the rewards sought and the probability of obtaining those rewards (Vroom, 1994; Bohlander & Snell, 2004). If employees perceive that they may get valued rewards from the organization, they tend to put greater effort into work. Expectancy Theory includes three dimensions, say, expectancy, instrumentality and valence, the level of all of which must be high if desired behaviors are looked forward to in employees' work. The position of Expectancy Theory in total reward strategy (Bohlander & Snell, 2004) showing the relationship between pay-for-performance and the expectancy theory of motivation. It's certain that the staff want their needs satisfied, however, they also would like to be treated fairly by the organization. Thus, when total reward strategy is brought to bear it must assure the employees realize the justice of the corporation like the procedural justice of performance management.

2.1.3 Team Based Reward Systems and Organizational Performance

In the modern business environment, team performance is becoming more and more critical to organizational success. Ensuring employees work both productively and collaboratively as part of a team can be difficult and according to Torrington et al. (2011) if the performance management activity is not defined correctly, employee's individual goals may damage the team's performance. Group based awards appear to be logical compliments of performance measurement that focuses on teams and the quality or quantity of work they produce. Dematteo et al. (1998) study revealed that applying rewards to teams as a whole is based on the assumption that team rewards will do something qualitatively different than individual rewards. However, according to Armstrong, (2012) it can take time for a team member to adjust to part of their remuneration that is determined by the group's effort and how long that takes will be determined by the maturity of the team members and how used they are to working together. Kramar and Syed (2012) showed that group rewards or incentives are more likely to yield a collaborative approach to performance and is more effective in reaching organizational shared goals. The collective incentive schemes encourage more organizational buy in from employees compared to those schemes of an individual nature. However, this does not mean that team based rewards are not compatible with individual performance related pay schemes as both can be combined with careful attention.

According to Kerrin's and Oliver (2002) this study revealed that collective and individual improvement activities, the effectiveness of collective or team based rewards can be directly related to the culture of the organization. A study by Johnson (2009) showed the effectiveness of a team based reward system in the basic sense. The dynamics of the team play a big part in the "reward interdependence", this study argued for the need to introduce more individual incentives within the team based reward structure. "Equal Allocations" become important where reward is not only dependent on overall team performance, but is shared equally between all team members. It suggested team members must help each other to achieve their end result, but they are rewarded differently based on what they have contributed to the team's performance.

Rock et al., (2011) study found that there is a lower based score for an 'equity strategy' where everybody gets the same. Therefore team based rewards showed no correlation with higher performance. With the increasing use of team based work structures, it is important to choose the right rewards to obtain the highest performance. But constructive behaviours between team members are also important. According to Bamberger and Levi (2009) the study found that "equality orientated pay structures" within a team setting led to better behaviour outcomes for the team. Rewarding team related behaviour such as helping your team mates enhanced the overall effectiveness of the team. It also found that individuals at the higher level of development within the organization were more inclined to help in a team setting even when doing so was not to their apparent advantage. Understanding behaviour is important in this context. Weightman (2004) describes influencing employee behaviour through instructing and rewarding as 'behaviour modification'. This is important for managing people because if personality is learned and reliant on reinforcement then the right type of rewards applied to a team should yield positive behaviours which can increase motivation and performance. Similarly, King (2007) argues that initiating team work on a small scale throughout the organization and focusing on essential tasks that help people to grow along the entire career chain, will contribute positively to 'career motivation'.

The validity of team based reward systems can also depend on the specific industry. Sometimes a combination of individual and group financial incentives as well as a mixture of formal and informal rewards schemes, can encourage employees to engage in both 'in-role' and 'extra-role' behaviour at the same time (Yap et al., 2009). Milne (2007) found major shortcomings on how team based rewards were viewed in terms of motivation. Employees may have difficulty in seeing how their efforts translate into results and may become demotivated if they see a team member been rewarded for not contributing enough to the end result. Therefore the design of team based rewards is vital if you are to avoid negative effects on motivation, which ultimately will lead to bigger problems to the organization, if allowed to foster.

Cacioppe (1999) study on how team rewards drive organizational success revealed that positive interdependence, personal accountability, promoted interaction and appropriate use of social skills and group processing is of great importance. This suggests that reward and recognition systems, are one of the most important ways to foster positive interdependence and personal accountability". So identifying the correct rewards for a team should be followed by the correct design of that strategy. Aligning organizational goals with developing team based rewards and including the culture and value of the organization in this development, is the suggested approach. A low risk approach to this would introduce a team based recognition strategy which aim to reinforce the capability of the team. This allows the organizations to reap the benefits of closer working relationships with the team now, and to assess whether even greater benefits would arise later from specific team based pay (Thorpe & Homan, 2000). However, in the evidence based research on organizational rewards systems carried by Datta, (2012) an ORD (optimized rewards distribution) model where

rewards distribution followed ‘well-grounded strategy which best corresponds to the exchange’. In this sense human resources are considered as portfolio or capital assets. Therefore it is considered that rewards distribution is a human capital management system with performance reviews as inputs in the process and the actual end rewards as the outputs.

2.1.4 Total Reward Systems and Organizational Performance

This concept “total reward” involves designing a rich mix of complimentary initiatives which aim to maximize the chances that employees will find their work to be ‘rewarding’ in the widest sense of the word”. Aligning this reward system design with the overall strategy of the organization so as it’s not perceived to be ad-hoc is considered to be a key factor in its success (Taylor, 2011). According to Stredwick (2000) study on aligning rewards to organizational goals within a multinational pharmaceutical company. Its findings reveal that through “broad-banding” or the allocation of roles into different grades with different rewards, it motivated employees to perform better in order to attain progression in the their careers, but these rewards needed to be varied and flexible and not just pay related. Finding the right blend of tangible and intangible rewards to adequately motivate and retain your employees is a difficult task. The total reward approach is therefore very broad and can never constitute a one size fits all solution to rewarding employees in the workplace.

According to De Mattio et al. (1998) study indicated that a combination of reward practices can be used to reinforce and encourage high levels of individual performance and, at the same time, foster team work among individuals. Further, Heneman and von Hippel, (1995) suggested that rather than choosing individual or group based incentives on their own, a combination of the two incentive strategies may be more effective in motivating performance at the individual level and cooperation at the team level. In the research by Tze San et al. (2012) findings indicated that financial and objective measures are central in designing reward systems. It is believed that this leads to an increase in the organization’s reputation, more energy and team spirit in the workplace and make the organization more attractive to potential new recruits.

The total reward system should be well structured, customer focused, fit in strategically with organizational goals and be designed to encourage ethical behaviour. Pay is still an important part of it. The argument that higher pay increases do not increase job satisfaction is explored in a study by Bhakta and Nagy (2005). The study found that the pay satisfaction is the largest to increase job satisfaction. Allen and Kilmann (1998) in their study on the role of the reward systems for a total quality management based strategy, they suggested a combination of extrinsic reward practices including “profit sharing, gain sharing, employment security and comp time” this showed a positive effect between the reward system in the total quality management approach and performance. It is noticeable that direct or base pay is not included in this list of extrinsic rewards. It showed that just as a TQM approach within an organization can improve performance; it can be greatly complimented by the correct use of the appropriate blend of rewards. Further, the type of rewards on offer can have an impact on employee’s acceptance of organizational change and that the rewards can be linked strategically at organizational, group and individual level.

Kramar and Syed (2012) stated that “the use and refinement of behavioural methods will be a major step in the development of performance appraisal systems. Behavioural methods possess good validity and reliability. It is important that aspects of pay and other complementary reward programmes are seen to be fair. This is a key factor to achieve genuine buy in from participating employees. Reward preferences differ throughout an organization. So having a good mix is beneficial to the overall performance of the company. However,

evidence suggests that a mix of both intrinsic and extrinsic rewards lead to overall satisfaction and to achieve this one cannot be directly substituted for the other. Its success or failure will depend on who influences or controls this, so management participation is vital (Newman, 2009).

Deciding on the type of reward which will be most effective for an organization is therefore essential to drive performance. Similarly, Yousaf et al. (2015) in their research in a non-western culture found that employees with different work motivations had different levels of work performance. The study looked at the effects of intrinsic and extrinsic motivation on different types of performance (task and contextual) and found a stronger relationship between intrinsic motivation and task performance compared to extrinsic motivation and contextual performance. In other words, a total rewards approach can have a very positive effect on activities related to the social and inner core of the organization.

According to Kramar and Syed (2012), the fact that there is debate over extrinsic and intrinsic rewards as drivers of motivation it shows the importance of adopting a critical approach to reward management and highlights the importance of implementing the right system in an organization. If the mix of rewards or reward system is not thought out properly, it can have the opposite effect so not only will it adversely affect performance it could also lead to dysfunctional behaviour. Therefore a critical approach to reward management may help in avoiding this dysfunctional behaviour. It is widely identified that behaviour is closely linked with motivation and performance. Ankli and Palliam (2012) in their study on exploring the sources of motivation in the workplace, found that using a self-determination theory (SDT) of motivation, as a way of predicting performance, showed positive results. This theory focuses on the perception of one's self and how you fit into the overall organization and its culture. Making work and play indistinguishable through the use of intrinsic motivation and the rewards associated with this, may well be the 'defining characteristics of work in the future'. As such, organizations should consider issues associated with 'autonomous motivation, controlled motivation, and motivation as a predictor to performance'. All these scenarios are focused on rewards systems and their linkage to performance of organizations. But the extent or level to which total rewards strategy share to be incorporated into the organizational design and the elements most important to an employee's performance form the major challenge.

Kominis and Emmanuel (2005) in their comprehensive study on exploring the reward preferences of 225 middle level managers. Their findings suggest that different reward preferences for managers at different stages of their career, expecting managers in the early career stage to exhibit a greater proclivity for intrinsic rewards, managers in the middle stage a preference for extrinsic rewards, and managers in the late career stage to generally place less importance on both kinds of rewards. These findings suggested that although intrinsic rewards can be highly valued by employees, for some managers a combination of extrinsic and intrinsic rewards can have a positive effect on performance and motivation. But deciding on the reward package for an individual manager can sometimes prove difficult.

2.1.5 Performance Related Pay and Organizational Performance

In recent years, many organizations have moved towards rewarding employees for performance as a means to achieve organizational goals (Mullins, 2005). Essentially they have tied compensation to performance. The debate on the effectiveness of financial remuneration on performance goes on as researchers try to establish the organizational and cultural fit for such a practice. Rayner and Adam-Smith (2005) state that both performance and motivation are affected by many factors, performance related pay (PRP) (or any other intervention) cannot be linked in a casual manner. They argue that although it may be relatively easy to provide

answers to individual aspects of the effectiveness of PRP, when all variables related to this concept as it is applied are taken into consideration, connecting PRP to performance levels becomes more difficult. Performance appraisals are a key aspect of managing any pay for performance model. Smith and William (2003) in their research paper exploring the link among performance rating pay and motivational influences looked at the dangers of receiving the incorrect merit increase where performance related pay models are applied and the effects this can have on motivation.

St-Onge et al., (2009), highlight the prevalence of performance appraisal distortion and its effects on performance and motivation. Although this distortion is inevitable in most organizations, managers should look at reviewing the appraisals and how to communicate the success or failure as well the reward attached. Armstrong (2009) claims it is better to separate performance management and pay, “decoupling” both, so as to make a distinction between developmental potential and the impact of employee performance on incremental pay rises. The study described the difficulty in paying for performance where it needs to be measurable on different levels, thus evidence based and this evidence needs to be seen to be fair and transparent and not conducted behind closed doors.

Past studies argue that HR departments for some time have not evaluated their reward policies to validate their relevance. In a Chartered Institute of Personnel Development (CIPD) survey in 2009, they found that the “remarkably low proportion of 12 % of respondents had evaluated their performance-related pay schemes”. This indifference to the current relevance of their reward systems contrasted starkly to the attention and funding given to training schemes for employees and considering how much is spent on pay and rewards. Having the right type of rewards programme will help workers to grow, mature and ultimately add value to your organization. Pay, both ‘variable and base’, is key to ensuring you get the most value from your employees, especially high performers according to a report on salary surveys (Zingheim, 2010). Organizations that spread pay more evenly drive away high performers and encourage the same type of average performance throughout the organization. It is argued that financial remuneration should be based on the value employees add to their organization. According to de Waal and Jansen (2011) pay related bonuses are neither effectual nor ineffectual to an organizations performance. However in high performance organization, of the characteristics discussed pay is the most dominant. However it is concluded that this does not have a positive or negative effect on organizational performance. Gilmore and Smith (2005) refer to this high performance organization has been non-hierarchical and moving away from central management control to a more team based form of working with responsibilities spread more evenly and based on high levels of trust and communication.

Stumpf et al., (2013) study on employee and change initiatives, with a focused on two intrinsic rewards which were: meaningfulness and choice. The study revealed that these are essential to employee satisfaction and retention of employees in times of organizational uncertainty and change. So in this case, intrinsic rewards are more effective than monetary rewards. This is in the context of organizational change, so it is interesting to note that job satisfaction and intention to stay within employee’s role during times of organizational change, rely of the correct blend of non-financial rewards. Njanja et al. (2013) study of the effect of cash bonuses on employee performance in the Kenya Power and Lighting Company Ltd, found that although the majority of staff surveyed had a perception that cash bonuses motivate performance, the study concluded that these cash bonuses had no effect on employee performance. Those who had received a bonus and those who had not, perceived it to affect their performance the same; hence it did not have a significant effect on performance. However, study by Drunker and White (1996) showed that due to the project nature of that industry and the clear distinction in its work force between the manual and white collar workforce, PRP systems may yield

results among professional and senior managers. It suggests that PRP model can be developed in the context of improving performance in a project team, and around a competency or skill based pay system. It is therefore unclear the extent to which this scenario can be applicable in the health sector. Therefore this argument form the basis for this study on rewards and performance of employees in the health sector particularly Aga Khan Hospital, Kisumu Kenya.

Bart et al., (2008), in their wide ranging study on who pays for performance and based on Norwegian establishment surveys from 1997 to 2003, found that the success or failure of performance related pay will very much depend on the setting that it is introduced into and the “prediction is that output-based incentive pay schemes are more likely to be observed when there is considerable employee discretion over work tasks”. So they found that performance related pay is more widespread in bigger organizations and less common in more unionized organizations. They found a link between the educational qualification of employees and the use of individual based performance pay and also a clear link between performance been positively affected by PRP and the level of autonomy the work has. In this sense the more discretion a worker has over his/her tasks, the more successful PRP will be. Although there is a lot of evidence to suggest both type of rewards affect organizational performance; some researchers have greatly focused on intrinsic rewards like the employee a sense of worth, enjoyment and empowerment. These intrinsic rewards can be particularly affective in times of change within an organizational structure. However, the allocation of these rewards in a systematic and fair manner is crucial to their success. And of course the issue of individualistic need can directly affect the positive performance outcome of PRP. In their study on organizational rewards: considering employee need in allocation, Webb Day et al. (2014) discussed how using a pay-for-performance model in a western organization can have positive results on performance. By focusing not just on the pay, but also on the individual’s specific needs for this pay, it found that not only can you achieve positive performance outcomes, but it helps the organization to respond better to employee expectations. It also found that through communication of need to your manager, employees with higher needs were more likely to receive larger rewards. Intrinsic motivation was more important for productivity and performance when relating to creative or innovative workers (Markova and Ford, 2011).

According to Bratton and Gold (2012) performance-based pay systems tie pay to employee’s outputs. These outputs might contain positive contributions from the individual or team, thus providing the basis for different types of pay systems. However PRP was not without its pitfalls, specifically if not managed or implemented correctly. Lewis (2006) argues employees and managers can lose faith in the concept due to: poor design or communication, excessive focus on financial results and inadequate salary differentiation. According to Armstrong (2007) there has been a backlash against PRP in the 1990’s and this has led modern day organizations to introduce second generation schemes, in order to avoid earlier mistakes.

Azzone and Palermo (2011) found serious flaws in the reward structure where no link could be found between performance appraisal and rewards. In this case performance was found to suffer adversely. However, in the context of the public sector performance-based rewards schemes (PBRs), and pay as a facet of these, have been shown to be effective in managing employee performance, especially high performers. Performance based pay aligned with a broader performance assessment facilitated better customer focused performance metrics as well as other organizational objectives within a public sector environment (Kealesitse et al., 2013). Randle (1997) study on PRP systems in the pharmaceutical research sector, discovered that most participants were not opposed to the concept of performance related pay but in practice it was widely condemned as the rating system

was not perceived to be fair or transparent enough. The mixed results on these findings form the basis for this study on reward systems and organizational performance, particularly the health sector in Kenya.

2.2 Conceptual Framework

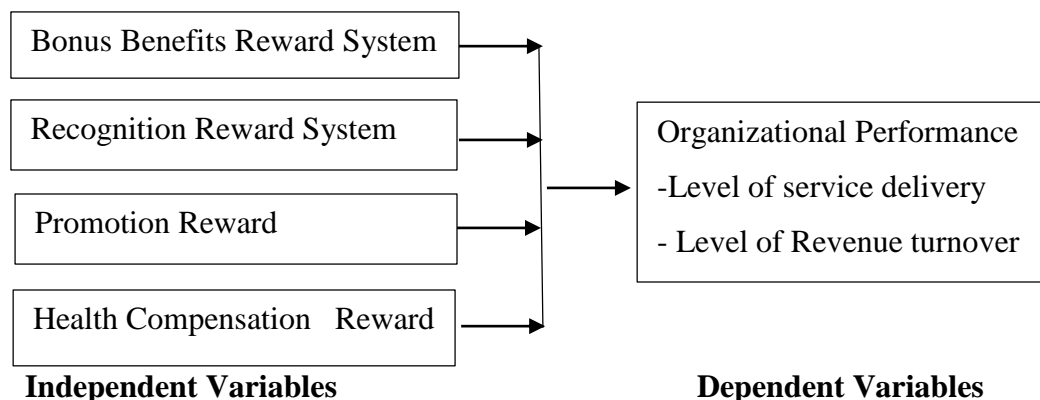


Figure 1 Conceptual Framework

3.1 Research Methodology

This study adopted descriptive research design. This design is suitable as it helps to obtain pertinent and precise information status of the phenomena (Lokesh, 1984). It describes data and characteristics about the population or phenomenon being studied (Shields, Patricia and Tajalli, 2006). The target population for this study was 449 employees of Aga Khan Hospital Kisumu employees. Cresswell (2003) asserts that the entire population may not be easy to gather all the information for a study. A researcher has to draw a sample from the study population which is enough and representative. The various scholars in research have proposed various methods and approaches to sample the respondents and in right size for study. The study adopted the formulae below to obtain sample size:

$$SS = \frac{Z^2 \times P \times 1 - P}{c^2}$$

SS = Sample Size

Z = Z-value A (take 1.96 for a 95 percent confidence level)

P = Percentage of population picking a choice, expressed as decimal (take 0.5)

C = Confidence interval, expressed as decimal (take 0.04)

The Z-values (Cumulative Normal Probability Table) representing the probability that a sample will fall within a certain distribution:

The Z-values for confidence levels are:

1.645 = 90 percent confidence level

1.96 = 95 percent confidence level

2.576 = 99 percent confidence level

The new sample size (SS) therefore was 327 respondents for this study. This sample size represents 72.83% of the target population. This percentage is higher than that proposed by Mugenda and Mugenda (2003) who expressed that at least 10% of the target population is enough and representative as sample size for a study. Stratified random sampling technique was used to select respondents from the respective strata's of respondents in this study. Primary data was used in the study collected using questionnaires. Data analysis was done using descriptive statistics and inferential statistics. The determination of coefficient of multiple correlations and regression equations were used to establish the relationship between the reward system's and performance of employees. The regression model adopted was:

$$Y = f(\beta_0, X_1, X_2, X_3, X_4, \mu) \dots\dots\dots (3.1)$$

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \mu \dots\dots\dots (3.2)$$

Where:

Y – is Employee Performance (employee Productivity)

X₁- Bonus Benefits Reward

X₂- Recognition Reward

X₃- Promotional Reward

X₄- Health Compensation Reward

β₀, β₁, β₂, β₃, and β₄- are the coefficients of the model equation

μ - Error (disturbance term)

4.1 Results on Reward Systems and Performance of Health Organizations

The study established the reward systems to motivate employees in their quest to provide health services. The results are in table 4.1

Table 4.1 Reward Systems and Performance of Health Organizations

Reward System	Yes	No
	Percentage	Percentage
Professional Training Reward System	68.5%	31.5%
Recognition of Employees Reward System	64.85%	35.15%
Promotion Reward System	43.33%	56.67%
Employee Benefits Reward System	37.33%	62.67%
Formal recognition Reward System	47.41%	52.59%

It is clear that 68.5% of the total respondents who reacted to professional training reward system revealed that the system was used to motivate employees while 31.5% of the respondents felt that this reward system was not adopted and hence it had no influence on employee's performance. On the recognition of employees reward system 64.85% of the total respondents expressed that it is adopted and it influences employee's service

delivery to the health seekers while 35.15% of the respondents reacted with a negative (no) response indicating that it is not used and has no effect on employee performance in the health organizations. For promotion reward systems majority of the respondents expressed negatively by saying no at 56.67% response rate, indicating that this type of reward system is not used to motivate employees in the provision of health services. Further on the employee benefits reward system the respondents expressed that it is not in use, 62.67% of the respondents reacted negatively by saying no to confirm it not used to motivate employees in the provision of health services; while 52.59% of the total respondents reacted to formal recognition reward system as not used to motivate employees

Bevan (2013) suggests that in excess of 60 percent of UK employees used non-financial recognition in motivating its employees. There is a public belief and civil responsibility that an employee is motivated when his efforts are recognized and appreciated, a sense of fairness and equity practiced, personal improvement or a sense of respect and status related to one’s position (UNDP, 2015). According to Armstrong, and Murlis (2013), in their study on reward management, non-financial appreciation can be very motivating, helping to build feelings of confidence and satisfaction among employees.

Further the study establish the extent to which reward systems influence the Performance of the Health Organizations in relation to the provision of health services. The responses were aggregated as mean weights and interpreted as functions of employee motivation which translates to Performance of the Health Organizations. The results are in table 4.2.

Table 4.2 Reward Systems and Performance of the Health Organizations

Reward System	Mean Weight($\Sigma w_{fi}/\Sigma f_i$)
Professional Training Reward System	3.914
Recognition of Employees Reward System	2.7302
Promotion Reward System	4.409
Employee Benefits Reward System	4.416
Formal recognition Reward System	2.809

It is indicated that professional training reward system influenced Performance of the Health Organizations to a moderate extent as the respondents rated it at 3.914 weighted magnitude. Recognition of employees as a reward system was rated to influence Performance of the Health Organizations to a less extent at 2.7302 weighted magnitudes by the respondents. Majority of the respondents felt that promotion rewards system and employee benefits reward systems have more influence Performance of the Health Organizations as they were rated at 4.409 and 4.416 weighted magnitude respectively; this indicate that employees recognize more what they gain from the employer and its relation to their labour output. Finally for formal recognition reward system the respondents rated it at less influential with 2.809 weighted magnitudes to Performance of the Health Organizations. The results concur with past studies like those on promotion systems show that they affect almost all aspects of organizational lives. This is particularly evident from studies of human resource management (Fuller and Huber, 1998) and internal labor markets (Baker and Holmstrom, 1995; Barron and Loewenstein, 1985). Given the importance of promotion systems in organizations, it is surprising that few studies have attempted to examine the role of various environmental, organizational and job factors on the effectiveness of promotion systems (Allen, 1997; Ferris et al., 1992). This study focused on promotion reward systems to employees the results concurs with other scholars that promotion systems commonly practiced in organizations including up-or-out systems, absolute merit-based systems, relative merit-based systems, and seniority-based systems influence performance. The issue of employee recognition is rooted in a sense of

fairness; Geller (1997) takes the positive reinforcement of employee recognition with employee success. Success is a motivator and a much better teacher than failure. Although motivational theory is far more complex and far less understood, it appears that recognition plays a significant role in employee motivation and development and this brings out employee performance in an organization.

4.2 Regression Analysis Results

The model summary for the relationship between explanatory variables and dependent variable is presented below

Table 4.3 Coefficients of the Reward systems and Performance of Health Organizations

Model		Unstandardized Coefficients		Standardized Coefficients		Collinearity Statistics		
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	.317	.072		4.395	.000		
	X ₁	.086	.021	.109	4.151	.000	.321	3.115
	X ₂	.289	.037	.420	7.736	.000	.075	13.296
	X ₃	.064	.045	.081	1.418	.015	.067	14.876
	X ₄	.031	.016	.047	1.918	.025	.377	2.652

a. Dependent Variable: Performance of Health Organizations

The model adopted in this study indicated that employee performance is a function of reward systems adopted in the health organizations. Substituting the coefficients in the equation it gives;

$$Y = 0.317 + 0.086 X_1 + 0.289 X_2 - 0.064 X_3 - 0.031 X_4$$

Table 4.4 Model Summary of Reward systems and Performance of Health Organizations

Model	R	R Square	Adjusted R Square	Change Statistics			Sig. Change	F Durbin-Watson
				F	Change	df1		
1	.916 ^a	.838	.837	755.054	5	728	.000	.057

a. Predictors: (Constant), Health Compensation Reward, Bonus Benefits Reward, Promotional Reward, Health Compensation Reward

b. Dependent Variable: Performance of Health Organizations

The information in table 4.4 show that reward systems have a strong association with Performance of Health Organizations (R = 0.916^a), further the rewards systems can explain up to 83.8% of the variation in Performance of Health Organizations and this is indicated by R Square (R = 0.838) the model used in this study can be relied on by its users upto 83.7% (adjusted R² = .837) and this result is statistically significant (p = .000 < .05).

5.1 Conclusion

Based on the findings the study concludes that rewards systems adopted in an organization positively and significantly influence the performance of its employees and hence Performance of Health Organizations.

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