

INFLUENCE OF REWARD PRACTICE ON EMPLOYEE RETENTION IN SELECTED BEVERAGES PROCESSING FIRMS IN KENYA

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Abstract: *The rate of employee turnover can affect the performance of an organization and therefore employee retention is considered of important. Hence, this study sort to investigate the influence of reward practices on employees' retention in selected beverage processing firms. The study was conducted using survey design to establish the relationship between variables. The target population was 2940 employees of beverage firms in Kenya and the sample size was 352 employees which was calculated using Taro Yamanes formula. The study adopted structured questionnaires to get answers of the research questions. Questionnaires were used to collect data and later on analysed using descriptive statistics and presented in frequency tables. It was established that reward practice showed a positive correlation with retention of employees in beverage processing firms. Lastly, the study findings would be of great benefit to the beverage processing firms, academicians, researchers and policy makers.*

Keywords: *reward practice, employee retention*

1.0 Background

Employee retention is a process in which the employees are encouraged to stay with the organization for a long period of time or until the completion of the project. A core belief in Human Resource Management (HRM) is to retain and develop employees to obtain a competitive advantage. Retention of human resource is critically important in organizations and institutions where financial sustainability and survival in a competitive environment depend on the scarce human and specialist skills. The situation is further exacerbated if these individuals are rare or when it becomes difficult to obtain and retain these kind of staff (Phillips *et al.*, 2003). Organizations therefore, must continuously discover current human resource management retention practices and integrate them in the organization. Without empirical evidence, it is not known if the current organizational retention strategies are outdated as they may have little or no influence on employees' decision to stay with an organization (Sutherland, 2004).

2.0 Problem statement

The rate of employee turnover affects the performance of an organization and therefore employee retention is considered of utmost importance globally (Ayodo *et al.*, 2014). In today's competitive global market the only strategy for organizations to improve workforce productivity radically and enhance retention is to seek to optimize their workforce through reward practices.

Employee retention is a key factor in an organizations' success (Lyria, Namusonge & Karanja, 2014). However, nowadays many organizations globally find it difficult to retain their employees and this has been occasioned by globalization mobility of highly skilled employees (Ng'ethe, Iravo & Namusonge, 2012). Many scholars are in agreement that employees will leave companies in search of better payments packages, better career and development opportunities and job satisfaction among other factors.

In United Kingdom a survey of London health service staff showed that poor working conditions and lack of better facilities were top on the list of factors affecting retention while compensation ranked fourth (Trust, 2005). In Kenya, (Messah & Kubai, 2011) carried out a survey of factors influencing agent retention in insurance industry in Kenya and observed that basic pay, training and development, promotion ranked highest on factors that employee would consider while moving to another organization. According to Mensah (2014) he established that majority of managers consider retention of their best employees to be an important part of their long term business strategy but many organisations do not have a framework in place to effectively retain their employees. It is this diversity in retention from one organization to another that this study wanted to investigate the influence of reward practice on employee retention in selected beverage processing firms in Kenya.

3.0 Objective of the study

3.1 General objective

The general objective of the study was to analyse the influence of human resource management practices on employee retention in selected beverage processing firms in Kenya.

3.2 Specific Objectives

To establish the influence of reward practice on employee retention in selected beverage processing firms in Kenya

4.0 Research Hypotheses

The following null hypotheses guided the study

H₀₁: Reward practice has no significant influence on employee retention in selected beverage processing firms in Kenya

5.0 Theoretical Framework

5.1 Equity Theory

Equity theory focuses on determining if the distribution of resources is fair to both relational partners. It proposes that individuals who perceive themselves as either under-rewarded or over-rewarded will experience distress, and that this distress leads to efforts to restore equity within the relationship. Equity is measured by comparing the ratios of contributions and benefits of each person within the relationship. Payment whether wage or salary, is the main concern and therefore the cause of equity or inequity in most cases. In any position, an employee wants to feel that their contributions and work performance are being appreciated with reward. If an employee feels underpaid then it will result in the employee feeling hostile towards the organization and perhaps their co-workers, which may result in employee turnover. This theory therefore directed in understanding how rewards influenced employees to leave in that they keep on comparing what they earn and what other employees earn in other comparable organizations in order to realize a balanced state between the inputs-outcome ratios. In turn this also contributes to labour mobility within and outside the company. The

major weakness in this theory is subjectivity of the comparison process. There is a tendency in human nature to deconstruct their inputs especially in regard to effort and hence becomes subjective when comparing (Beardwell *et al.*, 2007).

6.0 Conceptual Framework

A conceptual framework illustrates the relationship that exists between the independent and dependent variables. The independent variable is; reward practice while the dependent variable is employee retention whose indicators are length of service and employees choice to stay. A conceptualization of the relationship between the two variables are illustrated in figure 1

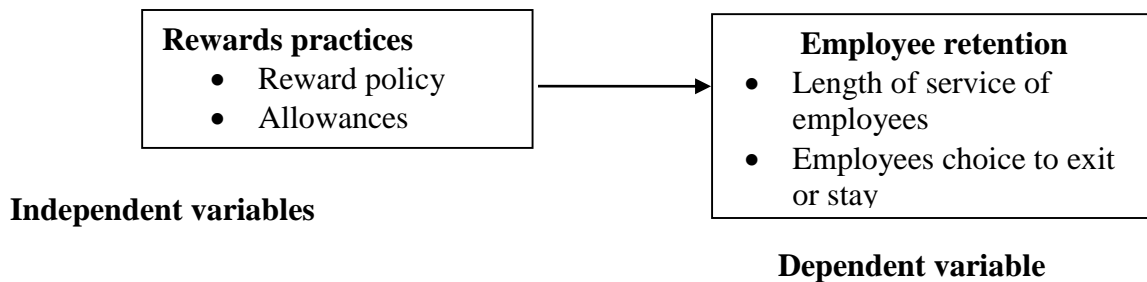


Figure 1 Conceptual Framework

7.0 Review of variables

Influence of Employee reward practice on employee retention in beverage processing firms in selected beverage processing firms in Kenya

Reward encompasses non-financial rewards such as promotion, recognition responsibility. These are rewards that do not involve any direct payments and often arise from the work itself. On the other hand are the financial rewards commonly known as remuneration. The objectives of reward systems are to attract, motivate and retain highly performing employees and to improve organizational success (Armstrong, 2010). Remuneration is the distinct type of financial rewards which include salary, direct financial benefits such as house allowance, commuting allowance and subsistence allowance as well as the performance related pay such as bonus and profit sharing. Competitive and fair remuneration is indicative of the value the employers place on their employees. Also, pay may be one way employee’s measure whether the time they spend and the effort they put in working are worthwhile. Dockel (2003) financial rewards are extrinsic monetary rewards that organizations pay to their staff for services delivered by them.

Attractive remuneration packages are one of the very important factors of retention because they fulfill the financial and material desires as well as provide the means for employee status (Shoab *et al.*, (2009). Compensation has always been at the heart of any employment relationship. A well designed compensation plan gives an organization a competitive advantage. It helps to attract the best job candidates, motivates them to perform to their maximum potential and retain them for the long term. To encourage valuable staff members to remain, the compensation system must offer competitive rewards for these employees to feel contented when they compare their rewards with those received by individuals performing similar jobs in other organizations.

A valued employee is more likely to stay in employment than an unvalued employee is. Sutherland (2004) argues that reward systems should be a significant sphere of innovation for employers. The increasing diversity of the workforce, suggests the need for more creative approaches to tailoring the right rewards to the right

people. She concluded that recognition and reward are part of a more comprehensive effort at keeping workers at the organization or adopting good workplace practices, which can contribute to increased employee retention. Recognition programs are essential components of an employee retention plan. The importance of these kinds of program is rooted in theories of positive reinforcement. By just saying 'thank you' to employees for a job well done or even a 'pat on a shoulder' to show appreciation, an organization is reinforcing ideal behavior and encouraging more of the actions that will make it successful. Job satisfaction as always been defined as the pleasurable emotional state resulting from the appraisal of one's job as achieving or facilitating the achievement of one's job values (Perez, 2008). Armstrong (2010), also defines job satisfaction as the attitudes and feelings people have about their work. Positive and favorable attitudes towards the job indicate job satisfaction. Negative and unfavorable attitudes towards the job on the other hand indicate job dissatisfaction. Collins (2007) also defined job satisfaction as the extent to which an employee has positive emotions towards the work. Job satisfaction is crucial for employee well-being and organizational effectiveness. Lee-Kelley, Blackman and Hurst (2009), asserts that lack of satisfaction in the job is a major predictor of turnover intentions. Numerous research studies have been conducted on the relationship between employee retention and job satisfaction, most of the studies believes that job satisfaction is directly linked with employees' desire and willingness to stay with their organizations (Johnson, 2004, Perez, 2008, Sutherland, 2004). Many studies assume that employee retention strategies can affect job satisfaction; and because of this, organizations that need to retain their employees need to adopt policies and practices that lead to satisfaction on the job (Ahmed *et al.*, 2009, Ongori & Agolla, 2009, Somaya & Williamson, 2008). Therefore reward is an important factor of employee retention.

Employee Retention

It is a situation in which the employees are encouraged to work with the organization for the maximum period of time or until the completion of the project. A great belief in Human Resource Management (HRM) is to develop and retain employees so as to obtain a competitive advantage. Retention of human resource is paramount in organizations and institutions where financial sustainability and survival in a competitive environment depend on the scarce human and specialist skills. The situation is further worsened if these individuals are rare or when it becomes difficult to obtain and retain these kinds of staff (Phillips *et al.*, 2003). Organizations must therefore continuously be updated with current retention factors and integrate them in the organization. Without empirical evidence, it is not known if the current organizational retention strategies are outdated as they may have little or no influence on employees' decision to stay with an organization (Sutherland, 2004). One of the major reasons why staff retention is important is due to the many negative outcomes that are associated with labour turnover. Many scholars support the fact that reward practice highly influence employee retention in an organization.

8.0 Research Methods

The study was conducted using survey design to establish the relationship between variables. The target population was 2940 employees of beverage firms in Kenya and the sample size was 352 employees which was calculated using Taro Yamanes formula. The study adopted structured questionnaires to get answers of the research questions. Questionnaires were used to collect data and later on analysed using descriptive statistics and presented in frequency tables. Piloting was conducted using Cronbach Alpha and all Coefficients were above 0.7 implied that reliability of the data collection instrument was good.

9.0 Research findings and discussion

The study sought to determine the influence of reward practice on employee retention in beverage processing firms in Kenya. The respondents were asked to indicate the influence of reward practice on employee retention in selected beverage processing firms in Kenya. This was on a scale of strongly agree, agree, undecided, disagree and strongly disagree. The score of strongly agree represented very high influence of reward practice on employee retention and was taken to be equivalent to mean score of 4.1 to 5.0 on the likert scale. The score agree represented high influence of reward practice on employee retention and was taken to be equivalent to a mean score of 3.1 to 4.0. The score undecided represented neutral influence of reward practice on employee retention and was taken to be equivalent to mean score of 2.1 to 3.0. The disagree scores represented low influence of reward practice on employee retention and was taken to be equivalent to mean score of 1.1 to 2.0 and the score strongly disagree represented influence of reward practice on employee retention and was taken to be equivalent to mean score of 0.1 to 1.0. A standard deviation of more than one implies a significant difference in respondents. A result of the analysis is presented in Table below.

Table 1.1 Results of reward practice

Statements	Strongly disagree (%)	Disagree (%)	Undecided (%)	Agree (%)	Strongly agree (%)	Mean	Std. Deviation
1. There is a company policy on rewards	18	25.3	0	53.3	3.5	2.99	1.284
2. The reward is competitive in our company	9.3	54.3	3.5	21.5	11.4	2.71	1.229
3. The reward is adequate in our company	22.5	53.6	0	20.4	3.5	2.29	1.129
4. The reward is commensurate with work done	8	42.2	3.5	42.9	3.5	2.92	1.143
5. I am satisfied with the reward policy in our company	30.8	53.3	0	12.5	3.5	2.04	1.058

From the study findings in Table 1.1, it was observed that some employees of beverage processing firms are unsure whether firms have reward policy, rewards given are not competitive, reward given are not adequate and are not commensurate to work done and employees are not satisfied with the reward policy which were rated at 2.99, 2.71, 2.29 and 2.04 respectively on a scale of 1 to 5.

From the study results it showed that beverage processing firms have issues to do with reward policy, reward provided is not competitive; the reward given is not adequate and commensurate. Also, employees are not satisfied with reward system in beverage processing firms and these findings conflicts with the results of other scholars reviewed in the literature. For example, Kotachachu (2010) argues that if compensation policies are

below market level, there will be a problem retaining employees because their compensation needs are not being met. Therefore, to encourage valuable staff members to remain, the compensation system must offer competitive rewards for these employees to feel contented when they compare their rewards with those received by individuals performing similar jobs in other organizations. Shoaib, Noor, Tirmizi and Bashir (2009), recognize that employee rewards are very important since they have lasting impression on the employee and continue to substantiate the employees' perception of their value to the organizations they work with.

Table 1.2 Model Summary^b of reward practice

Model	R	R Square	Adjusted Square	RStd. Error of the Estimate
1	.562 ^a	.316	.314	3.59848

a. Predictors: (Constant), Reward

b. Dependent Variable: Retention

The linear regression model showed that adjusted $R^2 = 0.314$ which means that 31.4 percent change of employee retention in selected beverage processing firms in Kenya can be explained by a unit change of reward practice. The result is shown in Table 1.2. Also, the result indicated that one unit change in reward translates to 31.4 percent change in beverage processing firms in Kenya and therefore, reward practice has influence on employee retention in beverage processing firms in Kenya.

Additional test on ANOVA showed that the significance of the F-statistic (1717.22) is less than 0.05 since p value, $p=0.00$, as indicated in Table 1.3. This implied that there is a positive significant relationship between reward practice and employee retention in beverage processing firms in Kenya.

Table 1.3 ANOVA^a of reward practice

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	1717.220	1	1717.220	132.614	.000 ^b
1	Residual	3716.371	287	12.949		
	Total	5433.592	288			

a. Dependent Variable: Retention

b. Predictors: (Constant), Reward

More test on the beta coefficients of the resulting model, showed that the constant $\beta = 6.294$ if the independent variable of reward practice is held constant then there will be a positive on employees retention in beverage processing firms in Kenya by 6.294. The regression coefficient for reward practice was positive and significant ($\beta = 0.502$) with a t-value=22.647 ($p\text{-value} < 0.001$) implying that for every 1 unit increase in reward practice, employees retention in beverage processing firms in Kenya is predicted to increase by 0.502 units and therefore H_0 was rejected as shown in Table 1.4 next page.

Table 1.4 Coefficients^a of reward practice

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error			
1	(Constant)	6.294	.645	9.760	.000
	Reward	.535	.046	.562	.000

a. Dependent Variable: Intention to stay / Leave

From the study findings it was noted that reward practice significantly influences employees’ retention in beverage processing firms in Kenya. This finding is in harmony with the study of Shoaib *et al.*, (2009) who observed that compensation has always been at the heart of any employment relationship. A well designed compensation plan gives an organization a competitive advantage. It helps to attract the best job candidates, motivates them to perform to their maximum potential and retain them for the long term. To encourage valuable staff members to remain, the compensation system must offer competitive rewards for these employees to feel contented when they compare their rewards with those received by individuals performing similar jobs in other organizations. However, if reward system is not done well can affect retention of employees negatively. This was supported by Kotachachu (2010) argues that if compensation policies are below market level, there will be a problem retaining employees because their compensation needs are not being met.

10.0 Conclusions and recommendations

From the study results, it could be concluded that beverage processing firms had issues to do with reward policy system. The reward policy system is not well elaborated and employees are not aware of its existence. Also, it could be concluded that rewards provided by beverage processing firms are not competitive and are not adequate commensurate. Equally, it could be concluded that employees are not satisfied with reward system in beverage processing firms. Regarding correlation tests, the study concludes that reward practice had a moderate positive correlation with retention of employees in beverage processing firms. This implied that reward practice influence positively employees retention in beverage processing firms in Kenya and thus Ho1 was rejected.

Lastly, the study concludes that employees in beverage processing firms retain their job by planning work they are given and are not ready to quit jobs as longer as they have not secured new ones. The study also concluded that employees working in beverage processing firms are not satisfied and they are likely to leave firms if an opportunity presents to them and this is against the spirit of employees’ retention.

The study suggested the following recommendations:

Managerial recommendations

Basing on reward system, the study found out that beverage processing firms had issues to do with reward policy system. The reward policy system is not well elaborated and employees are not aware of its existence. Also, rewards provided by beverage processing firms are not competitive and are not adequate commensurate. Equally, employees are not satisfied with reward system in beverage processing firms. Therefore, the study recommends to the management of beverage processing firms to have a clear policy on reward system and well elaborated to employees. Also, the study recommends to beverage processing firms to provide competitive and commensurate as a way of motivating employees for retention.

Policy makers

Human resource practices play a crucial role on employees' retention in an organization. Organizations which are perceived to uphold human resource practices such as reward system are likely to motivate retain employees quite longer to implement strategic policies in the organizations and enhances increase shareholders value. From the study finding it was established that human resource practices such as reward system practices positively influence retention of employees in beverage processing firms. Thus study recommends that organizations should embrace adopt this practice to achieve high employees' retention. The study also recommends to the policy makers like the government should come up with a good policy that employers should embrace to motivate and retain their employees so as to increase productivity of organizations.

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