

ASSESSMENT OF PERFORMANCE-BASED COMPENSATION ON EMPLOYEE  
PERFORMANCE AT CHUKA LEVEL FIVE HOSPITAL IN THARAKA  
NITHI COUNTY, KENYA

**ABSTRACT**

High focus is put on the provision of health services and service providers in Kenya, since the Health Sector is seen as one of the vital service providers and is one of the pillars of vision 2030. Priorities in public healthcare systems must be set for a variety of areas, including but not limited to human resource management (hiring, orienting, and developing staff, keeping them in their positions, ensuring their well-being, encouraging their active participation, and rewarding their dedication). The purpose of this study was to determine the effects of performance based compensation on employee performance of Chuka level five hospital in TharakaNithi County. Guided by Ability motivation opportunity theory. The study used descriptive research design, targeting a population of 484 health workers in Chuka level five Hospital in TharakaNithi County, from which a sample size of 219 was determined using Yamanes formula. A stratified random sampling was used in selecting the health workers, the study further used simple random sampling within the different strata to select 205 health workers and 14 health management team members from the hospital. Purposive sampling was adopted for small populations like the hospital administrators in this study. A pilot study was used to pretest data collection instrument before data collection for validity and reliability. Questionnaires and scheduled interviews were used in gathering information. The results of bivariate regression indicated that compensation practices have a statistically significant impact on the employee performance. Thus, based on the evidence from this study, compensation practices used by the hospital have statistically significant effect on employee performance.

**Key words: compensation, performance, Ability-Motivation-Opportunity**

**INTRODUCTION**

The capacity to recruit and retain outstanding employees and keep them highly motivated has become a tremendous problem in the present dynamic global corporate climate defined by competition, access to the newest technology, and communication networks. One of the fastest-growing industries is healthcare, and to provide patients with high-quality treatment, a vast pool of highly qualified, committed, and motivated medical personnel is needed (Kura, Shamsudin, Umrani&Salleh, 2019). In addition to hiring physicians, front- and back-office personnel such as nurses, medical residents, and interns, and the healthcare sector also employs support staff members for clerical and administrative tasks, making it clear that the industry is very labor-

intensive (Musyoki&Ngugi, 2017). Given the need for a large number of workers in the healthcare industry, human resource management techniques are useful for facilitating and supporting employee recruitment, hiring, and development with the aim of improving employee performance and satisfaction (Matsumoto, 2019).

Human resource management shows regional differences in its implementation. On a global scale, American institutions provide their managers greater leeway in making decisions, whereas European human resource management techniques place less limits on their ability to grow their staff (Kaufman, 2019). Human resources departments in Asian developing nations are enhancing organizational learning for knowledge organization to boost innovation. Wilckenset.al, (2019) found that American incentive systems, such merit pay and bonuses, are the outcome of the country's individualistic ethos and emphasis on success. Companies that value their workers highly invest in their human capital, and this is directly correlated with employee autonomy and independence. While direct development and employee communication define American workplaces, in Europe trade union recognition and collective bargaining are the norm (Ballard &Grawitch, 2017). Japanese human resources departments provide lifelong employment to workers in order to train them in-house and equip them with company-specific expertise that will boost output and quality. Therefore, Japanese companies favor promoting from within while looking for new employees (Hayashi, Ozawa, Kawabata &Takemi, 2016). Within Germany's regional and industry-wide negotiating structure, unions have monopoly power over workers' salaries and hours (Eckardstein&Konlechner, 2017).

There have been shifts in the ideals and principles underlying indigenous methods of development throughout Africa (Hedayati& Li, 2016). The majority of developing-world institutions, however, kept using it. Human resource management methods as a foundation for efficient and successful institution performance are experiencing a paradigm change and intense competition in modern Africa (Horwitz, 2017).

Modern public sector human resource development has a more complicated challenge: meeting the high expectations of more educated and informed citizens (Kiiza&Basheka, 2018).

Human Resource Development (HRD) in East Africa is complicated by the decentralized, multifaceted, and integrated nature of local government services, as argued by Lufunyo (2015) in Tanzania. There are three types of such difficulties: those brought on by the policy itself; those brought on by the specifics of a certain activity or organization; and those brought on by the

desire to do well. Poor pay, a lack of investment in staff development, and an inability to provide all workers with equal opportunity for growth are all factors that contribute to low job satisfaction (Ndikumana, 2018).

With regards to public sector training and capacity building, for instance, Vision 2030 in Kenya prioritizes training for performance improvement above training for promotion (2030). The Ministry of Labor's office of National Human Resource planning and development collects data on the supply and demand for workers from regional organizations and companies (DNHRPD). They must invest in their staff's education and development in order to maintain high standards of service delivery (MoL, 2020).

### **Statement of the Problem**

When comparing the 47 counties in Kenya, TharakaNithi County ranked in the bottom 10 in terms of employee performance in 2018. (KDSP Report, 2018). Noting that the county's health department employs about a third of the county's total workforce is illuminating. The county's poor reputation is partly attributable to the large number of people who work in the medical field. Despite human resource development strategies that the Kenyan central government crafted and cascaded to the counties in an effort to boost worker productivity, this remains the case (MOH, HRS, 2014).

According to World Bank (2015), most public hospitals in Kenya have been facing a lot of laxity in attending patients and a horrible interaction between patients and healthcare staff. The present state of affairs at the Chuka Level Five Hospital in TharakaNithi County demonstrates that poor/delayed service delivery and discrimination have contributed to interruptions in service delivery and poor overall performance (Omondi, 2016).

There are holes in the literature on this topic, with Mbugua's (2014) study on employees' perceptions of the influence of human resource management practices on the performance of Kengen being one such example. However, the current study will focus on the public health sector, so there will be a contextual gap between the two. Human resource development practice and employee engagement in retail banking at Standard Chartered Bank will be the focus of this study, whereas Kazira (2014) looked at the topic in the context of the public health sector (Kenya). According to Wanguku (2016), the onboarding procedure, performance enhancement, and talent motivation were the most important factors in a research that analyzed the effect of human resource practices on the retention of medical officers in Nairobi County. However, the

present research will concentrate on topics like advancement, pay, reviews of performance, and hiring practices. Public hospitals in Kenya use a selection and hiring process based on candidates' competencies, which Mwangi (2013) analyzed. The current research fills a conceptual need by expanding its focus to include such areas as salary, performance reviews, and training and development for advancement in one's career. Consequently, the purpose of this research is to fill these gaps by analyzing how effective human resource management affects productivity in the Chuka Level Five hospital in TharakaNithi County.

### **Research Objective**

To determine the effects of performance-based compensation on employee performance of Chuka Level Five Hospital in TharakaNithi County, Kenya

## **LITERATURE REVIEW**

### **Theoretical literature review**

#### **Ability-Motivation-Opportunity (AMO) Theory**

Bailey initially introduced the AMO idea back in 1993. (Garcia & Tomas, 2016). According to the idea, there are three things that must be in place before workers can be trusted to make decisions on the job: the right knowledge, the right incentive, and the right chance. The hypothesis proposes that by grouping HRPs together in packages, performance may be increased. According to Bailey, the interests and aims of any business may be best served by the combination of the three components that make up the Ability-Motivation-Opportunity framework. He continues by saying that it is precisely these factors that shape an employee's personality and lead to business success (Ujma& Ingram, 2019).

Since HRPs are used to explain the connection between employee and company performance, it is clear that this theory has found widespread acceptance in the HRM literature. There have been several studies in the area of human resource management that provide credence to this claim since they employed behavioral theories. The Ability-Motivation-Opportunity (AMO) hypothesis is widely used in the literature to explain the impact that HR policies and procedures have on a wide range of outcomes for workers. Many researchers have attempted to explain the connection between human resource management and employee performance, and they all come to the same conclusion: HRM is crucial to employee success.

In addition, "Deconstructing the AMO framework: A systemic review" by Marin-Garcia and Tomas (2016) conducted a systematic evaluation of the Ability-Motivation-Opportunity model.

According to the research, the Ability-Motivation-Opportunity model is a remarkable and well-considered framework for comprehending the HRM-Performance connection. They went on to say that the proposition made by the model was without a doubt successful since a trained and educated worker produces better outcomes and a highly motivated workforce is eager to take on more tasks. They also emphasized the significance of the workplace in facilitating growth and development. As a consequence, the first two factors—ability and motivation—are more likely to bear fruit. Gould-Williams et al. (2014) agree, saying that when individuals are motivated to the point that they can exert discretionary efforts, and when they are provided chances to apply their skills, knowledge, talents, and qualities at work, performance improves.

Some writers have pointed out that the theory's basic tenets—the Ability-Motivation-Opportunity framework and its effect on performance—are too complicated, despite the theory's widespread acceptance and implementation. They contend that it is not only the presence of the practices that matters, but also the employees' innate awareness of them (Ehrnrooth&Bjoorkman, 2012). Some have also argued that the Ability-Motivation-Opportunity paradigm does not always work. This is due to the fact that the HRPs are susceptible to external influences, such as beliefs, personal preferences, and the preexisting circumstances of the employees, all of which may alter the HRPs' implementation and, ultimately, their effects (Guest, 2011).

This research of how HRPs affect employee performance is supported by the theory, which posits that HRPs that improve workers' abilities (career development), motivations (performance-based remuneration), and opportunities (recruitment) all contribute to improved performance.

## **Empirical Literature**

### **Performance based Compensation and employee performance**

The phrase "compensation practices" refers to the methods and policies that employers use to pay employees fairly in accordance with their contributions to the company's performance and the conditions of their employment contracts (Sothy, 2019). Improved organizational performance is a direct result of improved remuneration methods, which in turn motivate workers to do a better job across the board (Samnani& Singh, 2014).

Companies incentivize their workers in a variety of ways, such with job performance, advancement opportunities, awards, and monetary compensation, among others (Mariani et al.,

2019; Hassan & Mahmood, 2016). Employee performance is the result of an exchange with the compensation techniques, such as awards, supplied by the company, say Pradhan and Jena (2016). There has been a lot of study done on the topic of how different types of remuneration affect employee performance.

According to research by Massingham et al. (2015) on human capital, value creation, and compensation, employees are more engaged, satisfied, committed, and loyal when their performance provides opportunities for growth and new experiences. Since more incentives lead to higher performance, this view is consistent with social exchange theory. A lack of fairness in the distribution of resources might result, however, when some employees receive less than others but are nevertheless content, dedicated, loyal, driven, and productive.

According to Ladner (2015)'s research on efficient incentives for efficient engagement, a company's financial performance is tied to profit sharing, bonus systems, employee involvement, and flexible work schedules. Salary and performance are therefore positively correlated. Workers who are more likely to talk about personal and family issues at performance are rewarded more handsomely than those who are more focused on their work.

To determine how pay affects performance on the job, Akter and Husain (2016) conducted a study. According to the results, employees' performance may be improved with the use of both correct technique and a plan-based remuneration system. Providing and maintaining a pay plan that is in line with the realities of the market ensures that employees will put forth their greatest effort toward producing performance work. Work performance is therefore significantly affected by settlement. The data showed that monetary incentives tend to boost productivity.

The impacts of total compensation on staff retention in the Kenya Vision 2030 Delivery Secretariat were investigated by Kimunge (2014). Settlement, work-life balance, training, and professional advancement were all proven to positively impact workers' decisions about whether or not to quit their current employers. Employee retention at the Kenya Vision 2030. Distribution Secretariat was found to be negatively affected by a combination of factors, the most significant of which were a weak settlement structure and a lack of professional development opportunities for existing staff. From a human resource management perspective, inferential statistics further revealed that compensation, work-life balance, and training and development and career progression are crucial elements of employee retention.

## Conceptual Framework



**Figure 1: conceptual framework**

**Source; Researcher (2023)**

## RESEARCH METHODOLOGY

### Research design

The study strategy was a descriptive survey. This approach required accumulating data at a single epoch (Wang & Cheng, 2020). This technique worked well for this study since it allowed for the unobtrusive collecting of data on topics such as professional development, performance-based pay, performance reviews, employee recruiting, and employee performance. The study design's descriptive power across phenomenon dimensions was another argument in favor of utilizing it (Welman et al., 2015). Additionally, the method's suitability was bolstered by empirical literature thanks to its extensive use in research projects pertaining to HR practices.

### Target population

The study focused on all the health workers in public hospitals in TharakaNithi County, specifically in Chuka level five hospital. The choice of this hospital is informed by the fact that the hospital is the largest referral hospital in the study county. According to TharakaNithi County Government health report (2021), there was 484 health workers working in the hospital.

### Sampling Procedures and Techniques

Stratified random sampling was used in this study. This made unbiased sample in grouping population in heterogeneous to homogenous subsections and a selection was done within the subset for good representation.

### Research Instruments

This study collected primary data from the sampled population. Primary data according to Kagwiria (2014) is the new collected information that is original and has never been collected.

The researcher used questionnaires and interview schedule to collect the aforementioned primary data.

## **RESULTS AND DISCUSSIONS**

### **Response Rate**

A total of 219 questionnaires were distributed to the respondents and a total of 194 were dually completed and submitted back to the researcher contributing to a response rate of 88.6%. This response rate was sufficient and representative and conforms to Mugenda and Mugenda (2003) stipulation that a response rate of 50% is adequate for analysis and reporting, a rate of 60% is good while a response rate of 70% and over is excellent.

### **Respondent Demographic Information**

The demographic information was collected because it enables determination of whether the study participants are representative of the target population. Information on four demographic variables namely gender, age, education levels and number of years worked at the health institution.

### **Gender of Respondents**

The researcher collected data on the participants' gender. The collection of information on gender was important because it enabled determination of whether the research was gender biased or not. The results of the participants' gender are indicated in Table 1.

**Table 1: Gender**

<b>Gender</b>	<b>Frequency</b>	<b>Percent</b>
<b>Valid</b>		
Female	102	52.6
Male	92	47.4

**Total**

**194**

**100.0**

---

**Source: Researcher (2023)**

From Table 1, majority (52.7%) of respondent were female while 47.4% were female. This showed that the study did not suffer from gender biasness as it involved both male and female respondents though the majority of the study respondents were female.

**Education level**

The study sought to establish the respondent's highest level of education. The results are indicated in Table 2.

**Table 2: Education level**

---

	<b>Frequency</b>	<b>Percent</b>
Postgraduate	4	2.07
Bachelor	74	38.14
Professional qualification	111	57.22
Other	5	2.57
<b>Total</b>	<b>219</b>	<b>100</b>

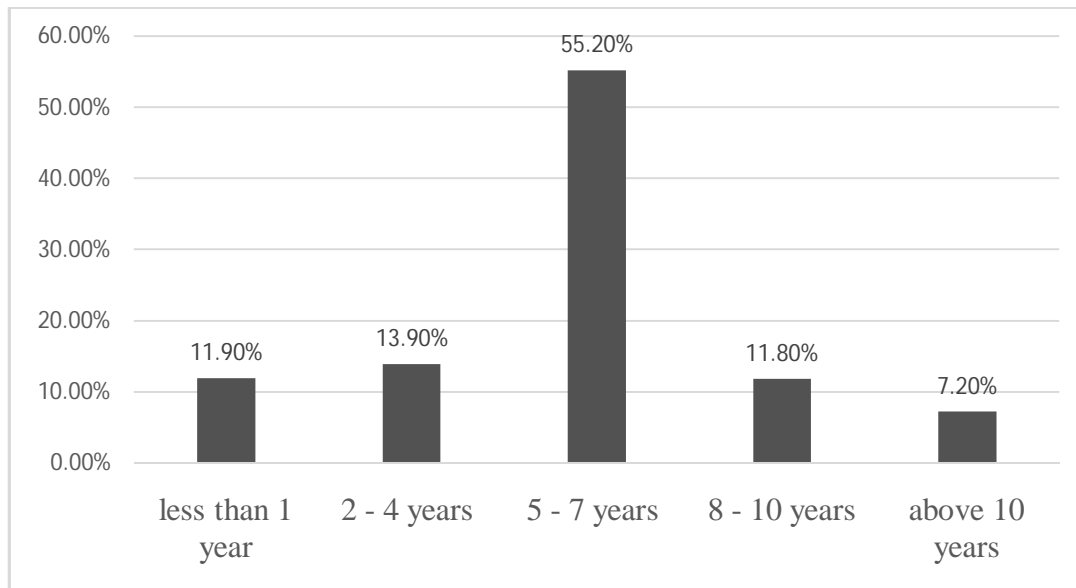
---

**Source: Researcher (2023)**

From the results in Table 2, most (57.22%) of the respondents had professional qualifications, followed by bachelor (38.14%), postgraduate qualifications and other qualifications were represented by 2.07% and 2.57% of the respondents respectively.

**Job Tenure at the Institution**

The information on the respondents' tenure of service at the hospital is presented in Figure 2



**Figure 2: working experience**

**Source: Researcher (2023)**

Figure 2 shows that most (55.2%) of the respondents had worked for the hospital for 5-7 years, followed by those who had worked between 2 and 4 while 11.8% of the respondents had worked between 8 and 10 years. Those who had worked for less than one year were 11.9% of the total respondents while 7.2% had worked for over 10 years in the hospital. From the results, the Hospital is increasingly employing more employees as indicated for those who have worked 0-4 years are more than 25% of the respondents.

### **Descriptive Analysis of Study Variables**

#### **Performance Based Compensation and Employee Performance**

The objective of the study sought to determine the effects of performance-based compensation on employee performance at Chuka Level Five Hospital in TharakaNithi County, Kenya. The study evaluated the respondents' level of agreement with various statements on performance-based compensation using a scale of 1-5 where 5-strongly agree, 4-agree, 3-neutral, 2-disagree and 1-strongly disagree. The findings are as illustrated in Table.3

**Table 3: Means and standard deviation of compensation**

---

#### **Descriptive Statistics**

---

	N	Mean	Std. Deviation
This Hospital provides a competitive compensation and benefits package when compared to other medical institutions.	194	3.41	.964
My pay is appropriate when it is compared with that of other workers with similar duties/responsibilities within the Hospital.	194	3.10	1.147
This Hospital compensates me for extra duties and responsibilities	194	2.76	1.214
I feel the Hospital compensates me fairly for the work I do.	194	3.61	.667
I am happy the way this Hospital caters for my health and well-being.	194	3.69	.585
As a staff of this Hospital, I enjoy a healthy work-life balance.	194	1.45	.747
I am satisfied by the way my trade- union represents and negotiates employees' pay and other welfare matters to the Hospital Management		3.34	.745
<b>Valid N (LISTWISE)</b>	194		
<b>Composite Mean</b>		<b>3.051</b>	

**Source: Researcher (2023)**

The study findings in Table 3 indicate that respondents were Neutral that is they neither agreed nor disagreed that the Hospital provides a better competitive compensation than other Health institutions (M=3.41, SD=0.964). Also, they neither agree nor disagreed that their pay is appropriate pay when considered with workers with similar duties (M=3.10, SD=1.147), .and that the Hospital compensates them for extra responsibilities (M=2.76, SD=1.214). They could also neither agree or disagree that the trade- union represents and negotiates employees' pay and other welfare matters to the Hospital Management (M=3.34, SD=0.745). The respondents agreed that the Hospital compensates them fairly for the work done (M=3.61, SD=0.667), and catering

of their affairs by the Hospital (M=3.69, SD=0.585). They also remain neutral that they enjoy a healthy life-work balance at the Hospital (M=3.34, SD=0.745). The findings agreed with Agusra, Febrina, Lussianda and Susanti (2021) who argued that compensation has motivational effects and therefore having a compensation structure in which the employees who perform better are paid more than the average performing employees is vital to enhancing organizational performance

### Inferential statistics

In order to determine the relationship between compensation practices and the employee performance, the study conducted a multiple regression analysis. The results are as summarized below.

**Table 4: Model Summary**

Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate
1	.890 <sup>a</sup>	0.791	0.737		.561

**Source: Researcher (2023)**

a. Predictors: (Constant), performance based compensation

From Table 4, R squared is the coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variables. From Table 4 the value of R squared is 0.791 which means that 79.1% variation in the employee performance at Chuka level five Hospital is due to changes in performance based compensation. Hence, 20.9% of variation in employee performance at Chuka level five hospital is explained by other factors not in the model or not focused on in the current study.

### Linearity Test –ANOVA Test

ANOVA test was used to determine of how well the observed data fit in the model. The results obtained are summarized in Table 5:

**Table 5: ANOVA (Analysis of Variance)**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	44.375	4	11.09375	82.953	.0000 <sup>a</sup>
	Residual	11.635	190	.133736		

Total 56.01 194

**Source: Researcher (2023)**

- a. Predictors: (Constant), performance based compensation
- b. Dependent Variable: employee performance

Analysis of Variance (ANOVA) consists of calculations that provide information about levels of variability within a regression model and form a basis for tests of significance. From the findings the significance value is .0000 which is less than 0.05 thus the model is statistically significant in predicting how performance based compensation affect the employee performance at Chuka Level five Hospital in TharakaNithi county Kenya. The F critical at 5% level of significance was 6.26. Since F calculated (value = 82.953) is greater than the F critical (6.26), this showed that the overall model was significant.

**Table 6: Regression analysis results**

	Unstandardized		Standardized	t	Sig.
	Coefficients		Coefficients		
	B	Std. Error			
(Constant)	6.431	.712		9.032	.0000
performance based Compensation	0.708	.199	.178	3.558	.0013

**Source: Researcher (2023)**

Based on the regression results in Table 6, the regression model becomes;

$$Y = 6.431 + 0.708 X + \epsilon$$

From the regression equation above, taking all factors constant at zero, employee performance would be 6.431. A unit increase in performance based compensation would lead to a 0.708 increase in employee performance. At 5% significance level (or 95% level of confidence) compensation had a 0.0013 level of significance. The findings were supported by a study by Uysal and Koca (2009) which indicated that recruitment, training, performance appraisal and performance-based pay all have a significant positive relationship with organizational performance.

## **Summary of the Results**

The study aimed at determining the effects of performance based compensation on employee performance of Chuka level five hospital in TharakaNithi County, Kenya. The researcher was motivated by the absence of literature on the relationship between four best practices of human resource management (career development, compensation, performance appraisal and Recruitment practice); and employee performance in Level five hospitals context. The objective of the study was to determine the effects of performance-based compensation on employee performance. The study was guided by Ability-Motivation-Opportunity and Human capital theory. The study revealed that 79.1% variation in the employee performance at Chuka level five Hospital is due to changes in performance based compensation.

## **Conclusion**

The researcher sought the answer to the question “what is the effect performance based compensation on employee performance of Chuka Level Five Hospital in TharakaNithi County, Kenya?” The results of bivariate regression indicated that performance based compensation practices has a statistically significant impact on the employee performance. Thus, based on the evidence from this study, performance based compensation practices used by the hospital have statistically significant effect on employee performance.

## **Recommendations**

The study results indicate that the hospital should consider evaluating the compensation practices used because the research has established that compensation practices in the hospital had statistically significant effect on employee performance. Specifically, instead of using financial compensation alone, it is important to also rely on non-financial compensation such as rewards and recognitions. These should also be performance-based in order to provide the required motivation. The financial motivators are hygiene factors; therefore, they may not serve as motivators by themselves; thus, non-financial measures are also necessary.

## **REFERENCES**

Aly, N. & El-Shanawany, S. M. (2016). The effect of nurses' level of satisfaction with their performance reviews on their motivation and productivity in intensive care and poison control centers. *European Scientific Journal*, 12(20).

- Bandura, K. R. (2017). Studying the connection between health care training and employee dedication. *Human resource development quarterly*, 12(4), 335-352.
- Barnes, E., & Adam, C. (2018). Human resources as a strategic factor in a globally competitive economy. *Canadian Journal of Applied Science and Technology*, 5(2).
- Kariuki, R. W. (2017). *Performance performance at Barclays Bank of Kenya and Their Impact on Workout Results* (Doctoral dissertation).
- Khasawneh, S. (2011). Human resource development in Jordan is being approached strategically, with an emphasis on planning for human capital in universities. *International Journal of Educational Management*.
- Kianto, A., Sáenz, J., & Aramburu, N. (2017). Human resource management strategies centered on knowledge, IQ, and new ideas. *Organization Studies*, 25, 1601-1621.
- Kollitz, R., Ruhle, S., & Süß, S. (2019). An examination of family businesses' recruitment procedures for non-family members using latent profile analysis. *German Journal of Human Resource Management*
- Manyasi, J. N., & Chepkilot, R. (2012). A latent profile study of how family businesses hire people who aren't related to the family.
- Mariani, L., Gigli, S., & Bandini, F. (2019). Effective human resource management via pay-for-performance and other approaches in public social care companies. *Review of Public Personnel Administration*, 5(3), 73-437.
- Matsumoto, A. (2019). Strategies for efficient administration of nursing staff human resources in healthcare facilities. *Management Science Letters*, 9(2), 243-252.
- Wang, X., & Cheng, Z. (2020). Cross-Sectional studies. *Chest*, 158(1), 65–71.

Alsuwaidi, M., Alshurideh, M., Al Kurdi, B., &Salloum, S. A. (2021). Performance appraisal on employees' motivation: A comprehensive analysis. In *Proceedings of the International Conference on Advanced Intelligent Systems and Informatics 2020* (pp. 681-693). Springer International Publishing.

Agusra, D., Febrina, L., Lussianda, E. O., &Susanti, A. R. (2021). The Effect of Compensation and Motivation on Employee Performance. *Husnayain Business Review*, *1*(1), 43-50.

UNDER PEER REVIEW