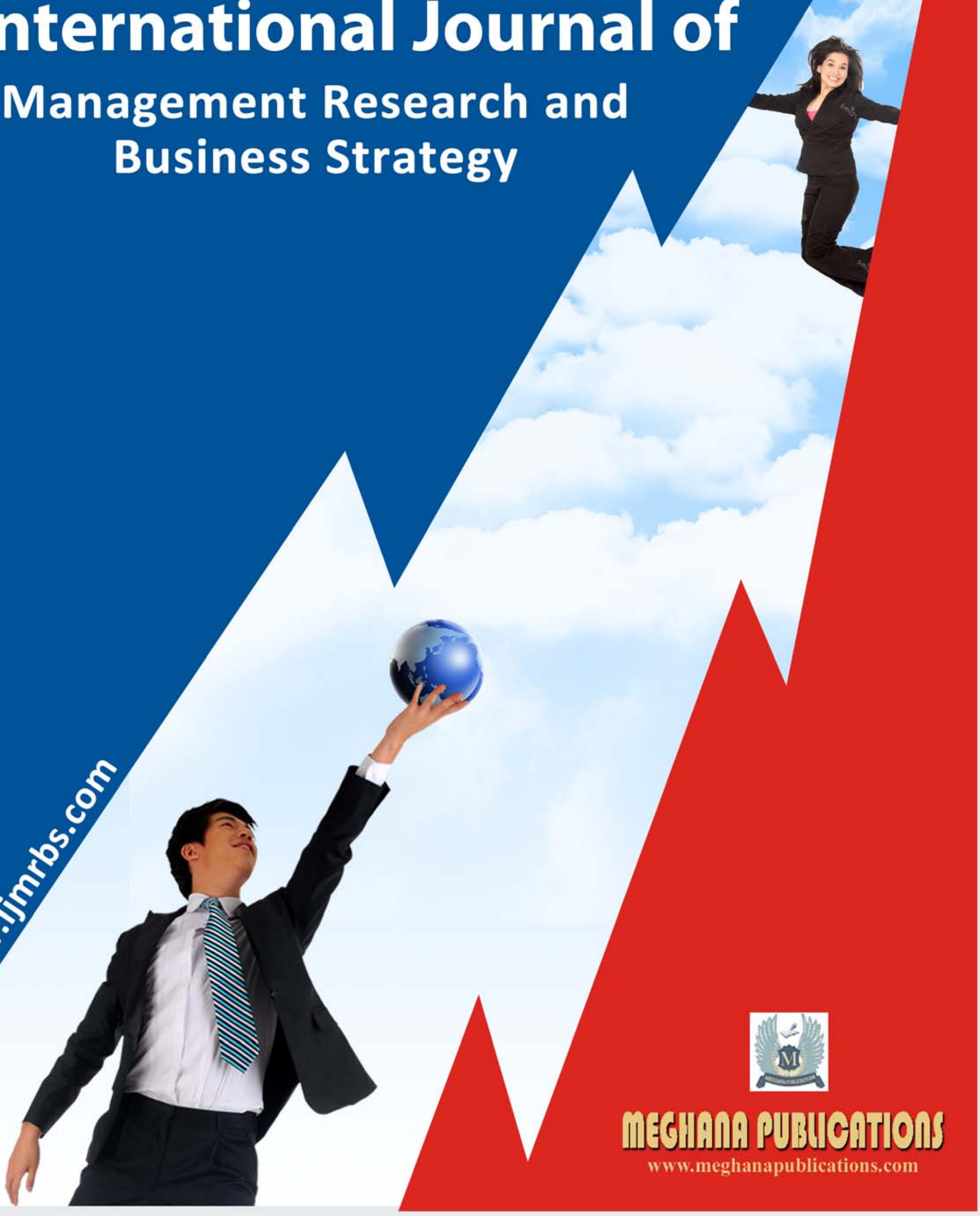
ISSN 2319-345X
Vol. 4, No. 2, April 2015

IJMRBS

International Journal of Management Research and Business Strategy



www.ijmrbs.com

MEGHANA PUBLICATIONS
www.meghanapublications.com

International Journal of Management Research and Business Strategy

ISSN 2319-345X www.ijmrbs.com
Vol. 4, No. 2, April 2015

THE CONTRIBUTION OF PERFORMANCE-BASED PAY AND EMPLOYEE INVOLVEMENT IN DECISION MAKING ON THEIR PERFORMANCE: A CASE OF COMMERCIAL BANKS IN MOMBASA, KENYA

Freddy N Mremmy* and Barasa Wamalwa[1]

Corresponding Author: **Freddy N Mremmy ✉ freddymremmy2013@gmail.com*

Successful organizations are increasingly realizing that there are a number of factors that contribute to performance but human resource is clearly the most critical. Organizations may have the capital and technology, but it is human resources that will help organizations face the current challenges of business globalization. Literature indicates a serious lack of large-sample empirical studies designed to investigate the relationship between strategic human resource practices and workforce performance in the banking sector. Thus, this study investigates the effects of performance-based pay and employee involvement in decision making on employee performance in commercial banks in Kenya. Utilizing a sample size of 185 employees from 20 commercial banks in Mombasa-Kenya, the study establishes that: a significant positive relationships exist between performance-based pay and employee performance ($r=0.048$, $p<0.05$ and; a significant but week positive relationship between employee involvement in decision making and their performance ($r=0.039$, $p<0.05$). Thus, employee compensation packages should not only be consistent with profit maximization on the part of firms, but they should also provide workers with the incentives to do as well as much as possible.

Keywords: Performance-based pay, Employee involvement in decision making, Employee performance

INTRODUCTION

An organization operates with and through people. Organizations are judged on the basis of the performance of their human resources hence the performance of any organization largely depends on the performance of its employees. Successful organizations are increasingly realizing that there are a number of factors that contribute to performance but Human Resource (HR) is clearly the most critical (Mello, 2005). Organizations may have the capital and technology, but it is human resources that will help organizations face the current challenges of business globalization. Capital can be generated, so can technology. But the HR required to propel an organization through the coming challenges must be rightly and

[1] School of Business and Economics, Mount Kenya University, Nairobi, Kenya.

appropriately encouraged and motivated (Raduan and Naresh, 2006).

Among human resource practitioners, the term "Strategic Human Resource Management" (SRHM) is generally used to signal the view that human resource management practices should enhance organizational performance, not least in financial terms (Schuler and Jackson, 2005). SHRM involves designing and implementing a set of proactive HR policies/practices that ensures that the organization's human capital contributes to the achievements of the organizations corporate objectives. SHRM represents a relatively new transformation in the field of human resource management. It is mainly concerned with the role human resource management systems play in the total firm performance, mainly by focusing on the alignment of human resources as a means of gaining competitive advantage.

In spite of the nature and size of the organization, activity it undertakes and the environment in which it operates, the success of the organization depends on its employees' decisions and behavior. In line with this view, numerous theorists have argued that the human resources of the firm are potentially a powerful source of sustainable competitive advantage for organizations, and have sought to demonstrate that there is a positive relationship between HRM and firm performance (Appelbaum *et al.,* 2000; Arthur, 1994; Pfeffer, 1994; Huselid, 1995; Guest, 2002; Ferris *et al.,* 1999). However, since the concept of strategic HRM was launched in the mid 1970s, there has been uncertainty as to which actually facilitate superior performance (Ferris *et al.,* 1999; Collins and Smith, 2006).

The worldwide current competition in banking industry has been increased by globalization, high tech-change and privatization of public banks (Central Bank of Kenya, 2012). To keep pace with this high competition, there is a strong need to adopt strategies that create superiority on rivalry banks. The banking industry of Kenya is also undergoing through this phase of intense competition. This sector is also playing a significant role in the development of country's economy. As on July, 2012, Kenya's commercial banking sector comprised a total of 43 commercial banks: 3 public, 27 local (private), 11 foreign (private) and 2 Islamic (private) commercial banks (Central Bank of Kenya, 2012). CBK (2012) points out that the banking sector has in the recent years recorded a very fast growth rate and huge profits.

There has been substantial growth in the number of banks and branches countrywide. Other growth indicators include the increase in the number of new account holders as well as an increase in the number of banks being listed in the NSE market. On the other hand, players in the banking sector have experienced increased competition over the last few years resulting from increased inventions and innovations among the players and new entrants into the market. The huge network of branches also depicts an intense competition among the banks. Under such competitive environments bank employees have a lot of pressure to try and come up with new creative ideas and products that enable them survive in such extremely turbulent and competitive business environment. Therefore, to remain in this competition, the banks need highly motivated, satisfied and loyal employees (Khan *et al*., 2011) who can deliver results, which also demands a lot of emphasis on the human resource aspect of the banks. As a result human resource strategies need to be put in place to guide the organization to success. However, a review of the literature indicates a serious lack of large-sample empirical studies designed to investigate the relationship between strategic human resource practices and workforce performance in the banking sector. Moreover, research in the area of strategic HRM has been almost exclusively carried out in the Western world. To fill some of the voids in the literature, this study generally aimed at examining the contribution of strategic HRM practices on employee performance in commercial banks in Mombasa Kenya. Specifically, the study sought to determine the contribution of performance-based pay and employee involvement in decision making on their performance.

LITERATURE REVIEW

Theoretical Framework

People are the heart of any organization. When people feel the organization is responsive to their needs and supportive of their goals, managers and leaders can count on their followers' commitment and loyalty. This theory originated from David Owen in the 18th century, he was a mercantile and owned spinning mills throughout Scotland, he believed that workers productivity could be increased by being attentive to their basic needs and giving them opportunity to feel being part of the organization, De cieri (2008) pointed out that organizations should endeavor to make workers origins rather than pawns of the organization. Torrington (2008) explains that human capital signifies the combined intelligence and experience of staff as a source of competitive advantage that cannot be imitated by rivals. This theory has significant implications on how organizations attracting, engaging, rewarding and developing their people in the organizations. The theory has cross cutting significance in HRM practice. In the context of this study, the Human capital theory is useful because the SHRM practices to be investigated revolve around attracting, engaging, rewarding and developing employees so that their productivity meets today's and future needs of the organization.

Performance-Based Pay

Compensation systems that organizations offer to the employees play a key role in increasing employee motivation (Milgrom and Roberts, 1992), performance and productivity. Thus, most organizations are much concerned about establishing and maintaining an optimal compensation system. According to expectancy theory (Vroom, 1964), when pay is tied to some measure of individual or group performance, employees are more likely to work harder to increase the individual's, the group's or the organization's performance and an increase in performance in any of these areas will lead to an overall improvement in firm performance.

Based on expectancy theory (Vroom, 1964), it can be expected that, if the company provides rewards desired by the employee in question, this employee is more likely to perform in a way that will bring him/her the reward. Garibaldi (2006) points out that choosing an appropriate compensation mechanism is probably the core problem of human resource managers, and represents the heart of personnel economics. Compensation packages should therefore be consistent with profit maximization on the part of firms, but they should also provide workers with the incentives to do as well as much as possible. Reward and recognition programs can positively affect motivation, performance and interest within an organization. While a little more problematic, team-based incentives, if designed appropriately, can also encourage and support a range of positive outcomes (Milne, 2007).

Wright *et al*. (2003) have argued that an employee will exert discretionary effort if proper performance management system is in place and is supported by compensation system linked with the performance management system. Singh (2004) argues that compensation is a behavior aligning mechanism of employees with business strategy of the firm. Shahzad Bashir and Ramay, (2008) found positive relationship of reward practices with the performance of university teachers in their research results. In Hong Kong, base salary, merit pay, year-end bonus and profit sharing were the most important factors to retain and motivate employees while in China, base salary, merit pay, year-end bonus, cash allowance, overtime allowance, and individual bonus were found to be important factors to retain and motivate employees (Chiu *et al.*, 2002). A significant and positive correlation has been reported between compensation practices and perceived employee performance by Teseema and Soeters (2006). Thus, on the basis of above mentioned literature and arguments it can be safely assumed that compensation practices contribute to performance of employees in commercial banks in Mombasa. This study gives an African-Kenyan context since most studies had done out of Kenya.

Employee Involvement in Decision Making

Employee participation is considered as a combination of different tools designed to increase employee input of various degrees in managerial decision making like organizational commitment, reduction of employee intention to move to the next employer and absenteeism, increase in productivity and motivation. There has been significant attention from researchers that focus on the manner in which structure affects employee attitudes. Singh (2004), in his study, stated that in current dynamic working environment and severe competition, organizations are required to adopt techniques which are flexible, adaptive and competitive due to the competitive pressures and rapidly changing market conditions. More over organizations are increasingly realizing that their employees are the most important asset and organization's future depends on more involvement of employees in generating new ideas.

The involvement of employees can help in many ways to the organizations looking for creativity, changes in behaviors at work, and in workplace decision making. In many cases, managers are encouraged to allow a high degree of employee participation and autonomy to increase workforce commitment. A study on US organizations by Poole *et al.* (2001) indicates that it is difficult to estimate the prevalence of employee participation at workplaces. It is estimated that less than 5% of all workplaces in US could be classified as having high involvement of their workforce. Another study on US data also revealed that while most employees would like to participate in on the job decisions but they lacked opportunities to do so (Osterman, 1994)

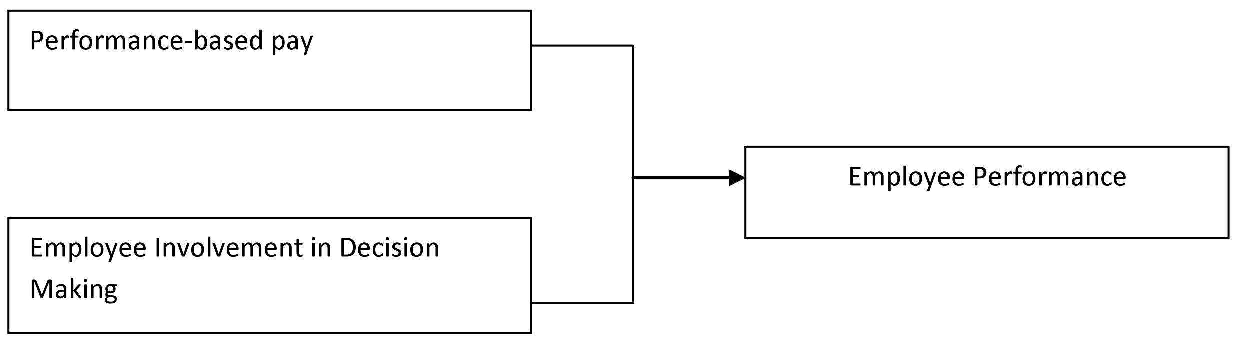
Despite a relatively high level of consensus about the importance of employee involvement, there have been sharply differing views about both the factors that determine it and the principal trends over time. The earliest research literature to focus on the trends in the scope for decision-making in the job focused on its implications for the quality of working life. Its main concern was with the way in which changes in managerial work practices and in the nature of production technologies heightened employee alienation at work (Friedmann, 1946). Strauss (2006) said that participation is a process that allows employees to exercise some control over their work and the conditions under which they work. It encourages employees to participate in the process of making decisions, which have a direct impact on work environment. Substantial employee participation in management is vital for cross-functional integration and efficient working. Employee participation is a method where, a large number of subordinates share a degree of decision-making power with their superiors. A study conducted by Topolnytsky *et al.* (2002) found a very strong positive correlation between employee commitment and employees job involvement. Similar results were also proven by Torka (2003) then he found that amongst Dutch metal workers that employee involvement leads to more employee commitment to the department as well as to the organization. Literature on direct participation reveals that direct participation in decision making is related with organizational commitment and organizational commitment is positively related to more favorable outcomes such as effort, coming on time (Randall, 1990; Wallace, 1995).

Participation can be particularly helpful in developing plans for implementing goal. For these reasons managers often include subordinates in goal setting and in the subsequent planning of how to achieve the goal. It is observed that employee's commitment to the organization is strong among those whose leaders allow them to participate in decision making. The need for employees to be more involved in decisions that affect their work has been a center of argument in current management issues (Hales, 2000). Employee participation programs are designed to deliver this involvement in their own right as well as those in which involvement is a necessary but not sufficient condition, such as Total Quality Management (TQM), is frequently advocated by management consultants (Clutterbuck, 1994, Dean and Evans, 1994). Tor and Torger (1999) said in their research study that there are a number of reasons because of which direct employee participation should be arranged in strategic planning, information about the business strategy may increase employees understanding, willingness and ability to work for business goals. Employee's participation in developing and implementing strategies can creates ownership to organizational goals and to the practical means which they are invited to participate in developing. It also creates a feeling of belonging and pride and hence increases their commitment with the organization. Meyer and Allen (1994) stated that organizational commitment is a psychological state that characterizes the employee's relationships with the organization has implications for the decision to continue membership in the organization. Thus, on the basis of above mentioned literature and arguments it can be safely assumed that employee involvement in decision making contributes to the performance of employees in the Kenyan context too especially in commercial banks.

Conceptual Framework of the Study

The conceptual model provided in Figure 1 shows the relationships between SHRM practices, which are the independent variables and employee performance. The independent variables are performance based pay and employee

Figure 1: Conceptual Framework of the Study (Researcher's Own Conceptualization)



involvement in decision making while the dependent variable is employee performance. According to the framework, employee performance is directly influenced by performance-based pay and employee involvement in decision making.

METHODOLOGY

Research Design

The study utilized the descriptive survey design. A survey is used to collect original data for describing a population too large to observe directly (Bryman and Cramer, 1997). A survey obtains information from a sample of people by means of self-report, that is, the people respond to a series of questions posed by the investigator (Orodho, 2005). In this study data was collected through self-administered questionnaires distributed personally to the subjects by the researcher. Descriptive survey was preferred for this study because it provided an accurate portrayal or account of the characteristics, for example behavior, opinions, abilities, beliefs, and knowledge of individual, situation or group.

Study Population and Sampling

The study was conducted in the city of Mombasa, Mombasa County. Mombasa is a cosmopolitan port city and hosts branches of nearly all the commercial banks licensed to provide financial services in the Republic of Kenya by the central bank of Kenya. Thus, the target population for the study comprised all the employees working in the 43 commercial banks in Mombasa City.

The sampling unit of the study was the bank. A sampling fraction of 46.5% was used to select a representative sample of 20 commercial banks for study. Kathuri and Pals (1993) recommend that for descriptive studies, a sample size of 100 subjects is acceptable provided that none of the sub-samples would be less than 20. Therefore, the study was designed to utilize a maximum sample size of 200 employees drawn from the 20 commercial banks. However a total of one hundred and eighty five (185) questionnaires were returned, representing an overall 92.5% response rate. Campion (1993) suggested that authors need to make reasonable efforts to increase questionnaire return rates, address the influence of non-respondents, and that they do not contain any obvious biases. To achieve the observed return rate for this study, the researcher met the respondents in their work stations and succinctly explained to them the purpose of the study, informed them of their rights of voluntary participation while assuring them of their confidentiality before administering the questionnaire. The respondents were then allowed a day to complete the questionnaires which were collected on the following day

Instrumentation

The main data collection instrument was a structured employee questionnaire. Generally, the questionnaire had three main sections: the first section collected demographic information of the respondent such as gender, age, and working experience. The second section broadly contained items related to human resource management strategies while the final section sought to establish the performance of the employees. A bank manager's interview schedule was used to conduct face to face in-depth interviews to collect qualitative information that was used to triangulate the quantitative data obtained from the employee questionnaire.

With regard to validity of the instruments, this study utilized content validity because it measures the degree to which the sample of test items represent and the content that the task is designed to measure. The instruments were given to the supervisor and other research experts in the School of Business and Public Administration of Mount Kenya University for expert judgment and review of construct validity.

The reliability of the questionnaire items was determined using the Cronbach alpha coefficient. Cronbach alpha provides a good measure of reliability because holding other factors constant the more similar the test content and conditions of administration are the greater the internal consistency reliability (Chong, 2012). Bryman and Cramer (1997) recommend a reliability coefficient of 0.70 and above. A pilot study on a sample of 20 employees was conducted in 4 commercial banks in Mombasa, which were excluded from the actual sample of study. Piloting in the same study ensured similar environmental conditions as the main study. The data obtained from the pilot study was used to conduct a reliability analysis, producing a reliability coefficient of Cronbach alpha 0.76.

Scoring of the Study Variables

In the research questionnaire used to collect data for this study, the respondents, who were employees of the commercial banks were asked to rate their level of agreement with the various statements on a Likert-type Scale in relation to the two strategic HR practices covered by the study: performance-based pay (6) and employee involvement in decision making (6) on a scale of 5 points ranging from strongly disagree (1 point) to strongly agree (5 points). On the other hand, the respondents were also required to rate their performance on a similar 5-point scale on six (6) performance indicators. All the statements related to the two variables of strategic HR practices as well as employee performance were in positive forms.

Data Analysis Techniques

Both quantitative and qualitative data analysis methods were adopted, since the data collected based on the questionnaire items generated both quantitative and qualitative information. The data collected from the study respondents using the questionnaire was checked for completeness, cleaned and coded for ease of analysis. The coded data was then entered into the computer and analyzed with the aid of the Statistical Package for Social Scientists (SPSS) Version 20. Descriptive statistics were used to summarize the data and establish characteristics of the study population. Means and standard deviations were used to summarize the distribution of the response variations on SHRM practices in the commercial banks. Pearson' Product Moment Correlations (PPMC) were conducted to determine the relationships between the SHRM practices and employee performance. Qualitative data collected using the bank manager's interview schedule was extracted, organized according to emerging themes and used to explain the quantitative findings.

RESULTS

Personal Characteristics of the Respondents

The personal characteristics of the respondents investigated by this study were sex, highest level of education and working experience. Out of the 185 respondents who participated in this study, the majority (66.5%) were female while 33.5% were males.

Majority of the respondents (80.5%) were educated up to the bachelor's degree level and a relatively lesser percentage of them, 1.1% were educated up to the Ph.D. level. The percentage of respondents attaining diploma education was about 3% while those with Master's degrees were about 16%. Cumulatively, about 97% of the respondents were at least university graduates, indicating a highly knowledgeable workforce. Education level determines the required skills for higher performance and productivity and is a prerequisite in hiring decisions which in effect creates efficient feedback systems in an organization (Benson *et al.*, 2004). This in return enhances employee understanding and participation.

About half of respondents had worked in their commercial banks for between 4 and 5 years. Only about 5% of the respondents had more than 5 years' working experience with their respective banks as at the time of the study while a relatively larger proportion of about 17% had working experience of less than 1 year in their commercial banks. Cumulatively, majority of the respondents (78%) had between 2 and 5 years' working experience. According to Peak and Marshall (2009), experience has a positive impact on performance and, therefore, majority of the respondents had relatively longer contextual working experiences to understand the HRM dynamics in their institutions and would provide good grounds for performance analysis thus provide objective evaluations of the HRM practices in these institutions.

Performance-Based Pay and Employee Performance

Performance-Based Pay Practices in Commercial Banks

The respondents were asked to indicate the extent to which they agreed that in their respective banks, pay was pegged on performance targets. In addition, the respondents were required to indicate how bonuses were distributed among employees, how and how often employee salary increments were done in the banks. Majority of the respondents (72.4%) agreed that pay was pegged on performance targets, 15.2% strongly agreed while 12.4% neither agreed nor disagreed.

With regard to bonuses, all the respondents (100%) reported that whenever their respective banks posted impressive annual financial results, declared bonuses were shared out equally among the employees to motivate them. On the hand, in relation to how salary increment was done, all the respondents reported that % increment was based on individual performance. As to how often the salary increment was done, multiple responses were given where all (100%) of the respondents reported that there were annual salary increments while 39% equally reported that there were salary increments as a result of promotion.

Information obtained from branch managers of the banks revealed that performance contracting had been introduced in the banks in the previous five years that guided employee compensation schemes. The managers further reported that the with the adoption of performance contracting, individual employees put in extra effort to deliver on their targets given that the banks managements offered a range within which annual salary increments were done based on individual performance—those who surpassed their targets got higher percentage increments while those who performed dismally received lower percentage increments.

The respondents were further required to rate, on a Likert-type scale, the extent to which they agreed with statements relating to your views of various performance-based pay practices in their respective banks. The respondents' ratings to each of the practices were analyzed descriptively using Means and Standard Deviations to determine the most common practices in the commercial banks. The findings in Table 1 indicate that with regard to performance-based pay HRM practice, the highest score was related to compensation system encouraging better performance among the employees of commercial banks with a mean of 4.64, while the lowest mean of 3.89 was related to the performance based compensation system being attractive to the employees. The minimum scores varied from 1 to 3 relative to a maximum of 5 across all the performance-based pay HRM practices, implying that on a continuum of strongly disagree to strongly agree, although some employees felt that the performance-based pay HRM practices were not adequately attractive, and based on the mean scores, majority of the respondents provided positive ratings for the practices that could generally be categorized as "agree". The low values of standard deviations indicate that the respondents' ratings did not differ significantly from one respondent to another.

Effect of Performance-Based Pay on Employee Performance

The respondents' scores for each of the six performance-based pay practices on the Likert-type scale were cumulated to obtain a composite

Table 1: Performance-Based Pay Practices in Commercial Banks

Performance-Based Pay Practices		N	Min	Max	Mean	Std. Dev
i.	Compensation system encourages better performance	185	3	5	4.64	.525
ii.	Salary system reflects standard of living of bankers.	185	1	5	4.44	.705
iii.	Salary raises are a reflection of one's good performance	185	2	5	4.40	.554
iv.	Compensation system is equitable external salary	185	1	5	4.05	.508
v.	Equitable internal salary across all employees	185	2	5	3.94	.399
vi.	Attractive performance based compensation system	185	3	5	3.89	.380

score for performance-based pay. On the other hand, employee performance was also evaluated on a 5-point scale ranging from strongly disagree to strongly agree in six employee performance indicators. The respondents' scores on performance were consolidated to obtain a composite performance score. The total scores for performance-based pay HRM practices and employee performance were then used to conduct the Pearson's Product Moment Correlation analysis to determine whether there was a relationship between performance-based pay and employee performance.

The PPMC analysis results in Table 2 indicate that there was a significant positive relationship between performance-based pay and employee performance (r=0.048). The correlation was significant at the 0.05 level of significance, implying that better employee performance was associated with employees' higher ratings of performance-based pay HRM practices. These findings concurred with the findings of earlier studies by Shahzad *et al*. (2008); Chiu *et al*. (2002) and Teseema and Soeters (2006) who reported positive relationships between performance-based reward HRM practices and workforce performance.

Employee Involvement in Decision Making and Their Performance

Employee Involvement in Decision Making in Commercial Banks

The study sought to establish whether bank employees were involved in making decisions regarding their daily operations, how often they were involved in decision making generally and their level of involvement as wells as whether their ideas were taken into consideration in making of the bank's corporate decisions. The respondents were further required to rate the extent to which they agreed with statements relating to their involvement in various decision-making areas affecting their work. Majority of the respondents (90%) reported that decisions on daily operations were made mainly by the line managers who are their immediate supervisors while 10% reported that such decisions were taken jointly by the branch manager and the supervisor. All the respondents reported that they were never involved in general decision making at the bank but only had opportunities to contribute on what affected their welfare. Notably, the employees' views were not taken into consideration in making corporate decisions as reported by 100% of the employees and confirmed by the branch managers of the banks surveyed.

Table 2: Relationship Between Performance-Based Pay and Employee Performance

		Employee Performance	Performance-based pay
Employee Performance	Pearson Correlation	1	.048*
	Sig. (2-tailed)		.014
	N	185	185
Performance-based pay	Pearson Correlation	.048*	1
	Sig. (2-tailed)	.014	
	N	185	185

Note: * Correlation is significant at the 0.05 level (2-tailed).

The respondents' ratings of their involvement in various decision-making areas affecting their work were analyzed descriptively using Mean and Standard Deviation. The findings presented in Table 3 revealed that the mean scores for employee involvement in decision-making HRM practices ranged from 4.42 (highest) to 4.02 (lowest). The highest mean related to: "Employees exercise some discretional rights on some issues", while the lowest mean was related to: "Staff views are considered in most decisions that affect them". The mean scores across all the employee involvement in decision-making practices imply that generally, the employees "agreed" that these practices existed in their commercial banks.

Relationship Between Employee Involvement in Decision-Making and their Performance

The respondents' scores for involvement in decision-making based on the Likert-type scale items were cumulated to obtain total scores for involvement in decision-making. The total scores for employee involvement in decision-making and the total scores for employee performance were used to conduct the Pearson's Product Moment Correlation analysis to determine whether there was a relationship between employee involvement in decision-making and employee performance. Table 4 shows the results of the correlation analysis.

Table 3: Employee Involvement in Decision Making Among Commercial Banks

	Employee Involvement in Decision Making	N	Min	Max	Mean	Std. Dev
i.	Employees exercise some discretional rights on some issues	185	3	5	4.42	.594
ii.	Down up consultation in decision making.	185	4	5	4.41	.492
iii.	Employees are rewarded for innovativeness	185	3	5	4.28	.528
iv.	Employees are given a chance to use personal initiatives.	185	2	5	4.24	.581
v.	Employees participate in decision making in wide area of issues	185	2	5	4.12	.600
vi.	Staff views are considered in most decisions that affect them.	185	2	5	4.02	.699

Table 4: Relationship Between Employee Involvement in Decision-Making and their Performance

	Employee Performance	Employee Involvement in Decision Making	
Employee Performance	Pearson Correlation	1	.039**
	Sig. (2-tailed)		.022
	N	185	185
Employee Involvement in Decision Making		Pearson Correlation	.039** 1
	Sig. (2-tailed)	.022	
	N	185	185

***. Correlation is significant at the 0.01 level (2-tailed).*

There was a significant positive relationship between employee involvement in decision making and their performance (r=0.039). The relationship was very week but significant at the 0.05 level of significance, indicating that the employees who rated employee involvement in decision-making highly equally had very strong ratings for their performance. Despite the positive correlation between employee involvement in decision making and their performance, the weak correlation coefficient indicates that the differences in the means of employee involvement HR practices as well as mean performance were relatively smaller to bring about a larger coefficient of correlation. These findings were in agreement with those of Noah (2008) who reported that a significant relationship between frequency of employee's consultation and organization commitment thus performance.

DISCUSSION

The study established that the highest score was related to compensation system encouraging better performance among the employees of commercial banks with a mean of 4.64, while the lowest mean of 3.89 was related to the performance based compensation system being attractive to the employees. Overall, there was a significant positive relationship between performance-based pay and employee performance (r=0.048, p<0.05). The argument advanced by Vroom's (1964) expectancy theory that it can be expected that, if the company provides rewards desired by the employee in question, this employee is more likely to perform in a way that will bring him/her the reward rents explanation to the positive relationship between employee performance and the compensation systems in the commercial banks. The fact that percentage pay increment is pegged on individual employee performance encourages individual effort to deliver on performance targets by the employee. As argued by Wright *et al*. (2003), an employee will exert discretionary effort if proper performance management system is in place and is supported by compensation system linked with the performance management system. Compensation packages should therefore be consistent with profit maximization on the part of firms, but they should also provide workers with the incentives to do as well as much as possible. Reward and recognition programs can positively affect motivation, performance and interest within an organization. While a little more problematic, team-based incentives, if designed appropriately, can also encourage and support a range of positive outcomes (Milne, 2007).

As regards the role of employee involvement in decision making on employee performance, the study established that a significant but week positive relationship existed between employee involvement in decision making and their performance (r=0.039, p<0.05), indicating that the differences in the means of employee involvement HR practices as well as mean performance were relatively smaller to bring about a larger coefficient of correlation. A deep employee involvement in decision making allows the influence of the frontline employees in the planning process. Employee participation in decision making, if well practiced would ensure that a favorable atmosphere for implementation of organizational policies and strategies would be created as staff would have a feeling of trust and a sense of belongingness and therefore take ownership of decisions and see to its successful implementation. Li *et al.* (2006) posit that employees are the people who are closest to the customer and who can facilitate new product and service recognition, a central element in the entrepreneurial process. This means that employee participation in the planning process surrounding the potential innovations may facilitate opportunity recognition throughout the organization (Zivkovic *et al.,* 2009). When employees are given the opportunities of contributing their ideas and suggestions in decision making, increased firms' performance may result since deep employee involvement in decision making maximizes viewpoints and a diversity of perspectives (Kemelgor, 2002). Participation in decision making provides employees the opportunity to use their private information, which can lead to better decisions for the organization (Williamson, 2008). Thus, in view of the increasing realization of the adverse effects of non commitment and aloofness of employees to decisions taken both in the interest of employees, the organization and its effects on productivity and performance, management of organizations are now beginning to involve employees in decision-making. Employee involvement, it is believed, would lead to an increase in productivity and also the achievement of the objectives of the organization.

CONCLUSION

Performance-based pay positively contributes to employee performance as exhibited by the significant positive relationship between performance-based pay and employee performance. Rewarding and promoting effective performance in organizations is essential to effective to human resource management.

Employee involvement in decision making is a positive correlate of employee performance. The findings of this study indicate a significant relationship between employee involvement in decision making and employee performance. Accordingly, firms with high levels of employee involvement in decision making outperform those with low employee involvement decision making.

RECOMMENDATIONS

1. Since performance-based pay contributes to employee performance as exhibited by the significant positive relationship between performance-based pay and employee performance, employee compensation packages should not only be consistent with profit maximization on the part of firms, but they should also provide workers with the incentives to do as well as much as possible. Reward and recognition programs can positively affect motivation, performance and interest within an organization

2. Organizations should also endeavor to develop poor performers. This may be accomplished through offering incentives to encourage supervisors to make special efforts to help poor performers improve. If performance meets desired performance standards, performance must be rewarded.

REFERENCES

1. Ahmad O and Schroeder R G (2003), "The Impact of Human Resource Management Practices on Operational Performance: Recognizing Country and Industry Differences", *Journal of Operations Management*, Vol. 21, pp. 19-43.

2. Alcázar F M, Fernández P M R and Gardey G S (2005), "Researching on SHRM: An analysis of the debate over the role played by human resources in firm success", *Management Revue*, Vol. 16, No. 2, pp. 213-241.

3. Appelbaum E, Bailey T, Berg P and Kalleberg A L (2000), "Manufacturing advantage: Why high performance work systems pay off", London: Economic Policy Institute: Cornell University Press.

4. Applebaum E and Batt R (1994), *The New American Workplace: Transforming Work Systems in the United States*, Cornell University Press, New York.

5. Armstrong M and Baron A (2009), *Strategic HRM: The Key to Improved Business Performance*, CIPD, London, BNLS Draft Strategic Plan 2001-2006 (n.d.).

6. Armstrong Michael (2008), *Strategic Human Resource Management: A Guide to Action*, 4th Edition, Kogan Page, London, p. 11.

7. Arthur J B (1994), "Effects of human resource systems on manufacturing performance and turnover", *Academy of Management Journal*, Vol. 37, pp. 670-87.

8. Bae J and Lawler J J (2000), "Organizational Performance and HRM strategies in Korea: Impact on Firm Performance in an Emerging Economy", *Academy of Management Journal*, Vol. 43, No. 3, pp. 502–517.

9. Barney J B (1991), "Firm resources and sustained competitive advantage", *Journal of Management,* Vol. 17, No. 1, pp. 99-120.

10. Batt R and Valcour P M (2003), "Human resources practices as predictors of work family outcomes and employee turnover", *Industrial Relations*, Vol. 42, No. 2.

11. Bell E E (2008), *Multigenerational Workplace Performance: Generational Similarities and Differences in Employee Perception of the Work Environment*, Pro Quest.

12. Bitner M J and Zeithaml V A (2004), *Service Marketing,* New York: McGraw-Hill.

13. Jarventaus J (2007), *The new virtual classroom: Evidence-based guidelines for synchronous e-learning*, T+D, Vol. 61, No. 7, pp. 83-83. Retrieved February 19, 2014, from Academic Search Complete database.

14. Blair D and Sisakhti R (2007), *Sales Training: What Makes it Work? T+D Magazine*, August, www.astd.org/astd/Publications/TD_Magazine/2007_pdf/August/0708_ExecSum.htm

15. Borg W R and Gall M D (1968), *Educational Research: An Introduction,* 4th Edition, New York, Longman.

16. Boselie P, Paauwe J and Jansen P (2001), "Human Resource Management and Performance: Lessons from the Netherlands", *International Journal of Human Resource Management*, Vol. 12, No. 7, pp. 1107–25.

17. Bryman A Cramer (1997), *Qualitative data analysis with SPSS for Windows*: A guide to Social Scientists, London: Sage publication.

18. Caliskan N E (2010), "The impact of strategic human resource management on organizational performance", *J. Nav. Sci. Eng.*, Vol. 6, No. 2, pp. 100-116.

19. Cardon M S and Stevens C E (2004), "Managing Human Resources in Small Organizations: What Do We Know?", *Human Resource Management Review*, Vol. 14, No. 3, pp. 295-323.

20. Central Bank of Kenya (2005, 2006, 2007,

2008, and 2009), Supervisory Annual Report at http://www.centralbank.go.ke. Accessed on 20th February 2014.

21. Chiu R K, Luk V W and Tang T L (2002), "Retaining and motivating employees: Compensation preferences in Hong Kong and China", *Personnel Review,* Vol. 31, No. 4, pp. 402- 431.

22. Chong H Y (2012), *An introduction to computing and interpreting Cronbach Coefficient Alpha in SAS.*

23. Cohen J and Wheeler J (1997), "Training and Retention in African Public Sectors: Capacity-Building Lessons from Kenya", In Grindle M (ed.), *Getting Good Government: Capacity Building in the Public Sector of Developing Countries*, Boston, MA: Harvard Institute for International Development, pp. 125-53.

24. Collins C J and Smith K G (2006), "Knowledge Exchange and Combination: the Role of Human Resource Practices in the Performance of High-Technology Firms", *Academy of Management Journal*, Vol. 49, No. 3, pp. 544-560.

25. d'Archimoles C H and Henri C (1997), "Human Resource Policies and Company Performance: A quantitative approach using longitudinal data", *Organization Studies,* Vol. 18, No. 1, pp. 857-74.

26. Datta K, Guthrie J and Wright P (2003), "HRM and Firm productivity: Does industry matter", Presented in National Academy of Management Meetings, WA.

27. De Cieri H and Kramar R (2008), *Human resource management in Australia: Strategy people performance* (3rd ed.), Sydney: McGraw Hill Australia Pty Limited.

28. Delaney J and Huselid M (1996), "The Impact of Human Resource Management Practices on Perceptions of Organizational Performance", *Academy of Management Journal*, Vol. 39, No. 4, pp. 949-969.

29. Delery J E and Doty D H (1996), "Modes of theorizing in strategic human resource management: Tests of universalistic, contingency and configurational performance predictions", *Acad. Manage. J.*, Vol. 39, No. 4, pp. 802-835.

30. Den Hartog D and Verburg R (2004), "High Performance Work Systems, Organizational Culture and Firm Effectiveness", *Human Resource Management Journal,* Vol. 14, No. 1, pp. 55–78.

31. Dreher G F and Dougherty T W (2005), *Human Resource Strategy: A Behavioral Perspective for the General Manager*, New Delhi: Tata McGraw-Hill Publishing Company Limited.

32. Ferris G R, Hochwarter B A, Ronald Buckley M, Harrell-Cook G and Frink D D (1999), "Human Resource Management: Some new directions", *Journal of Management*, Vol. 25, No. 3, pp. 385-415.

33. Friedmann (1946), "Human Problems of the Industrial Mechanization", Paris: Gallimard.

34. Garibaldi P (2006), *Personnel Economics in Imperfect Labour markets*, Oxford University press, Oxford.

35. Gerhart B (2005), "Human resources and business performance: Findings, unanswered questions, and an alternative approach", *Management Review*, Vol. 16, No. 2, pp. 174-185.

36. Guest D (2002), "Human Resource Management, Corporate Performance and Employee wellbeing: Building the worker into HRM", *The Journal of Industrial Relations,* Vol. 44, No. 3, pp. 335-358.

37. Guest D E, Michie J, Conway N and Sheehan M (2003), "Human resource management and corporate performance in the UK", *British Journal of Industrial Relations*, Vol. 41, No. 3, pp. 291-314.

38. Harrison R and Kessels J (2004), *Human resource development in a knowledge economy: An organizational view,* New York: Palgrave Macmillan.

39. Huselid M A (1995), "The Impact of human resource management practices on turnover, productivity, and corporate financial performance", *Academy of Management Journal*, Vol. 38, pp. 635-672.

40. Ichniowski C, Shaw K and Prennushi G (1997), "The effects of human resource management practices on productivity: a study of steel finishing lines", *American Economic Review*, Vol. 87, No. 3, pp. 291-313.

41. Islam R and Rasad S M (2006), "Employee Performance Evaluation by the AHP: A Case Study", *Asia Pacific Management Review*, Vol. 11, No. 3, pp. 163-176.

42. Jyothi P and Venkatesh D N (2006), *Human Resource Management,* New Delhi: Oxford University Press.

43. Kathuri N J and Pals A D (1993), *Introduction to Educational Research*, Njoro; Kenya Egerton Education Media Centre.

44. Katou A A (2008), "Measuring the impact of HRM on organizational performance", *Journal of Industrial Engineering and Management*, Vol. 01, No. 02, pp. 119-142.

45. Khan A H, Nawaz M M, Aleem M and Hamed M (2011), "Impact of job satisfaction on employee performance: An empirical study of autonomous Medical Institutions of Pakistan", *African Journal of Business Management,* Vol. 6, No. 7, pp. 2697-2705.

46. Koch M J and McGrath R G (1996), "Improving labour productivity: human resource management policies do matter", *Strategic Management Journal*, Vol. 17, No. 5, pp. 335-54.

47. Lee C H and Bruvold N T (2003), "Creating value for employees: investment in employee development", *International Journal of Human Resource Management*, Vol. 14 , No. 6, pp. 981-1000.

48. Lepak D P, Liao H, Chung Y and Harden E E (2006), "A conceptual review of human resource management systems in strategic human resource management research", *Research in Personnel and Human Resources Management,* Vol. 25, No. 3, pp. 217-271.

49. MacDuffie J P (1995), "Human Resources bundels and manufacturing performance: Organizational logic and flexible production systems in the world Auto Industry", *Ind. Lab. Rel. Rev.*, Vol. 48, No. 2, pp. 197-221.

50. Marchington M and Wilkinson A (2002), "People management and development: Human resource management at work", London: Chartered Institute of Personnel and Development.

51. Mello J A (2005), *Strategic Human Resource*

Management (2nd ed)., South-Western College.

52. Meyer J P and Allen N J (1997), "Commitment in the Workplace: Theory, Research, and Application", Thousand Oaks, CA: Sage Publications.

53. Milgrom P and Roberts J (1992), *Economics, Organization and Management,* Englewood Cliffs, NJ: Prentice Hall.

54. Milne P (2007), "Motivation, Incentives and Organizational Culture", *Journal of Knowledge Management,* Vol. 11, No. 6, pp. 28-38.

55. Mugenda A and Mugenda O (2003), *Research Methods Quantitative and Qualitative Approaches* (3rd Ed.). Nairobi: Acts Press Publishers.

56. Musah S (2008), "Evaluating The Extent to Which People and Performance AMO Model has Contributed to the Strategic Human Resource Debate", *Journal of Management,* Vol. 15, No. 1, pp. 67-79.

57. Orodho A J (2005), *Elements of education and social Science Research Methods*, Nairobi, Masola publishers.

58. Osterman P (1994), "How common is workplace transformation and who adopts it?", *Industrial and Labor Relations Review*, Vol. 47, No. 2, pp. 173-188.

59. Pfeffer J (1995), "Producing sustainable competitive advantage through the effective management of people", *Academy of Management Executive,* Vol. 9, No. 1, pp. 55-69.

60. Purcell J (2004), *The HRM-Performance Link: Why, How and When Does People Management.*

61. Purcell J, Kinnie N, Hutchinson S, Rayton B and Swart J (2003), *Understanding the people and performance link: Unlocking the black box,* London: Chartered Institute of Personnel and Development.

62. Qureshi M T and Ramay I M (2006), "Impact of Human Resource Management Practices on Organizational Performance in Pakistan", Muhammad Ali Jinnah University Islamabad.

63. Raduan C R and Naresh K (2006), "The Influence of Organizational and Human Resource Management Strategies on Performance", *Performance Improvement*; Vol. 45, No. 4.

64. Randall (1990), "Consequences of Organizational Commitment: Methodological Investigation", *Journal of Organizational Behavior*, Vol. 11, No. 5, pp. 361-378.

65. Savaneviciene A and Stankeviciute Z (2010), "The Models Exploring the "Black Box" between HRM and Organizational Performance", *Journal of Engineering Economics,* Vol. 21, No. 4, pp. 426-434.

66. Schuler R S and Jackson S E (2005), "A quarter-century review of human resource management in the US: The growth in importance of the international perspective", *Management Review*, Vol. 16, No. 1, pp. 11-35.

67. Schuler R S and Jackson S E(eds) (1999), *Strategic Human Resource Management,* London: Blackwell.

68. Shahzad K, Bashir S and Ramay M I (2008), "Impact of HR practices on the perceived performance of University teachers in Pakistan", *International Review Business,* Vol. 4, No. 2, pp. 323-332.

69. Singh K (2004), "Impact of HR practices on perceived firm performance in India", *Asia Pacific Journal of Human Resources,* Vol 42, No. 3, pp. 301-317.

70. Soeters J and Tessema M (2004), "Public Management in Developing Countries: Some Notes on Eritre", *International Review of Administrative Sciences*, Vol. 70, No. 4, pp. 623–35.

71. Strauss (2006), "Worker Participation: Some Under-Considered Issues", *Industrial Relations: A Journal of Economy and Society,* Vol: 45, No: 4, pp: 778–803.

72. Tai W T (2006), "Effects of training framing, general self efficacy and training motivation on trainees' effectiveness", *Personnel Review*, Vol. 35, No. 1, pp. 51-65.

73. Tessema M T and Soeters J L (2006), "Challenges and practices of HRM in developing countries: testing the HRM-performance link in the Eritrean civil service", International. *Journal of Human Resources,* Vol. 17, No. 1, pp. 86-105.

74. Topolnytsky *et al.* (2002), "Affective, Continuance, and Normative Commitment to the Organization: A Meta-analysis of Antecedents, Correlates, and Consequences", *Journal of Vocational Behavior,* Vol. 61, No. 1, pp. 20 – 52.

75. Torka N (2003), *Flexibel maar toch betrokken*; Twente University Press; Enschede.

76. Torrington D, Hall L and Taylor S (2008), *Human Resource Management,* (7th ed.), Harlow: Prentice Hall.

77. Vroom V H (1964), *Work and Motivation*: Jossey-Bass: San Francisco, CA.

78. Waddell D, Cummings T G and Worley C G (2000), *Organization Development and Change*, Nelson Thomson Learning, Sydney.

79. Wagner J A (1994), "Participation's Effect on Performance and Satisfaction: A Reconsideration of Research Evidence", *Academy of Management Review*, Vol. 19, pp. 312–330.

80. Wallace (1995), "Corporatist Control and Organizational Commitment among Professionals: The Case of Lawyers Working in Law Firms", *Social Forces*, Vol. 73, No. 3, pp. 811-840.

81. Wexley K N and Latham G P (2002), *Developing and training human resources in organizations*, Upper Saddle River, NJ: Prentice Hall.

82. Whitener E M (2001), "Do High Commitment Human Resource Practices affect Employee Commitment? A Cross Level Analysis Using Hierarchical Linear Modeling", *Journal of Management.* Vol. 27, No. 5, pp. 515 – 35.

83. Wright P, Gardener T and Moynihan L (2003), "The Impact of HR practices on the performance of business units", *Human Resource Management Journal,* Vol. 13, No. 3, pp. 21-36.

84. Wu H L (2005), "A DEA Approach to Understanding the Performance of Taiwan's Steel Industries 1970-1996", *Asia Pacific Management Review*, Vol. 10, No. 6, pp. 349-356.

International Journal of Management Research and Business Strategy
Hyderabad, INDIA. Ph: +91-09441351700, 09059645577
E-mail: editorijmrbs@gmail.com or editor@ijmrbs.com
Website: www.ijmrbs.com

ISSN 2319-345X