

**EMPLOYEE REMUNERATION DETERMINANTS AND
PERFORMANCE OF MICROFINANCE INSTITUTIONS IN
KENYA**

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DOCTOR OF PHILOSOPHY

(Human Resource Management)

**JOMO KENYATTA UNIVERSITY OF
AGRICULTURE AND TECHNOLOGY**

2017

**Employee Remuneration Determinants and Performance of
Microfinance Institutions in Kenya**

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**A Thesis Submitted to the school of entrepreneurship and procurement
management in Partial Fulfilment for the Degree of Doctor of
Philosophy in human resource management in the Jomo Kenyatta
University of Agriculture and Technology**

2017

DECLARATION

This Thesis is my original work and has not been presented for a degree in any other University.

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DEDICATION

This Thesis is dedicated to my husband and children who have been my key assets to success and supported me emotionally during the draft of this project. They gave me valuable strength and courage to excel and achieve my dreams. I humbly and kindly appreciate their support and prayers that led to the completion of this project within the stipulated timeframe.

ACKNOWLEDGEMENT

Many people have assisted in one way or the other in this doctoral study. I would like to convey my sincere and heartfelt gratitude to all those who have helped me develop this thesis. I am greatly indebted to my supervisors Dr. Iravo and Prof. Namusonge who tirelessly through their efforts and initiative guided me through the whole process.

I would also like to appreciate Dr. Omwenga for her continuous encouragement and support. Further, I would like to acknowledge all the Jomo Kenyatta University Lecturers, Non-teaching staff, Doctoral students, colleagues, friends and my family especially for their moral and material support.

I owe special thanks to my husband Mr. Ombongi for his insistence that "you must finish and graduate" even when I felt like giving up. My children for your understanding and support, I thank you.

Above all, thanks to my God for his unwavering provision, full of love and protection in all moment of lack and despair, fear and discouragement.

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ABBREVIATIONS AND ACRONYMS

| | |
|---------------|--|
| CBK | Central Bank of Kenya |
| GoK | Government of Kenya |
| HRM | Human Resource Management |
| JKUAT | Jomo Kenyatta University of Agriculture and Technology |
| KIPPRA | Kenya Institute of Public Policy Research and Analysis |
| MFI's | Microfinance Institutions |
| SMEP | Small Micro Enterprise Programme |

OPERATIONAL DEFINITIONS OF TERMS

- Employees:** Refers to incumbents or workers engaged on contractual or permanent basis to provide specific services on behalf of the firm (GoK, 2012).
- Compensation policy:** Refers to organizational guidelines that determine how much an employee should be paid based on skills, knowledge and experience (Guffey &Loewy, 2012).
- Employee Competencies:** Refers to a combination of skills possessed by individual workers to perform multiple tasks (Armstrong, 2003).
- Determinants:** Are influencing actors/factors that determine the output of an event or activity (Reilly & Williams, 2006).
- Labour Market Conditions:** This are external conditions that influence or trigger firms to determine how much to pay their employees in a particular industry (Maxwell et al., 2008).
- Microfinance Institutions:** Microfinance refers to a financial institution specializing in banking services for low-income groups or individuals (Carell, 2006).
- Performance:** refers to the ability of the organization to meet or exceed its objectives within a given period of time in a more efficient and effective way with limited resources available (Baron & Armstrong, 2007).

Technology: Involves knowledge of techniques, processes and application of information technology skills to enhance efficiency and effectiveness of the system (Schuster & Zingheim, 2007).

Remuneration: Refers to a reward or compensation given to an employee for a particular effort or work performed (Stuart, 2011).

ABSTRACT

The concept of employee remuneration has remained a key factor of organizational performance. Organizations that compensate their workers effectively are likely to achieve maximum productivity and vice versa. With increased competition and changing business environments, both small and large organizations in the local and global context are experiencing deteriorating performance related to inappropriate remuneration practices. The aim behind this study was to assess employee remuneration determinants and the performance of micro finance institutions in Kenya. The specific objectives of this study were to; examine the relationship between employee competencies, compensation policy, technology and labour market conditions and performance of microfinance institutions in Kenya. The study was anchored on human capital theory and supported by agency theory, efficiency wage theory and technology acceptance theory. The study adopted descriptive research design to establish the problem that was under investigation. It was appropriate because it explored and described the relationship between variables in their natural setting without manipulating them. The target population of the study were 56 microfinance institutions operating in Kenya. Purposive sampling technique was adopted to select the sample of the study. Structured questionnaires were instruments of data collection due to their effectiveness of capturing respondent information in a structured manner and the opportunity of respondents giving their views freely without interference from the researchers. Secondary data was collected from human resource records, related studies and books. Validity and reliability of the research instruments were tested through a pilot study using four employees selected from 2 MFI's operating in Nairobi County, Kenya (Faulu Kenya and Kenya Women Finance Trust). Internal consistency of the instrument was tested using Cronbach's Alpha method. Data was analyzed using Statistical Package for Social Sciences (SPSS version 20) software using descriptive and inferential statistics. Structured questionnaires were used to collect data and t-test, Pearson correlation as well as multiple regression analysis used to analyze the data. The F-test was used to test the hypothesis of the study. SPSS Version 22 aided in the data analysis. The analyzed data was presented in form of tables. It was revealed that employee competence, compensation policies, technology and labour market conditions had a positive relationship on performance of MFI's in Kenya despite small extent of adoption. The study concludes that unless MFI's realized the value of recruiting highly qualified workers, review compensation policies, integrate technology into the system and assessing labour market conditions before compensating workers, gaining

competitiveness will be an uphill task. Therefore, the study recommends that top management of MFI's should allocate adequate budgets to recruit competent staff, train workers, form industry partnership, implement change and review compensation policies for them to remain competitive.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The human resource discipline has experienced tremendous changes from the global, international, regional, national and local contexts (Guffey & Loewy, 2012). The concept of the employee remuneration has evolved over time from one country to another and from one sector to another (Abdullah, 2014). A survey by Muogbo (2013) in Nigeria revealed that employee remuneration the influence of internal and external forces in the organizational context has necessitated both large and small firms to audit their remuneration policies in order to attract, develop and retain competent and skilled workforce.

Maxwell (2008) on the other hand observed that companies in the manufacturing sector in the United Kingdom were performing effectively based on the amount of money paid to employees. Ghansah (2011) ascertained that firms operating in the manufacturing sector in Ghana were capable of retaining employees based on the review of salaries from time to time. Habbash (2010) suggest that employee remuneration involves the reward or compensation given to the employees for their work. Developing countries of the world and more especially in Kenya, the microfinance sector has experience drastic changes in the microfinance sector due to changes of labour market conditions (Katua, Mukulu & Gachunga, 2014).

Dauda, Akingbade, and Akinlabi (2010) contend that the firms have continued to align their human resource strategies with the changing business environment despite the influence of competition, globalization, technology, consumer demands, costs of operation, workforce diversity are among the drivers of organizational change. Performance of organizations in the global business environment is determined by

internal and external factors that influence remuneration of employees (Ghazala & Habib, 2012).

Remuneration is one of the general factors known to many as to have an effect on the performance of employees in any given set-up (Baron & Armstrong, 2007). This has to a certain extent created a perception among the human resource professionals that employees consider pay to be the most important factors in their career. When employees are motivated through attractive remunerations, their performance of work tremendously increases (Bohan, 2004). Well remunerated employees are more likely to work towards organizational objectives with minimal resistance. Employee satisfaction of work depends on expectations and the environment in which they work. Employees with favourable pay structures are motivated to produce more while low pay leads to low motivation that translates to low performance.

Armstrong (2003) notes that money provides the carrot that most people want. Money is the primary motivator to most people because it increases one's purchasing power. Deb (2008) listed money as a hygiene factor rather than a motivator. When people get fixed salaries or rates of pay they do not get a lot of satisfaction from it. However, different people have different needs and wants and definitely money motivates them differently. Guffey and Loewy (2012) also pointed out that money should not be considered the primary motivator at the expense of other factors such as challenging work and favourable managerial and organizational climate.

The remuneration that one earns plays a fundamental role in motivating an employee towards improved performance. As such, management in the civil service needs to be reviewing the remunerations that their employees receive. This is due to the fact that revised remunerations contribute to some extent in motivating them to perform better at their places of work (Maxwell *et al.*, 2008). The environmental working condition does affect employee performance. Most employees find it not conducive and effective for their working as well as professional growth. Moreover, variables like age, gender and

ethnic discriminations have provided a setback in the productivity of employees in organizations. It needs to be noted that the working environment greatly affects performance of an employee. Good working condition helps to boost employee's morale, improves the organization's productivity hence service delivery (Guffey & Loewy, 2012).

Creation of tasks that are beneficial to the company pays to create a good working atmosphere since every employee wants to feel that their job is making a difference and will work towards accomplishing the task. High Performance can be achieved through a good working environment. This can be done by ensuring that majority, if not all, of the employees' tasks have a direct benefit or contribution to the overall success of the organization. Strategically created tasks that directly affect the organization will energize and motivate the employee to bring out their best (Carell, 2006).

As observed by Luis (2010), organizations should create an environment in which performance makes a differences. Otherwise it may end up with a low achievement of organizational performance culture. Before the introduction of performance contracting in the government institutions, the working environment was one of sluggishness and low productivity. However, the performance contracting concept has to some extent tried to turn around the environment into a more productive one. Employee empowerment which involves giving an employee the authority to make and implement some decisions plays a key role in the promotion of employee morale to work.

1.1.1 Concept of Employee Remuneration

Remuneration refers to payment or compensation received for services or employment. This includes the base salary and any bonuses or other economic benefits that an employee or executive receives during employment (Abdullah, 2014). Reilly and Williams (2006) argue that remuneration can be termed as a reward for employment in the form of pay, salary, or wage, including allowances, benefits (such as company car,

medical plan and pension plan), bonuses, cash incentives, and monetary value of the noncash incentives.

Remuneration is one of the general factors known to many as to have an effect on the performance of employees in any given set-up or organization (Muogbo, 2013). When employees are motivated through attractive remunerations, their performance of work tremendously increases. Armstrong (2003) on the other hand noted that basic requirements for job satisfaction may include comparatively competitive pay, equity, real opportunities for promotion, participative management, degree of social interaction at work and interesting work with relative control over work pace and work methods.

Afsal (2013) argues that basic salary is a fixed periodical payment for non-manual employees usually expressed in annual terms, paid per month with generally no additions for productivity. Wage refers to payment to manual workers, always calculated on hourly or piece rates. Bohan (2004) ascertain that traditional pay systems were based on three factors which include; the job, maintaining the level of equality in standard pay among employees in the organization and paying competitive salaries. In the traditional pay systems, employees were not encouraged to acquire new skills and were not rewarded if they did.

It is clear that there are numerous variables between people and their jobs needs determine their relationship. It must be noted that the concept of employee remuneration is psychological (Bal, Bozkurt & Ertemsir, 2012). The underlying problem is therefore, that management should attempt to strike a balance so as to satisfy the interest of both the organization and the workers. The reality of management observed that emphasis of high employee remuneration shifted away from the job itself to labour. Organization productivity is contingent on a number of factors such as skill (liability appropriate for assigned job) motivation and role clarity (a clear understanding of assigned role) (Shields, 2007).

Increase of an employee's pay depended on change on the cost of living and employees regarded the increase in pay as entitlement without accounting for their own performance, or that of the organization (Reilly & Williams, 2006). This meant on one hand that an employee's salary increase did not in any way change his or her attitude to work such that he or she could put more effort to influence the total output in order to cater for the increase, and on the other hand increase of pay boosted the worker's economic freedom while negating the need to increase the organization's volume of production (Schuster & Zingheim, 2007).

Swanepoel (2003) is of the view that employees are rewarded according to the position held without considering their performance. The increments in basic pay depended on internal and external assessment of jobs. Shields (2007) views basic pay as an important part of total pay that is fixed and mainly time-based, rather than performance-based. Basic pay is the largest fraction of the total pay for non-executive employees. It also acts as a benchmark for other cash incentives such as profit sharing, which is expressed as a percentage of basic pay. Basic pay helps to attract and retain employees (Sarin, 2009).

Employees use basic pay to compare their job offers instead of using intrinsic rewards and other rewards not captured in the formal organizational framework up to including job security. In a competitive market, organizations pay above the market rates to retain their employees. Lynch (2000) agrees that basic salary or basic wage is the vital payment made by the employer to the employee for work done. Pay indicates the value that the employer puts on the work performed by its employees. Employees are paid depending on the skills and competencies that they possess, and not what the job is worth. It is employees who have market value, and not jobs (Shields, 2007).

Zima (2007) argues that skills based pay is a payment method in which pay progression is linked to the number and depth of skills that individuals develop and use. It is paying for horizontal acquisition of skills and the vertical development of skills needed to operate at a higher level by undertaking a wider range of tasks. The emphasis on skills development is necessitated by rapid developments in technology and changing manufacturing methods that require flexibility (Stuart, 2011).

According to Armstrong (2003), good practice requires employers to keep pace with inflation by rewarding employees with salaries that are market related to avoid strikes and poor performance. Organizations are under financial strain with salaries continually rising and becoming a major fixed expense. According to Livingstone (2009), regardless of basic pay inefficiencies, it remains a rule that employees should be paid at, or above market rates as negotiated by labour unions who are concerned with the welfare of employees. In a competitive market, higher basic pay is used for attracting and retaining employees. Otherwise contradicting this rule has negative consequences on the part of the organization.

Employee satisfaction of work depends on expectations and the environment in which they work. Employees with favourable pay structures are motivated to produce more while low pay leads to low motivation that translates to low performance. Armstrong (2003) notes that money provides the carrot that most people want. Money is the primary motivator to most people because it increases one's purchasing power. However, different people have different needs and wants and definitely money motivates them differently. Armstrong (2003) suggests that money should not be considered the primary motivator at the expense of other factors such as challenging work and favourable managerial and organizational climate.

1.1.2 Organizational Performance

Organizational performance comprises the actual output or results of an organization as measured against its intended outputs. It involves the ability of an organization to fulfill its mission through sound management, strong governance and a persistent rededication to achieving results (John & Morris, 2011). Effective nonprofits are mission-driven, adaptable, customer-focused, entrepreneurial, outcomes oriented and sustainable. Creating flexible, high-performing, learning organizations is the secret to gaining competitive advantage in a world that won't stand still. Performance measures can be financial or non-financial. Both measures are used for competitive firms in the dynamic business environment (Jenning *et al.*, 2008).

Performance management is commonly used today to describe a range of managerial activities designed to monitor, measure and adjust aspects of individual and organizational performance through management controls of various types. Performance management integrates the management of organizational performance with the management of individual performance. Organizational performance management can serve two distinct functions which include; Intra-organizational performance management and Extra-organizational performance management (Henri, 2004).

Intra-organizational performance management ensures that there are appropriate internal controls to monitor the extent to which the organization (and its sub-units) is achieving what it is supposed to achieve (Henri, 2004). This requires the organizational management to periodically review and evaluate performance standards attained and performance trajectories, taking corrective action as appropriate where deviations from the desired standards are detected. On the other hand, extra-organizational performance management involve communication of performance for the purposes of governance and accountability to organizational stakeholders including government, funding bodies, audit agencies and the wider public (Gordon, 2003).

There is no requirement for an organization to have an intra-organizational performance management system. However, there is clear evidence that having clarity of purpose and the means to monitor progress towards goal attainment does promote a performance culture in organizations (public and private) which achieves enhanced organizational performance levels. There are requirements, often statutory, for public sector organizations to maintain high standards of corporate governance, accountability and public reporting. This requires systems of extra organizational performance management (Elkin, 2002).

1.1.3 Microfinance Institutions in Kenya

Microfinance refers to a variety of financial services that target low-income clients, particularly women. Since the clients of microfinance institutions (MFIs) have lower incomes and often have limited access to other financial services, microfinance products tend to be for smaller monetary amounts than traditional financial services. These services include loans, savings, insurance, and remittances. Microloans are given for a variety of purposes, frequently for microenterprise development (KIPPRA, 2014).

The diversity of products and services offered reflects the fact that the financial needs of individuals, households, and enterprises can change significantly over time, especially for those who live in poverty. Because of these varied needs, and because of the industry's focus on the poor, microfinance institutions often use non-traditional methodologies, such as group lending or other forms of collateral not employed by the formal financial sector (GoK, 2012).

Microfinance refers to a financial institution specializing in banking services for low-income groups or individuals. A microfinance institution provides account services to small-balance accounts that would not normally be accepted by traditional banks, and offers transaction services for amounts that may be smaller than the average transaction fees charged by mainstream financial institutions (GoK, 2012). The Kenyan

microfinance sector is one of the most vibrant in Sub-Saharan Africa. It includes a diversity of institutional forms and a fairly large branch network to serve the poor.

However, microfinance activities have been regulated in Kenya only since 2006. The absence of regulation has allowed innovations to take place: institutions were set up easily without any barriers, such as minimum capital requirements. The microfinance industry has thrived in this environment (GoK, 2012). The second factor is that GDP growth has been low and is limited to only a few sectors – tourism, manufacturing, horticulture, and services.

The government's failure to radically improve the nation's investment and savings habits drastically threatens growth, since substantial growth cannot occur without sufficient capital. Encouraging the systemized implementation of savings and capital accumulation strategies will allow Kenya to swiftly grow GDP at rates that far exceed the current pace. At the grassroots level, microfinance and micro-enterprise growth play a critical role in bringing capital, financial strategies, and economic opportunity to underserved communities throughout Kenya (GoK, 2012).

1.2 Statement of the Problem

Performance of organizations has been directly associated with employee remuneration in the changing business environment despite internal and external factors that determine how much organizations should pay their workers in terms of wages and salaries (Onyancha, Munene & Muturi, 2014). However, it noted that that study was limited to the Ministry of Internal Security in Kisii County. Challenges of determining employee remunerations have been an uphill task to firms in the international and local labour market thus leading to declined performance (Wambui, 2015). However, it is noted that the study was confined to different variables such as strategic human resource management among parastatals in Kenya.

Dauda, Akingbade and Akinlabi (2010) contend that deteriorating performance associated with demotivated staff, decreased profits, poor customer services, inability to develop new products and diversify are some of the problems experienced by microfinance institutions due to challenges of establishing employee remuneration determinants. Katua, Mukulu and Gachunga (2014) observed that performance of microfinance institutions in developing countries and more especially in Kenya, 73% of the microfinance institutions are not performing effectively due to remuneration issues. The study points out that issues of leadership, adherence to policies and technology have greatly contributed to deteriorating performance of microfinance institutions in Kenya.

KIPPRA (2014) on employee motivation and performance of microfinance institutions in Kenya established that the employee remuneration concept has remained an uphill task among microfinance institutions in Kenya. Internal and external factors play a critical role in determining the amount of money microfinance institutions pay their employees as salaries and wages. Abdul *et al.* (2014) studied on the impact of compensation on employee performance and identified that the only motivator of employee performance was not only money, but also other non-financial aspects such as good working condition, promotions, trainings, delegations, good management and leadership styles, participative decision making and recognition.

Mugbo (2013) on the impact of employee motivation on organizational performance established that well remunerated employees are likely to perform effectively and vice versa. However, it is noted that the study was limited to different variables such as employee motivation on organization performance of manufacturing firms in Nigeria. Onyancha, Munene and Muturi (2014) studied the effects of remuneration on employees' performance in the Ministry of Internal Security in Kisii County and identified that labour market conditions such as number of job seekers were influencing the amount of money paid to employees of MFI's in form of salaries.

Moragwa (2013) studied on determinants of compensation systems among commercial banks in Kenya and established that compensation and benefits are the most critical factors in attracting and retaining high quality employees. However, it is observed that the study was confined to compensation systems among commercial banks in Kenya. Therefore, from the findings of previous empirical studies cited, it is noted that issues in this area of study have not been addressed comprehensively thus questionable issues in the sector. Although some progress has been made none of the studies sought to establish holistic approach of the employee remuneration variables of this study on performance of microfinance institutions in Kenya.

1.3 Objectives of the Study

1.3.1 General Objective

The general objective of this study was to assess employee remuneration determinants and performance of microfinance institutions in Kenya.

1.3.2 Specific Objectives

The specific objectives of the study were:

1. To establish the relationship between employee competencies and the performance of microfinance institutions in Kenya.
2. To determine the relationship between compensation policy and the performance of microfinance institutions in Kenya.
3. To determine the relationship between technology and the performance of microfinance institutions in Kenya.
4. To determine the relationship between labour market conditions and the performance of microfinance institutions in Kenya.

1.4 Hypotheses of the Study

The hypotheses of the study were:

1. **H₀** There was no significant relationship between employee competencies and performance of microfinance institutions in Kenya.
2. **H₀** There was no significant relationship between compensation policies and performance of microfinance institutions in Kenya.
3. **H₀** There was no significant relationship between technology and performance of microfinance institutions in Kenya.
4. **H₀** There was no significant relationship between labour market conditions and performance of microfinance institutions in Kenya.

1.5 Significance of the Study

The findings of the study would be beneficial in a number of ways to various stakeholders. Among the beneficiaries will be the management of the microfinance institutions in Kenya. The findings of the study would yield information that would be used to determine remuneration of each employee of the organization. It would provide guidance to the entire management hierarchy in all microfinance institutions in Kenya. Secondly, the government of Kenya would benefit from the findings of the study by getting crucial information that would determine the Central Bank economic policies formulated to influence performance of MFI's in Kenya.

Thirdly, this study would benefit the microfinance institutions operating in the 47 Counties. The Ministry of Trade in each county would establish effective and efficient policies of overcoming challenges faced by microfinance institutions ranging from provision of credit policies, regulation of labour laws and support of microfinance institutions through grants from well-wishers thus enhancing socio-economic development in Kenya. Fourthly, the study would also be of importance to future scholars in the field of Human Resource Management, who would use this study to

enrich their literature review and also add value to the already existing literature in the field of Human Resource Management.

1.6 Scope of the Study

The study focused on the 56 microfinance institutions operating in the 47 Counties in Kenya. Purposive sampling technique was used to select 986 employees from microfinance institutions in Kenya. Microfinance institutions were selected based on their heritage in Kenya and categorized into large sized, medium sized and small sized.

1.7 Limitations of the Study

Results of this study on employee remuneration determinants on performance of microfinance institutions in Kenya were not without limitations. Only employees of MFI's were considered for the study and not the industry's human resource experts with adequate information on labour market trends. This was mitigated by asking respondents whether they were aware of external factors that influenced their remuneration.

The study was carried out on a small sample size of only 149 employees out of a total of 986 employees of the 9 microfinance institutions selected. Questionnaires were given to 149 employees sampled. Therefore to generalize the results, the study should have involved more participants. This was mitigated by using purposive sampling techniques to identify employees who had adequate information about determinants of remuneration among MFI's. Nevertheless, the information gathered using questionnaires was supplemented by the information gathered from published human resource records. The questionnaires were administered by the researcher using drop and pick later method to minimize non-response due to tight work schedules among target respondents.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter outlines theoretical review, conceptual framework, empirical review relevant to the study and critique of existing literature.

2.2 Theoretical Review

This study was anchored on Human Capital Theory and supported by other three theories which include; Agency Theory, Technology Acceptance Theory and Efficiency Wage Theory as discussed.

2.2.1 Human Capital Theory

The theory was propounded by Becker's (1993); in his classical book "Human Capital" who argues that there are different kinds of capitals that include schooling, a computer training course and expenditures on medical care. Becker noted that the most valuable capital is the investment in employees. He distinguishes firm-specific human capitals from general-purpose human capital. Examples of firm-specific human capital include expertise obtained through education and training in management information systems, accounting procedures, or other expertise specific to a particular firm. General-purpose human capital is knowledge gained through education and training in areas of value to a variety of firms such as generic skills in human resource development (Spanos & Lioukas, 2011).

Human capital arises out of any activity able to raise individual worker productivity (Abdullah, 2014). In practice full-time education is, too readily, taken as the principal example. For workers, investment in human capital involves both direct costs, and costs in foregone earnings. Workers making the investment decisions compare the

attractiveness of alternative future income and consumption streams, some of which offer enhanced future income, in exchange for higher present training costs and deferred consumption. Returns on societal investment in human capital may in principle be calculated in an analogous way (Afsal, 2013).

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

Dauda *et al.* (2010) argue that the theory is a modern extension of Adam Smith's explanation of wage differentials by the so-called net (dis)advantages between different employments. With the beginning of the new millennium it has become more and more apparent that education and human capital constitute a key element of modern economies. Human capital is 'generally understood to consist of the individual's capabilities, knowledge, skills and experience of the company's employees and managers, as they are relevant to the task at hand, as well as the capacity to add to this reservoir of knowledge, skills, and experience through individual learning (Ghansah, 2011).

Manguru (2011) argues that despite the important role of human capital in modern societies, there are still many unknowns about the process of educational production as well as individual and collective decisions concerning how much and what kind of education to obtain (Robinson, 2008). Although human capital plays an important role in both microeconomics and macroeconomics, organizations are represented by various

aspects of human capital. The basic concept of human capital is dependent on developing employee mental models (Abdullah, 2014).

Afsal (2013) suggest that not all investments in education guarantee an advance in productivity as judged by employers or the market. In particular, there is the problem of measuring both worker productivity and the future income attached to career openings, except in near-tautological fashion by reference to actual earnings differences which the theory purports to explain. Empirical studies by Muogbo *et al.* (2013) suggest that, though some of the observed variation in earnings is likely to be due to skills learned, the proportion of unexplained variance is still high, and must be an attribute of the imperfect structure and functioning of the labour-market, rather than of the productivities of the individuals constituting the labour supply.

Bal, Bozkurt and Ertemsir (2012) advocate that there is a large and growing body of evidence that demonstrates a positive linkage between the development of human capital and organizational performance. The emphasis on human capital in organizations reflects the view that market value depends less on tangible resources, but rather on intangible ones, particularly human resources. Recruiting and retaining the best employees, however, is only part of the equation.

The organization also has to leverage the skills and capabilities of its employees by encouraging individual and organizational learning and creating a supportive environment where knowledge can be created, shared and applied (Chebet, 2015). Despite that fact that Human Capital Theory is founded on the ideology of employee development, it is noted by Dauda, Akingbade and Akinlabi (2010) that human beings are dynamic in nature and keeps on changing their goals from time to time. Further, they argue that developing human capital can be a costly venture to an organization since employees can resign, die or look for new jobs in other organizations. This theory is applicable in this study on the concept that microfinance institutions have to invest in employee skills and knowledge in order to maximize productivity.

2.2.2 Agency Theory

Agency Theory was established in 1973 by Ross and Stephen. The theory was founded on the notion that there must be two parties for any contract to be successful. In their case, the employer and employee are the two parties who represent an organization to achieve its long term goals. The relationship between the principal (employer) and agent (employee) determines the performance of any organization in the dynamic business environment. It explains how to best organize relationships in which one party determines the work while another party does the work (Carell, 2006).

Ghazala and Habib (2012) argue that the principal hires an agent to do the work, or to perform a task the principal is unable or unwilling to do. It assumes that both the principal and the agent are motivated by self-interest while other factors are held constant. This assumption of self-interest dooms agency theory to inevitable inherent conflicts. Thus, if both parties are motivated by self-interest, agents are likely to pursue self-interested objectives that deviate and even conflict with the goals of the principal. Yet, agents are supposed to act in the sole interest of their principals (Ghansah, 2011).

Habbash (2010) suggests that to determine when an agent does or does not act in their principal's interest, the arrangement can result to the standard of agency loss. Agency loss involves the difference between the best possible outcome for the principal and the consequences of the acts of the agent. For instance, when an agent acts consistently with the principal's interests, agency loss is zero. The more an agent's acts deviate from the principal's interests, the more agency loss increases. When an agent acts entirely in her own self-interest, against the interest of the principal, then agency loss becomes high (Hassan 2013).

Hassan (2014) indicates that agency loss is minimized when two particular statements are true. The first is that the principal and the agent share common interests. Essentially, this means that both the principal and the agent desire the same outcome. The second is that the principal is knowledgeable about the consequences of the agent's activities. In

other words, the principal knows whether their agent's actions serve in the principal's best interest. If either of these statements is false, it follows that agency loss is therefore, likely to arise (Heggsted & Mingo, 2011).

Janssens and Steyaert (2009) argues that one objection to agency theory is that it relies on an assumption of self-interested agents who seek to maximize personal economic wealth. The challenge is therefore, to get agents to either set aside their self-interest, or work in a way in which they may maximize their personal wealth while still maximizing the wealth of the principal. Thus, a standard of agency duty and action is necessary, not because agents are universally selfish, but because the potential for differences between the principal's and the agent's interests exists.

Agency Theory describes firms as necessary structures to maintain contracts, and through firms, it is possible to exercise control which minimizes opportunistic behavior of agents (Heggsted & Mingo, 2011). Ligare (2010) posits that in order to harmonize the interests of the agent, a comprehensive contract is written to address the interest of both the agent and the principal. They further explain that the relationship is further strengthened by the principal employing an expert to monitor the agent. This position is also supported by (Manguru, 2011) who maintain that the contract provides for conflict resolution between the agent and principal, the principally determines the work and agent undertakes the work.

Mbondo (2011) ascertains that the theory proposes that the principal suffers shirking which deprives him or her from benefiting from the work of the agent. Nevertheless, the theory recognizes the incomplete information about the relationship, interests or work performance of the agent described as adverse selection and moral hazard. Morgan (2009) argues that moral hazard and adverse selection affects the output of the agent in two ways; not doing exactly what the agent is appointed to do, and not possessing the requisite knowledge about what should be done. This therefore, affects the overall

performance of the relationship as well as the benefits of the principal in form of cash residual (Mutua, Karanja & Namusonge, 2012).

Agency Theory suggests that the principal must choose a contracting scheme that helps align the interests of the agent with the principal's own interests that is, reduces agency costs (Mungai, 2007). These contracts can be classified as either behavior oriented e.g., merit pay or outcome oriented like stock options, profit sharing, commissions. At first blush, outcome -oriented contracts seem to be the obvious solution. If profits are high, compensation goes up. If profits go down, compensation goes down. The interests of "the firm" and employees are aligned.

An important drawback, however, is that such a contract increases the amount of risk borne by the agent. Furthermore, because agents are averse to risk, they may require higher pay (a compensating wage differential) to make up for it (Ngatia, 2011). This theory is applicable in this study that microfinance institutions would only performance effectively by developing and reinforcing their relationship with employees through reviewing compensation policies to minimize turnover rates.

2.2.3 Technology Acceptance Theory

Technology Acceptance Theory was initially proposed by Davis (1989). It comprises two beliefs; the perceived utilities and the perceived ease of application, which determine attitudes to adopt new technologies (Shikh & Karishma, 2012). The attitude toward adoption will decide about the adopter's positive or negative behavior in the future concerning new technology. The main elements of the theory as proposed by Davis are; perceived usefulness, perceived ease of use, attitude toward using technology, and behavioral intention. The attitude of customers toward adoption of new ideas will dictate the adopter's positive or negative behavior in the future concerning new technology (Tandelilin, Kaaro & Mahadwartha, 2007).

Maina (2011) argues that the theory suggests that perceived usefulness and perceived ease of use always determine an individual's intention to use a system. Perceived usefulness is also observed as being directly impacted by perceived ease of use (Ngatia, 2011). The technological advances achieved in the past few decades have brought about a revolution in the business world, affecting nearly all aspects of a working life (Shikh & Karishma, 2012). Employees no longer need to be physically with their clients and co-workers; instead they can communicate effectively at home, at a distant office, across the world Thomson (2007)

Morgan (2009) argues that although these new technologies offer a wide variety of services and opportunities, they seem united by a single factor: increased efficiency and productivity. Indeed, companies have been quick to adopt many of these technologies, and tout significant improvements in business performance. However, as the physical office loses importance and employees are encouraged to telecommute from their location of choice, these physically isolated workers will inevitably suffer a loss of face-to-face interpersonal skills and a deterioration of relationships in the workplace (Mutia, 2011).

On the other hand, Spanos and Lioukas (2011) noted that technology acceptance theory cannot be consistent with employee expectation. To some extent, they observed that organizations that adopt new technology are likely to retrench employees or underpay workers and vice versa. Therefore, they conclude that despite the benefits associated with technology at the workplace, to a large extent technology can lead to employee layoffs. This theory underpins the study on the notion that MFI's can maximize their productivity through integrating technology into their systems thus enhanced efficiency and effectiveness.

2.2.4 Efficiency Wage Theory

Efficiency Wage Theory was propounded by John Hicks (1963). (Moragwa, 2013). The theory of efficiency wages, also called the efficiency wage hypothesis, suggests that worker productivity has a positive relationship with pay. In other words, if you pay a worker more, he will work harder and produce more output than if you paid him the wage dictated by supply and demand. Wamalwa (2008) argues that the theory serves to rationalize why certain businesses choose to pay workers more than they need to fill positions. One of the primary costs of running a business is paying wages or salaries to employees and managers (Maina, 2009).

Maxwell (2008) argues that in a competitive job market, employee wages are dictated by the supply and demand for workers. The wage level dictated by the supply and demand of workers is known as the equilibrium wage. If firms pay a reduced wage to its employees, those workers with higher skills and greater productivity will look for jobs elsewhere. This would leave the firm with workers who have a lower skill range thus making them less productive overall (Gavrea, Lieş & Stegorean, 2011). The theory of efficiency wages is the idea that it might be beneficial for employers to pay workers more than the equilibrium wage in some cases (Lamba, & Choudhary, 2013).

One reason an employer might offer high wages is to attract a better pool of job candidates. If a worker in a certain job field sees postings for several jobs within his field, he is likely to pursue those that offer the highest compensation first. An employer that offers high wages is, therefore, better able to attract and hire top talent (Lanyon & Abdalla, 2008). Another reason employers might choose to offer efficiency wages is to increase employee loyalty. Workers that are paid an average or below-average wage might feel confident that they could get a new job with comparable pay, which could cause them to value their jobs less and slack off. If a worker knows that he would not be able to earn as much performing the same job at other companies, he might work harder

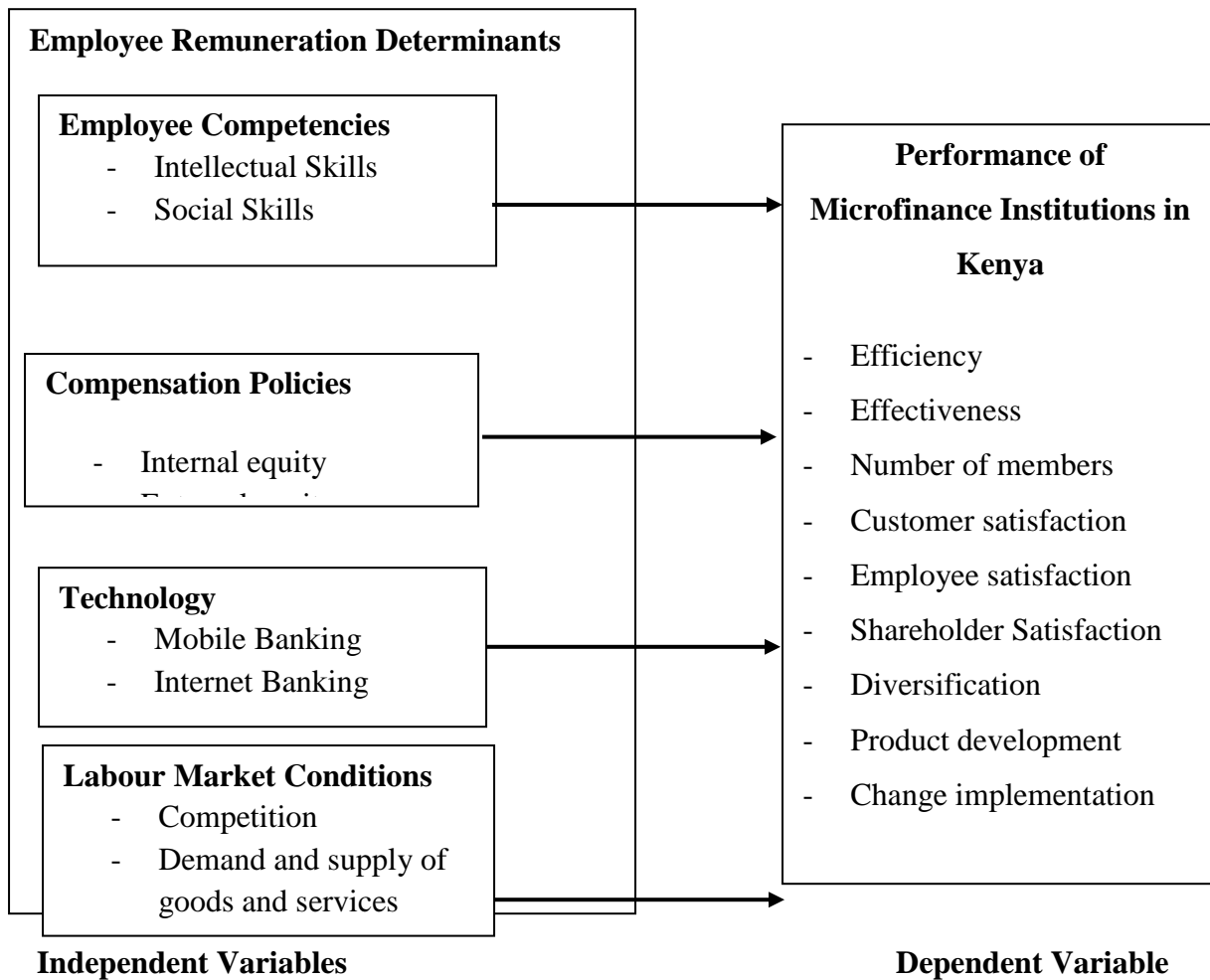
to avoid being fired. Loyal and harder-working employees can also reduce the costs associated with recruiting and training new workers.

Employers that hire unionized workers may choose to pay higher wages to workers to promote peace with the union (Ghansah, 2011). If union workers are unhappy, they might strike or try to force significant changes to pay, benefits or their work environment, which can hurt profits (Hassan, 2013). The idea of the efficiency wage theory is that it may benefit firms to pay workers a wage higher than their marginal revenue product. Abdullah (2014) suggests that paying workers a higher wage may lead to increased productivity from the worker. If a worker gets a relatively higher wage, he may feel more loyal and devoted to the company. With a higher wage, he may also fear being made unemployed and so will work harder to make sure he keeps his job. Therefore, although the firm pays more, they get more productivity from their workers (Stuart, 2011).

The consequence of the efficiency wage theory is that the market for labor may not clear and unemployment may be persistently higher than its natural rate. Instead of market forces causing the wage rate to adjust to the point at which supply equals demand, the wage rate will be higher and supply will exceed demand. This produces higher wages for those who are employed but higher levels of unemployment (Heggsted & Mingo, 2011). This theory is applicable in this study based on the ideology that MFI's would use all means to avoid unnecessary operational costs ranging from salaries paid to employees and other benefits enjoyed by workers.

2.3 Conceptual Framework

The conceptual model describes that hypothetical relationship between independent and dependent variables. It sought to establish the hypothetical relationship between employee competencies, composition policies, technology and labour market conditions on performance of microfinance institutions in Kenya. It was established that there was a significant hypothetical relations of each independent variable on the dependent variable.



Source: (Author, 2017)

Figure 2.1: Conceptual Framework

2.3.1 Employee Competencies

According to Sarin (2009), employee competence involves those traits, skills or qualities that employees need to perform their jobs most effectively with minimal supervision. Employee competencies can vary from one organization to another based on their knowledge, experience management styles. Intellectual, social, analytical, diagnostic and technical skills gives employees an opportunity to formulate informed decisions that will enable the firm to enhance its performance. Organizations can develop employee competencies based on the job and off the job trainings (Gavrea *et al*, 2011).

2.3.2 Compensation Policies

Wamalwa (2008) argues that compensation policies involve the guidelines that exist in an organization to help human resource practitioners use a particular criteria in rewarding the new and the already existing workers. Modern competitive organization have different compensation policies that provide guidelines of remuneration working. The qualifications, workload, the nature of the job are some of the factors considered by organization in making compensation decisions of workers in an organization. Employees always compare their inequities with those of other workers in other firms. Internal and external equity among workers can influence performance of the organization directly or indirectly (Tandelilin, Kaaro &Mahadwartha, 2007).

2.3.3 Technology

Thomson (2007) suggests that technology can be regarded as systems and process that enhance organizational efficiency and effectiveness. Modern competitive firms have continued to automate their systems as a measure of minimizing costs and maximizing profits. Adoption of mobile and internet technologies has resulted to enhanced customer service delivery. Customer have the opportunity to open, check and make payments from wherever they are using mobile and internet technologies.

On the other hand, Odunga (2011) contends that technology has led to improved customer services thus minimal costs of operation and adherence to VAT regulations by firms in the changing business environment. Recruitment of IT literate workers has resulted to improved performance of organizations in the changing business environments. Firms have invested in IT systems to enable employees to make accurate and quick decisions concerning problems experienced by their firms. Furthermore, introduction of computers at the workplace has resulted in significant improvement of profitability among firms (Redman & Wilkinson, 2006).

2.3.4 Labour Market Conditions

Spanos and Lioukas (2011) postulate that labour market conditions can be regarded as aspects that influence the number of job opportunities available for qualified candidates. Labour market conditions can vary from time to time in both developing and developed economics of the world. The intensity of competition, political, economic, social and technological policies can influence organizational performance. Firms operating in the changing business environment can consider a number of aspects that influence employee remuneration and make future production decisions. Demand and supply forces in the market can influence remuneration policies of firms thus performance (Deb, 2008).

2.3.5 Performance of Microfinance Institution in Kenya

Norton and Kaplan (2006) argues that performance of an enterprise can be measured from four perspective. The first involves that ability of the firms to generate profits from its activities. Firms can generate profits by restricting, downsizing, outsourcing and diversifying into new areas of production. Secondly, firms can measure their performance using customer satisfaction metrics. Well performing firms have satisfied customers and vice versa. Thirdly, organizations can use internal processes to measure their performance. Efficient and effective internal process automated with modern technology enhances organizational performance and vice versa. Fourthly, the ability of

the organization to develop new products, establish new markets, partner with other industry stakeholders are initiatives of enhancing creativity and innovation.

2.4 Empirical Review

2.4.1 Employee Competencies

Kavoo and Kiruri (2013) ascertains that employee competencies are specific and well defined list of skills and behaviours that are used to map performance expectations of an individual in an assigned job. Employee competencies are useful for performance management, recruitment, succession planning, career planning, training and development. However, it was noted that that study was confined to the effect of placement practices on employee performance in small service firms in the information technology sector in Kenya thus conceptual gaps and contextual gaps.

Abdullah (2014) suggests that well-defined and structured set of competencies are useful for organizations to evaluate and measure employee performance. Competencies of individual workers like accountability, analytical, diagnostic, managerial, interpersonal, leadership and strategic thinking skills are determinants of employee remunerations in competitive organizations. Organizations with competent employees are likely to perform well and vice versa. However, the study was limited to the impact of affective human resources management practices on the financial performance of the Saudi Banks thus posing conceptual and contextual gaps. Further, it was observed that the study adopted factor analysis method to analyze data.

Afsal (2013) pointed out that intellectual capital or kills are directly correlated with organization performance. On the other the study revealed that intellectual capital is part of human capital subsumes intellectual capital and also embedded in both people and systems. The stock of human capital consists of employee knowledge, skills and abilities then social relationships among people and finally organizational processes and daily routines. However, it was noted that the study focused on human resource planning on

organizational performance of Telecom Sector thus posing conceptual and contextual gaps.

Ghansah (2011) revealed compensation is a function of performance. Developing human capital therefore requires attention to these other complementarities. If competitive advantage is to be achieved, integration between human, social and organizational capital is required. Social capital, it is argued, increases the efficiency of action, and aids cooperative behaviour. Social relationships and the social capital therein, are an important influence on the development of both human and intellectual capital. Social capital facilitates the development of intellectual capital by affecting the conditions necessary for exchange and combination to occur. However, it was observed that the study generalized management practices in the service sector in Ghana and but failed to examine the integrative approach of the variables of this study on performance of MFI's in Kenya.

Bal, Bozkurt and Ertemsir (2012) indicates that social capital is based on the twin concepts of sociability and trustworthiness: 'the depth and richness of these connections and potential points of leverage build substantial pools of knowledge and opportunities or value creation and arbitrage. The connections between human capital, social capital and organizational capital will produce intellectual capital. This, in turn, will affect the management of knowledge within the organization. Knowledge has long been recognized as a valuable resource by economists and has been a focus of significant attention in the human capital literature, in particular the issues of knowledge generation, leverage, transfer and integration. However, it was noted that the study was limited to human resources information systems and performance of organizations but failed to examine the remuneration determinants that influence performance of microfinance institutions in Kenya.

Katua, Mukulu and Gachunga (2014) posit that organizations may complement employee skills by implementing a competency-based pay structure. This structure assigns value to an employee's work in terms of the competencies that enable the staff member to perform effectively in their roles. This pay structure rewards workers for their skills, knowledge, behaviors and other characteristics that are important for personal performance and organizational success and not simply the work activities they perform. The standards of competent performance determine the skills and expertise required to perform company roles. However, it was noted that the study was limited to employee resourcing strategies on the performance of commercial banks in Kenya.

Gavrea, Lieş and Stegorean (2011) contend that comparing the requirements to individual employees' skill sets, it becomes clear to the workers and the business what training and development employees need. In turn, the human resources department identifies training and development resources to bring employees up to speed. Further, the study identified that unique skills such as technical and analytical can enhance overall productivity of the organization. However, it was observed that study was confined to determinants of organizational in Romania.

Mbondo (2011) pointed out that relying on standards of competent performance to determine employee pay grades and promotions, the company should reinforce employee behavior that supports its mission and business priorities. Under a skill-based pay system, organizations should set particular pay scales based on the skill level and not by job title. Although skill-based pay is still an option, few companies in the modern competitive environment use this approach today, partly because, if a firm's required skill sets change rapidly, it must continuously reinvent the system. However, it was noted that the study was limited to strategic human resource management practices at the Kenya Police Staff SACCOs.

Habbash (2010) advocates that competency-based pay systems base compensation on an employee's traits or characteristics rather than on specific skills. This method is used by

only a few organizations today because it's very tricky to develop and administer. Furthermore, they argue that basing recruiting decisions on competence performance standards and linking career progression and pay to a competency framework creates a transparent system, which employees perceive to be fair. Because differences between job titles and grades are immediately apparent, employees may become more confident in the company's performance expectations. However, it was noted that the study was limited to the effectiveness of corporate governance and external audit on constraining earnings management practice in the UK but failed to address issues in the microfinance sector in Kenya.

Mutia (2011) noted that employees may be more satisfied that the system addresses promotions and pay increases appropriately, which benefits a company's employee recruitment and retention efforts. Employee knowledge and competence of performing organizational duties effectively are determined by academic and professional qualification. Employee experience and skills are crucial factors considered by competitive firms to determine the amount of money paid to their existing staff. However, it was observed that the study was limited to strategic human resource management practices in family owned businesses in manufacturing sector in Kenya

Maroko and Maundu (2015) ascertain that it is important to ensure that the approach taken to compensate employees is guided by the compensation philosophy of the organization and is applied consistently. Furthermore, they revealed that well remunerated workers were highly motivated to accomplish organizational goals with minimal supervision and vice versa. Other factors that were identified that contributed to employee motivation to perform were ability to possess the required skills to perform the task, conducive working environment and fringe benefits. Nevertheless, it was noted that the findings of the study were confined to the influence of remunerations on performance public benefit organizations in Kenya.

2.4.2 Compensation Policies

Muogbo (2013) suggest that the compensation policy is the basic document, which drives the detail of the compensation practices in the organization. As the compensation strategy sets the high level compensation goals of the organization, the compensation policy describes the details of the individual compensation components, their behavior and their role in the compensation scheme of the organization (Sarin, 2009). The compensation policy describes the details of the compensation components in the organization, how they are used and the conditions for the employees as the compensation component can be applied in their specific situation (Hassan, 2013).

Linge and Kiruri (2013) pointed out that compensation policy provides the basic explanation of the compensation component, how it is calculated, who is eligible for the usage and the approval procedure. Abdul, Muhammad, Hafiz, Ghazanfar and Arslan (2014) suggest that a good compensation policy includes a balance between internal equity and external competitiveness. However, it was noted that that study was limited to the impact of compensation on employee performance of banks in Pakistan. Heggsted and Mingo (2011) noted that compensation and benefits affect the productivity and happiness of employees, as well as the ability of the organization to effectively realize its objectives. Equity or fairness has been mentioned as a key component in creating a successful compensation system. Workplace equity refers to the perception that all employees in an organization are being treated fairly. However, it was noted that the study was limited to the banking sector in Namibia.

Hassan (2014) noted that external pay equity exists when employees in an organization perceive that they are being rewarded fairly in relation to those who perform similar jobs in other organizations. Internal pay equity exists when employees in an organization perceive that they are being rewarded fairly according to the relative value of their jobs within an organization. Further, the study pointed out that perceived inequity or unfairness, either external or internal, can result in low morale and loss of organizational

effectiveness. Employees are likely to feel being compensated unfairly if restricted in their efforts to leave the organization thus damaging the organization's overall performance. However, it was noted that the study was confined to the influence of training and development on organizational performance among oil and gas companies in Pakistan.

Maina (2009) found out that that both internal and external factors were determinants of employee remuneration. It was discovered that, poorly remunerated employees are likely to perform poorly leading to decreased organizational performance in terms of corporate image, market share, return on investments, volume of sales, and high resistance to change, lack of innovation, high turnovers and lack of teamwork. The use of salary surveys is critical in the firms' ability to determine if their compensation and benefits are comparable to similar roles in other organizations. However, it was observed the findings of the study were limited to the influence of strategic human resource management practices on performance of secondary schools in Kenya.

Lamba and Choudhary (2013) contend that it is important to ensure that the key responsibilities and goals of the roles being compared are similar; as is the sector the organization is aligned with. It is to the advantage of the organization to ensure that employees are creatively compensated and knowledgeable of their benefits. In determining effective rewards, however, the uniqueness of each employee must also be considered. People have different needs or reasons for working. The most appropriate compensation will meet these individual needs. To a large degree, adequate or fair compensation is in the mind of the employee. However, it was noted that the study was restricted to impact of human resource management practices on organizational commitment of employees.

Ligare (2010) established that components that need to be addressed when developing compensation policies to ensure they align with organizational strategy and objectives create the work culture the organization wants. The study further observed that the

approach organizations use to structure their systems and manage the internal and external equity issues will directly inform the culture of the organization. A compensation policy is developed to guide the design and complexity of organization compensation programs; this is done by identifying organization goals and objectives, considering organizational competitiveness in attracting and retaining employees, emphasis on internal and/or external equity and whether performance is tied to increases. However, it was noted that the study was confined to strategic human resource management practices by the state corporations in Kenya.

Manguru (2011) observed that understanding what balance the organization wants to achieve between direct salary and indirect benefit is critical in developing the overall total compensation approach. A consistent compensation policy provides a strong foundation for both the organization and the employee. Without a policy, leaders often find themselves unsure of what to offer as a starting salary for a new employee. This can lead to offering too high a total compensation package for a new employee in relation to existing employees, or being unable to successfully hire because the total compensation offer is too low to be competitive. However, it was noted that the study was restricted to the influence of strategic human resource management practices on performance of Naivas Limited, Kenya.

Muogbo (2013) established that employee qualifications, skills and experience determined remunerations of employees. It was also established that organizational culture, policies, norms, leadership and management styles were determinants of remunerations. The compensation policy belongs to most read and discussed internal policies of the organization as it drives the salaries of the individual employees. Each employee is interested in the structure of the salary and the potential total cash achievable in the organization.

Dauda, Akingbade and Akinlabi (2010) established that compensation policy has to cover all the compensation components, which are used in the organization and affects

large populations. The employees cannot trust the compensation policy, which does not mention all the compensation components. On the other hand, it was pointed out that culture, norms, values and leadership styles are all factors that influence or determine the way organizations compensate their workers on their effort towards the organization. The study concluded that many employers in the modern business environment, the goal now is to integrate the organization's compensation and reward philosophy with its strategic initiatives regarding customers, profitability, and the development of a strong, competitive work force focused on the success of the organization. However, it was noted that the study was limited to

2.4.3 Technology

Chebets (2015) contends that technology integration in the system of competitive organization has resulted in increased productivity. Efficiency and effectiveness of the system is enhanced through adoption of modern technologies. However, it was noted that the study was confined to determinants of employees' performance in the County Governments of Kenya and failed to address issues in the microfinance sector in Kenya. Habbash (2010) argues that with the influence of technology, globalization concept has been promoted where companies sell their products in the global market. Technology has promoted e-commerce practices to modern firms that have given them competitive moves in the local and global markets.

Ligare (2010) suggests that for an organization to remain competitive in minimizing operational costs like employee salaries, IT integration in the system is not an option but a necessity for organizational development. A competence-based pay system that relates employee grades and rewards to particular levels of competence provides objectivity in determining pay scales. And a competency-based pay structure lets employees associate personal development expectations with levels of pay. Hassan (2013) advocates that companies have cut down costs of operation like paper based systems to automated systems that require employees with information communication technology skills to

operate Employees with computer skills are more likely to be productive compared to computer illiterate workers in the competitive job market. Employees with computer skills are more likely to adopt to new changes in the business environment compared to computer illiterate employees. However, it was noted that the studies concentrated on different conceptual and contextual variables such as strategic human resources practices but failed to examine employee remuneration determinants in the microfinance sector in Kenya

Ngui, Elegwa and Gachunga (2014) established that reward and compensation strategies have a significant positive effect on performance of commercial banks in Kenya. The study established that banks are currently emphasizing on rewarding and compensating their employees. Bank performance is influenced by specific HRM related actions. Their study concluded that financial and non-financial rewards can combine to enhance firm performance. Technology is omnipresent in the workplace. In recent years, the use of technological tools and equipment by companies has grown exponentially. However, it was observed that the study was confined to effect of reward and compensation strategies on the performance of Commercial Banks in Kenya.

Hassan (2014) postulates that technology undoubtedly provides companies with new opportunities for improving work performance and increasing security on their premises. At the same time, employees' personal data are more regularly collected and potential threats to their privacy are more commonplace. In some circumstances, the use of advanced technology can pose higher security threats, which outweigh the benefits the technology provides. In the Information Age, the advent of computers and the Internet has increased that impact significantly.

Heggested and Mingo (2011) noted that many businesses cannot even function without the use of computer technology. This impact is seen in nearly all areas of business, including human resources, where technology continues to have a significant impact on HR practices. Enhanced performance management is another byproduct of technological

improvement. Human resources professionals can use computer technology to assess employee performance and also to get employee feedback to be used for the betterment of the organization. Various software programs make it possible for human resources professionals to examine employee performance using metrics to ensure that employees are meeting performance standards.

Katua, Mukulu and Gachunga (2014) posit that employees that do not measure up can be subjected to additional training. Technological changes also influence the fixation of wage levels. Due to the advancements in the technology there may be shortage of skilled manpower in that area. So, the organization will provide high wages for skilled personnel. Employers are faced with the challenge of finding a way to use technology without falling foul of privacy laws. When considering whether to implement a particular technology in the workplace, companies should take appropriate measures to ensure that those technologies are implemented in accordance with applicable privacy and labour laws.

Onyancha, Munene and Muturi (2014) argue that industry trends and labour market forces were key determinants of employee remuneration. Industry competition and economic stability were critical determinants of employee remuneration. Companies must grant employees access to their personal data in accordance with applicable local laws. Technology in the workplace allows businesses to expand quickly and efficiently. Business technology such as video conferencing, social networks and virtual office technology has removed workplace boundaries that previously limited business expansion. With business technology, companies can target a wider customer base and grow to higher levels. However, it was noted that the study was limited to the effect of remuneration on employees' performance in the ministry of internal security in Kenya.

2.4.4 Labour Market Conditions

The labor force involves the number of people of working age, who are either employed or actively looking for work (Linge & Kiruri, 2013). Forces of demand and supply of labour that influence employee remuneration and performance of organizations in the labour market vary across countries. The supply of labor is determined by population, immigration and labor force participation. The working population or the population seeking jobs can influence remuneration of firms in an industry thus affecting their performance. The supply of labor can be influenced by additional workers entering the labor force, which tends to depress wage rates (Lamba & Choudhary, 2013).

Odunga (2011) argues that industry trends like competition, structure and number of players in an industry, global influence and technological developments play a critical role in influencing the way organizations remunerate their workers. Competition in the industry is one of the aspects that determine what employers pay their employees for a given period of time. Omotayo (2015) on the other hand revealed that competition has resulted in many organizations adopting performance contracts in order to minimize costs of operation locally and internationally. Due to the intensity of competition in the industry, many firms always review their salaries downward or upwards in order to remain competitive. However, it was observed that the study was confined to two variables and failed to examine the integrative approach of the variables of this study on the performance of MFI's in Kenya.

Lanyon and Abdalla (2008) observed that workers were leaving their jobs, either because they are retiring or becoming discouraged about finding a job. The higher the wage rate, the more people want to work and vice versa. Further, they established that a company that adopts a compensation policy based on the level of competition in a is likely to performance well and vice versa. Maina (2011) on the other hand concurs that that an employee with high job motivation produces high quality and more quantity of work leading to high level of job satisfaction hence lead to high performance. As

employee income increases, money becomes less of a motivator. In addition, they suggested that demand in the labour market is influenced by a combination of factors such as number of job seekers and inflation rates. The demand for labor derives from the demand for the goods and services that labor produces. A strong demand for products creates a demand for the labor to produce them. However, it was observed that the study was limited to the effects of remuneration factors on performance of employees in tertiary training institutions in Kenya.

Ligare (2010) posits that when the wage rate is high, employers limit the number of employees they hire. Workers who improve their skills can improve the demand for their services, since they are more productive to their employers. The labour market provides means by which employers find the labour they need, whilst millions of individuals offer their labour services in different jobs. There is an inverse relationship between the demand for labour and the wage rate that an organization needs to pay as they take on more workers (Spanos & Lioukas, 2011). Manguru (2011) argue that if the wage rate is high, it is more costly to hire extra employees. When wages are lower, labour becomes relatively cheaper than for example using capital inputs. A fall in the wage rate might create a substitution effect and lead to an expansion in labour demand.

Shikha and Karishma (2012) established that increased demand of products and services in the market necessitate companies to hire more employees to meet customer demands in the market. Labour market conditions also play a role in determining what an individual employee is supposed to earn for a particular service given. Mbondo (2011) notes that changes in economic trends in the global, international, regional, national and local markets dictate ways in which employees need to be remunerated. When the economy is not performing well, many firms are likely to retrench, downsize, restructure and cut down salaries of the existing employees.

In addition, the study noted that political, social and technological factors are determinants of remuneration in the modern organizational context. A government employment subsidy can allow organizations to employ more workers. When the economy is expanding, there is a rise in demand for labour providing that the rise in output is greater than the increase in labour productivity. However, it was noted that the study was confined to human resource planning but failed to address issues of employee remuneration determinants on performance of MFI's in Kenya. Omotayo (2015) argues that during a recession or a slowdown, the aggregate demand for labour will decline as organizations look to reduce their operations costs and scale back on production. In a recession, business failures, plant closures and short term redundancies can lead to a reduction in the derived demand for labour (Abdul *et al*, 2014).

Mutua, Karanja and Namusonge (2012) revealed that companies with the ability to pay and the desire to attract and retain top-notch employees. Those paying below market rates generally do so because they are unable to pay higher salaries. Such companies often attempt to attract employees by linking pay to productivity or profits so that the employees can earn more if the company does well. Ngatia (2011) on the other hand contends that paying for performance is a big issue in contemporary human resources management; organizations have long believed that productivity improve when pay is linked to performance and payment by results systems and incentives are developed to support this belief. Establishing meaningful incentives for performance is a difficult task because individuals are unique and maintain different value systems. What may reward one employee may not be a reward to others. Financial incentives and rewards can be true motivators, but only when balanced against the potential drawbacks and packaged with ongoing verbal recognition, encouragement and support (Mutia, 2011).

Spanos and Lioukas (2011) suggests that retrenchment and downsizing are all aspects dictated by the level of competition in the industry. Employers tend to benchmark their remuneration practices with other players in the industry in order to attract and retain a pool of competent staff. With increased competition, firms in the industry are likely to source competent staff oriented to results rather than pay (Riungu, 2008). Shikh and Karishma (2012) established that employees are bound to be much more productive when they work in a positive, supportive environment. Managers must strive to maintain an enjoyable, family-oriented atmosphere in which all employees focus on achieving team goals.

Wamalwa (2008) points out that recognition has a positive impact on performance either alone or in conjunction with financial rewards. Praising employees for achieving their goals is important in maintaining an enjoyable work environment. Paying for performance is a big issue in contemporary human resources management; organizations have long believed that productivity improve when pay is linked to performance and payment by results systems and incentives are developed to support this belief. However, it was noted that the findings of the study were confined to commercial banks but not MFI's in Kenya.

2.4.5 Performance of Microfinance Institutions

Organization performance is commonly used by microfinance institutions today to describe a range of managerial activities designed to monitor, measure and adjust aspects of individual and organizational performance through management controls of various types (Lamba, & Choudhary, 2013). Performance management integrates objectives of the organization and its strategies. Microfinance institutions will experience improved performance if they regularly review their employee remuneration. Well-motivated employees are likely to work towards organizational objectives with minimal resistance. The output of microfinance institutions will be determined by the input of the system in terms of well-motivated staff.

Performance has been used synonymously with productivity, efficiency, effectiveness and competitiveness (Shikh & Karishma, 2012). According to Kaplan and Norton (2008), organizational performance comprises the actual output or results of an organization as measured against its intended outputs. It involves the ability of an organization to fulfill its mission through sound management, strong governance and a persistent rededication to achieving results. Performance of organizations can be measured using financial and non-financial perspectives.

The ability of the organization to generate profits and minimize costs of operation is an indicator of financial performance of modern firms. Non-financial perspectives of measuring performance of microfinance institutions in Kenya may include: customer satisfaction, minimal resistance to change, creative and innovate workers, new product development, diversification, increased market share and improved brand image (Thompson *et al.*, 2012).

2.5 Critique of Existing Literature

It is observed from the previous empirical studies by Omotayo (2015); Ngatia, (2011); Odunga (2011); Mutia (2011) Mutua, Karanja and Namusonge (2012); Manguru (2011); Lamba and Choudhary (2013); Katua, Mukulu and Gachunga (2014); Abdullah (2014) and Afsal (2013) among others that conceptual, contextual and methodological gaps were evident. First, it was noted that previous empirical studies partially or did not examine the variables of this study in an integrated approach on performance of microfinance institutions in Kenya. Second, the findings of the previous empirical studies were confined to different countries and sectors which their findings cannot be generalized in this study. Third, it was noted that the previous empirical studies adopted different research methodologies which were not consistent in form and content in examining variables of this study.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the research philosophy, research design, target population, sample frame, sampling technique and sample size, data collection instruments, data collection procedures, pilot testing, data analysis and presentation, and hypotheses testing criteria that were used in the study.

3.2 Research Philosophy

Research paradigm and philosophy is an important part of research methodology adopted in order to collect data in an effective and appropriate manner. According to Guest (2010), research philosophy is a perspective that is based on the set of shared assumptions, values, concepts and practices. Positivism argues for the existence of a true and objective reality that could be studied through applying the methods and principles of natural sciences and scientific inquiry (Collis & Hussey, 2014). It maintained that the object of study was independent of researcher and knowledge was discovered and verified through direct observations or measurements of phenomena; facts were established by taking apart a phenomenon to examine its component parts (Fisher, 2010).

This study adopted a positivist research philosophy to assess employee remuneration determinants on the performance of microfinance institutions in Kenya. Positivism philosophy was based upon the highly structured methodology to enable generalization and quantifiable observations and evaluate the result with the help of statistical methods. The principles of positivism are depended on quantifiable observations that lend themselves to statistical analysis (Novikov & Novikov, 2013).

Mertler and Vannatta (2010) suggest that as a general rule, positivist studies usually adopt deductive approach; moreover it relates to the viewpoint that a researcher needed to concentrate on facts, whereas phenomenology concentrated on the meaning and has provision for human interest. A study by Ngui, Elegwa and Gachunga (2014) also adopted a similar philosophy and established positivist philosophy was appropriate for objective scientific study.

3.3 Research Design

The study adopted descriptive research design to assess determinants of employee remuneration on the performance of micro finance institutions in Kenya. According to Fisher (2010), a research design involved arrangement of conditions for collection and analysis of data in a manner that was aimed to combine relevance to the research purpose. Collis and Hussey (2014) suggests that descriptive research design is appropriate in research because it provided an opportunity to the researcher to hypothetically relate variables of the study with existing theories to make deductive reasoning concerning the problem under investigation.

It also provide an opportunity to the researcher to explore and describes the relationship between variables in their natural setting without manipulating them. The descriptive research design aimed at obtaining information that was analyzed, patterns extracted and comparison made for the purpose of clarification and provision of a basis for making decisions. The researcher analyzed data qualitatively since the study collect ideas, opinions and views of respondents concerning the problem under investigation.

The qualitative research method was appropriate because it sought out the why, not the how of its topic through analysis of information from human resource reports. The qualitative research was used to gain insight into respondents' attitudes, value, systems, concerns, motivations, and culture (Fisher, 2010). A study conducted by Ngui, Elegwa and Gachunga (2014) also used the same design and justified that data collected using

this design can be used to suggest possible reasons for particular relationship between variables

3.4 Target Population

Saunders, Lewis and Thornhill (2012) regard a population as a large collection of all subjects from where a sample is drawn. It refers to an entire group of individuals, events or objects having common observable characteristics (Novikov & Novikov, 2013). The population of the study consisted of all the 56 micro-finance institutions in Kenya with a total of 6782 employees (CBK, 2015). However, for the purpose of accuracy of the findings, the 56 micro-finance institutions were narrowed down to nine (9) microfinance institutions selected on the basis of size and performance. The nine (9) microfinance institutions were categorized on the basis of large-sized, medium-sized and small-sized. Therefore, for the purpose of this study a total of 986 employees were the target population who comprised of management staff, marketing officers and sales officers as shown in Table 3.1:

Table 3.1: Target Population

| Name of MFI | Total Number of Employees |
|-----------------------|----------------------------------|
| UNAITAS | 203 |
| JAMII BORA | 179 |
| SMEP MFB | 175 |
| RAFIKI MFB | 105 |
| PAWDEP | 80 |
| JUHUDI KILIMO | 78 |
| MAKAO MASHINANI | 66 |
| SAMCHI CREDIT LIMITED | 52 |
| UWEZO MFB | 48 |
| TOTAL | 986 |

3.5 Sample Frame, Sampling Technique and Sample Size

3.5.1 Sampling Frame and Sampling Technique

A sampling frame is defined as the source material or device from which a sample is drawn. In extension is a list of all those within a population who can be sampled, and may include individuals, households or institutions (Novikov & Novikov, 2013). Cooper and Schindler (2006) define sampling technique as a process of selecting a representative unit of a population for a study in a research investigation. Fisher (2010) also define a sample size as the representative units, objects or individuals of the entire population in a study.

For the purpose of this study, a sample frame was nine (9) microfinance institutions which operated in Kenya as illustrated in Table 3.1. Out of the total population of 56 microfinance institutions in Kenya, 9 microfinance institutions were selected using purposive sampling technique at a ratio of 0.5 on the basis of their performance and size. The main advantage of purposive sampling technique was that a researcher could reach a targeted sample more quickly. It was easier to get a sample of subjects with specific characteristics. Mertler and Vannatta (2010) argues that it sample size should always be in such a way that it was within plus or minus 0.05 of the population proportion with a 95 percent level of confidence.

3.5.2: Sample Size

Crowther and Lancaster (2012) define a sample size as the number of items to be collected from the universe to constitute a sample. The sample size of the population was determined by the following formula: $n = \frac{z^2 pq}{e^2}$

$$n = \frac{1.96(0.5)(0.5)}{(0.05)^2} = 384$$

Where;

N= The desired sample size

Z= The standard normal deviate at the required confidence level

P= The proportion in the target population estimated to have the characteristics being measured.

$$q= 1-p$$

$$n= \frac{nf}{1+nf} = \frac{384}{1+986}$$

$$N = \frac{384}{2.57}$$

$$= 149$$

$$= 149$$

3.6 Data Collection Instruments

To collect primary data from respondents, an instrument was developed that facilitated collection of respondent opinions and views concerning employee remuneration determinants and performance of micro finance institutions in Kenya. In social science research the most commonly used instruments are: questionnaires, interviews, and observation (Fisher, 2010). In this study questionnaires with closed and open ended questions were used to collect data from employees of microfinance institutions in Kenya. Questionnaires assisted in the translation of the research objectives into research hypotheses which motivated the respondents to provide the information that was being sought (Crowther & Lancaster, 2012).

The questionnaire was considered an appropriate instrument of data collection since a study conducted by Abdul, Muhammad, Hafiz, Ghazanfar and Arslan (2014) also used a similar instrument. Items in the questionnaire were developed to address a specific research objective and test hypotheses of the study. The questionnaire was developed using a Likert five-point scale and survey questions based on previous academic studies and literature review. A related study done by Maina (2009) also used a similar approach to collect data, therefore making the instrument more reliable in this study.

Questionnaires were considered appropriate in this study because they provided an opportunity of respondents answering questions freely and frankly even on sensitive issues because they were not required to reveal their identity, this increased the likelihood of getting accurate information. Ngui, Elegwa and Gachunga (2014) also noted that questionnaires offered a greater anonymity as there was no face-to-face interaction between the respondent and the researcher.

In addition, they offered uniformity in answering questions allowing a great degree of comparison because the items were framed in the same format (Mugenda, & Mugenda, 2003). Questionnaires were used in this study to get the opinion of microfinance employees on remuneration determinants on performance of MFI's in Kenya. Suggestions were sought from human resource representatives to ensure that the questions asked did not violate employee ethics and encroach into potential conflict with the microfinance values and cause any legal implications.

Postal and electronic questionnaires were used to collect data from respondents of the study. The drop and pick later method was applied where respondents had no time to respond immediately. Electronic questionnaires were used for the respondents who were not available in the office at the time of data collection. Muogbo (2013) also noted that electronic questionnaires were more appropriate in collecting scientific information

because they provided an opportunity to access distant respondents and enabled the researcher to conduct the study with limited resources.

3.7 Data Collection Procedures

Prior to the study, the researcher reviewed the ethical requirements related to academic research in order to ensure full compliance. Research authorization permit was obtained from the National Commission for Science, Technology and Innovation (NACOSTI). The researcher also sought permission from other relevant authorities before questionnaire administration. Permission from management of microfinance institutions and Jomo Kenyatta University of Agriculture and Technology was sought before data collection.

As proposed by Kothari (2004), it was ethical to seek permission when conducting scientific studies. Relevant stakeholders that the study focused on were informed of the objective of the study and confidentiality of the information given. The questionnaires were administered using drop and pick later method due the tight working schedule of employees. The questionnaire were designed based on the efficiency wage theory, human capital theory and technology acceptance theory described in literature.

Concepts of the theories were based on the questions of the study to establish employee remuneration on performance of microfinance institutions in Kenya. The questionnaire used in this study comprised four sections: The first section comprised of the respondents personal details like; employee designation, employee period of service and employee level of education. The second up to the fifth part comprised of questions on employee remuneration determinants on microfinance performance in Kenya like; employee competencies, compensation policies, technology and labour market conditions.

3.8 Pilot Testing

A pilot study is a research project that was conducted on a limited scale that allowed the researcher to get a clearer picture of what she wanted to know and how she could best find it out without the expense and effort of a full-fledged study (Fisher, 2010). The researcher conducted a pilot study to address any deficiencies in the research instruments. By conducting a pilot study, the researcher also examined the feasibility of the intended approach of the study. Fisher, (2010) argued that, the accuracy of data to be collected is largely dependent on the data collection instruments in terms of validity and reliability which could only be established through a pilot test. 10% of the main sample size was used to conduct a pilot study.

3.8.1 Validity of the Research Instrument

Validity is defined as the degree to which a test measures what it was supposed to measure. Three basic approaches proposed by Cooper and Schindler (2011) of testing the validity of the instrument included; content, construct, and criterion-related validity. Content validity measured the degree to which the test items represented the domain or universe of the trait or property being measured. Construct validity was a property that was offered to explain some aspects of human behavior.

The construct validity approach concerned the degree to which the test measured the construct it was designed to measure. Two parts of evaluating construct validity was the equity theory and adequacy of the test. If the researcher was not satisfied with the adequacy of the test, the previous construct was reformulated and a usable construct developed. Criterion-related validity was conducted using constructs of the variables to detect the presence or absence traits that represented the objectives of the study (Collis & Hussey, 2013).

To establish validity, the research instrument was given to four experts experienced in human resource management to evaluate the relevance of the four variables. The questionnaire used had Likert Scale items that were to be responded to. Respondents were encouraged to make comments and suggestions concerning instructions, clarity of questions and relevance (Collis & Hussey, 2013).

3.8.2 Reliability of the Research Instrument

Reliability of the instruments were tested for consistency. According to Fisher (2010), a measuring instrument is said to be reliable when the test results emanating from the instruments are repeated. Mertler and Vannatta (2010) define reliability as the degree to which measures are free from error and therefore yield consistent results. Crowther and Lancaster (2012) argue that the ability of a measuring instrument to determine the proportion of systematic variation in the scores yielded by the instrument is a reflection of the reliability of that instrument. This was done by determining the association between the scores obtained from different administrations of the instrument. If the association was high, the instrument yielded consistent results and was therefore reliable.

To establish reliability, Cronbach Alpha formula was used. It is preferred because it indicates the extent to which a set of test items can be treated to measure a single latent variable (Mertler & Vannatta, 2010). It has also been reported that the Cronbach Alpha coefficient formula is a more accurate and careful method of establishing internal consistency than the Spearman-Brown and Kuder-Richardson reliability measures (Fisher, 2010). In addition, the Cronbach Alpha coefficient has the advantage of producing a reliability estimate with only one administration.

Mertler and Vannatta (2010) suggest that acceptable value for cronbach's Alpha is between 0.7 and 0.9. Convergent validity exist if a group of indicators are measuring one common factor. Convergent validity is assessed at the individual and construct level by examining individual item loading. A loading of 0.7 indicate that about one half of the

items variance can be attributed to the construct. Cronbach's α formula adopted was of the form

$$\alpha = \frac{N \cdot \bar{c}}{\bar{v} + (N - 1) \cdot \bar{c}}$$

Where:

N = the number of items.

\bar{c} = average covariance between item-pairs.

\bar{v} = average variance.

The reliability of each construct was examined to ensure the items collectively measure the intended constructs consistently as recommended by (Fisher, 2010). Internal consistency reliability was examined by use of Cronbach Alpha coefficient. Cronbach's Alpha being one of the most widely used measure of the reliability of instruments in the social sciences, reliability of the four variables was examined by application of SPSS version 21.

The value of the alpha coefficient ranges from 0 to 1 and was used to describe the reliability of factors extracted from dichotomous questionnaires (that is questions with two probable answers) and or midpoint formatted questionnaires or scales (i.e., rating 1=strongly agree, 5=strongly disagree). A higher value shows a more reliable generated scale. Cooper and Schindler (2008) indicated 0.7 to be an acceptable reliability coefficient. The pilot study involved questionnaires administered to four respondents. Since the alpha coefficients were greater than 0.7, a conclusion was drawn that the instruments had an acceptable reliability coefficient and were appropriate for the study. Cronbach's alpha was used to determine the internal reliability of the questionnaire used in this study

Before data collection, a pilot study was conducted on two microfinance institutions which included Faulu Kenya and Kenya Women Finance Trust to determine the reliability of the variables as indicated in Table 3.2.

Table 3.2: Reliability Results

| Variables | No. of Items | Cronbach Alpha | Comments |
|--------------------------|---------------------|---------------------------|-----------------|
| Employee Competencies | 8 | 0.842 | Reliable |
| Compensation Policies | 8 | 0.724 | Reliable |
| Technology | 8 | 0.718 | Reliable |
| Labour Market Conditions | 8 | 0.719 | Reliable |
| Performance of MFI's | 9 | 0.795 | Reliable |

3.9 Data Processing and Analysis

3.9.1 Data Analysis

Data cleaning and editing was done by checking for incomplete information, where a call was made or a second visit to clarify important information in the questionnaires and necessary corrections were done. The data was then coded to enable meaningful analysis. Outliers were checked by examining the data based on the expected results to determine how good the data was. To protect the informants' identities, it was not mandatory to provide both names.

Analysis of data collected and the hypothesis testing was done using multiple regression analysis. Bivariate analysis was also used and involves testing the relationship between an independent variable and the dependent variable simultaneously. It was suitable as it was used to analyze the correlation between two variables, that is, the change in the value of the dependent variable associated with a change in the independent variable

(Guest, 2011). Pearson's correlation coefficient was used to determine the relationship between the independent variable and the dependent variable and is used in bivariate relationships (Fisher, 2010). Pearson's correlation coefficient was suitable because likert scales were used in this study. According to Crowther and Lancaster (2012) likert scales are interval scales and where interval scales are used in a study, Pearson's correlation coefficient is the most appropriate tool for data analysis.

The F-test was used to test hypothesis 1, 2, 3 and 4. Similar, studies carried out by Abdul, Muhammad, Hafiz, Ghazanfar and Arslan (2014) and Maina (2011); Abdullah (2014); Shikh and Karishma, (2012); Spanos and Lioukas (2011) adopted multiple regression method and justified that regression method was appropriate technique for testing the hypothetical relationship between independent and dependent variables.

3.9.2 Diagnostic Tests

Before conducting regression analysis diagnostic tests such as normality, linearity, homogeneity and multicollinearity tests were conducted to establish conformity with requisite statistical assumptions as discussed:

3.9.2.1 Normality Test

Normality was tested using Shapiro-Wilk test, which has the ability to detect departure from normality. Therefore, it was the assumption of the study that data was normally distributed if the p-values or significance values of the dependent variables were less than 0.05 and vice versa (Crowther & Lancaster, 2012). If the resulting calculated probability values for all the research variables were greater than 0.05; therefore, at 5% level of significance the sample were assumed to follow a normal distribution as recommended by Novikov and Novikov (2013). Therefore, in this study, normality was met since there was a large number of respondents involved in the study.

3.9.2.2 Linearity Test

Linearity test was done using Pearson's moment correlation coefficient between Performance of Sacco's in the public road transport sector in Kenya and strategic leadership, strategic human resource development and information communication technology. It was the assumption of the study that linearity between variables of the study were determined if the p-values were more than 0.05 the critical value and vice versa. Therefore, correlation between variables was determined based on the co-movement of variables, and in the same direction (Guest, 2012).

3.9.2.3 Homogeneity Test

Homoscedasticity was tested by the use of Levene's Test (1960) of Homogeneity of Variances. Homogeneity of variances assumed that the dependent variable exhibits equal variance across the range of predictor variables. If the variances in the two groups were different from each other, then adding the two together was not appropriate and would not yield an estimate of the commonality within-group variances (Fisher, 2010). Therefore, the Levene Test for Homogeneity of the Variance was used to measure the equality of variances for the variables. If the test was significant, the calculated probability values of the variables were to be less than 0.05 and the significance level of levene test was to be more than 0.05 to indicate existence of variance homogeneity (Guest, 2012).

3.9.2.4 Multicollinearity Test

To establish whether multicollinearity posed a problem, regression analysis was conducted. If the Variance Inflation Factors (VIFs) of the variables of the study were less than 10 and Tolerance greater than 0.1 respectively, then it was suggested existence of multicollinearity and vice versa (Collis & Hussey, 2014). If all the variables of the study fall within the range of VIF as suggested, then it implied that there was no multicollinearity and thus all the predictor variables were maintained in the regression

model, as this was within the threshold recommended by Crowther and Lancaster (2012).

3.9.2.5 Model Specification

The multiple regression model equations used in the study were of the following forms: The model (1) represents the case in which the independent variables affect the dependent variable.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon \dots \dots \dots (1)$$

After conducting regression analysis, all the four predictor variables showed a strong relationship on the dependent variable. Thus the regression equation became;

$$Y = 1.139 + 0.887X_1 + 0.752X_2 + 0.465X_3 + 0.539X_4$$

Where;

Y = Performance of Microfinance Institutions in Kenya

β_0 = Y intercept

β_1 to β_4 = regression coefficients

X_1 = Employee competencies

X_2 = Compensation Policies

X_3 = Technology

X_4 = Labour Market Conditions

ε = Error term

After data analysis, the information was presented quantitatively using tables. The assigned values like percentages, means and standard deviation were described qualitatively to enhance understanding of the study to different stakeholders like management of microfinance institutions, employee, the government, scholars and researchers for strategic decision making concerning the problem that was under investigation. The policy recommendations were objective rather than subjective in nature. According to Collis and Hussey (2014) recommends that the purpose of data presentation is to enhance the quality of decisions from the findings of the study under investigation.

3.10 Hypothesis Testing

According to Mertler and Vannatta (2010), hypotheses that was the researcher's educated guess or anticipated result on the problem under investigation. To assess employee remuneration determinants on the performance of micro finance institutions in Kenya, hypotheses were applied to determine whether employee competencies, compensation policies, technology and labour market conditions had an influence on microfinance performance in Kenya. Multiple regression analysis in the form of $Y = a + B_1X_1 + B_2X_2 + B_3X_3 + B_4X_4 + e$ was applied to test the null and alternative hypothesis. Cooper and Schindler (2008) observed that multiple regression analysis indicated whether an individual hypothesis was statistically supported or not.

F-test was used to test the significance of Y on the influence of independent variable x_1 , x_2 , x_3 and x_4 at 5% level of significance. For the hypothesis testing to be accepted or rejected, comparison was done between the critical F and the calculated T values. If the calculated t was greater than the critical T, the study rejected the null hypothesis and accepted the alternative hypothesis. F test (ANOVA) was also conducted to ascertain the difference between groups in the study variables.

Table 3.3: Hypotheses Testing

| Hypotheses | Level of Significance | Type of population | Scale of Measurement | Test Statistics | Method of Data Analysis | Decision Rule |
|---|-----------------------|--------------------|----------------------|-----------------------------|-------------------------|---------------|
| H₁ There is a significant relationship between employee competencies and performance of microfinance institutions positively. | 0.05 | (Census) 56 | 1-5 | Internal Consistency Method | Multiple Regression | Accept |
| H₁ There is a significant relationship between compensation policies and performance of microfinance institutions in Kenya. | 0.05 | 56 | 1-5 | Internal Consistency Method | Multiple Regression | Accept |
| H₁ There is a significant relationship between technology and performance of microfinance institutions in Kenya | 0.05 | 56 | 1-5 | Internal Consistency Method | Multiple Regression | Accept |
| H₁ There is a significant relationship between labour market conditions and performance of microfinance institutions in Kenya | 0.05 | 56 | 1-5 | Internal Consistency Method | Multiple Regression | Accept |

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents the research findings of the study carried out to examine the employee remuneration determinants on the performance of micro finance institutions in Kenya. This study was guided by the following research objectives: To establish the influence of employee competencies, compensation policy, technology and labour market conditions on the performance of microfinance institutions in Kenya.

4.2 Response Rate

The study targeted a total of 149 employees of 56 Micro Finance Institutions in Kenya. However, after questionnaire administration, only 138 questionnaires were returned duly filled. This contributed to 93% response rate. This response rate was adequate for data analysis and conforms to Mugenda and Mugenda (2009) stipulation that a response rate of 50% and above is adequate for analysis and reporting. A rate of 93% was justifiable in this scientific study. In addition, this chapter provides a comprehensive discussion of the research findings based on empirical studies and existing literature.

4.3 Demographics Characteristics

4.3.1 Respondents Period of Work

The study sought to establish the period employees had worked with their MFI's. As shown in Table 4.1, majority (41%) of the respondents of the study had worked with their MFI's for a period between 7-11 years. 31% of them had worked for a period between 2-6 years. 26% of them had worked for a period more than 12 years and 2% of them had worked for a period less than 1 year. This implied that most of the respondents

of this study had adequate information and experience for working for a long period of time with their MFI's.

Table 4.1: Respondents Period of Work

| Period | Frequency | Percentage |
|----------------|------------------|-------------------|
| Less 1 Year | 02 | 2 |
| 2-6Years | 43 | 31 |
| 7-11Years | 57 | 41 |
| Above 12 Years | 36 | 26 |
| Total | 138 | 100 |

4.3.2 Respondents Level of Education

The study sought to establish the respondent level of education. As shown in Table 4.2, majority (56%) of the respondents of the study were degree holders, 28% of them were holders of diplomas, 7% of them were certificate holders and 9% of them were postgraduate holders. This implied that majority of the workers had only one degree and advancing their studies was hindered by lack of time and policies to encourage employees to advance their studies further.

Table 4.2: Respondents Level of Education

| Period | Frequency | Percentage |
|---------------|------------------|-------------------|
| Postgraduate | 12 | 9 |
| Bachelors | 77 | 56 |
| Diploma | 39 | 28 |
| Certificate | 10 | 7 |
| Total | 138 | 100 |

4.4 Employee Remuneration Determinants

4.4.1 Employee Competencies

The study sought to investigate the influence of employee competencies on performance of their MFI's. As illustrated in Table 4.3, it is evident that the mean scores for 1 of the 6 statements was less than 3.00 meaning that 74% agreed with the statement while the rest either disagreed or were neutral. The findings implies that MFI's that hired employees based on their knowledge, skills and experience were likely to experienced increased profits and volume of sales. Competent employees were likely to develop and implement policies with minimal supervision; provide excellent customer service, develop new products and anticipate changes in the business environment and develop risk management models that would help MFI's minimize non-performing loans

These findings correspond with Amessa and Drakeb (2003) who suggested that employee competencies were directly correlated with organizational performance. Training employees was one of the modern management practice that enhanced the quality of decisions formulated, promoted new product development and adaptability to new changes. If competitive advantage is to be achieved, integration between human, social and organizational capital is required.

Wambu (2015) also concurs with this findings by arguing that employee skills in information technology promoted efficiency and effectiveness in organizational service delivery. Basing recruiting decisions on competence performance standards and linking career progression and pay to a competency framework can creates a transparent system, which employees perceive to be fair and work towards achieving organizational goals.

On the other hand, Bal, Bozkurt and Ertemsir (2012) observed that despite the fact that employee competencies influence performance of organization, to some extent an organization may fail to achieve its goals due to poor remuneration policies. Further,

their study noted that employee knowledge and skills was not directly correlated to organization performance but indirectly related to performance of organizations.

Table 4.3: Employee Competencies

| Indicators of Measurement | N | Mean | S.D | % |
|--|----------|-------------|------------|----------|
| Employee have intellectual skills | 138 | 4.26 | .884 | 74% |
| Employee have social skills | 138 | 4.21 | .664 | 71% |
| Employee have adequate knowledge | 138 | 3.23 | .587 | 63% |
| Employees have professional qualifications | 138 | 3.11 | .673 | 61% |
| Employee have adequate experience | 138 | 3.04 | .596 | 59% |
| Employees are paid based on competence | 138 | 2.59 | .498 | 48% |

4.4.2 Compensation Policies

The study sought to establish the influence of compensation policies on performance of their MFI's. Table 4.4, indicates that the mean scores for 2 of the 6 statements was less than 3.00 which indicated that 72% agreed with the statement while the rest either disagreed or were neutral.

The findings implies that compensation policies of different MFI's was a key determinant of MFI's performance. Further, it was established that MFI's that paid their employees well were likely to perform well due to reduced employee turnover. Job satisfaction was enhanced by salary increment, fringe benefits, and employee career development and employee flexible schedule of work. It was revealed that majority of the employees were motivated to perform not only for monetary rewards but also good working conditions. Management styles and interpersonal relations were also aspects that influenced employee performance.

These findings correspond with Muogbo (2013) who argues that compensation policies provide a basis of rewarding employees of an organization. Changes in the business environment can influence compensation policies of an organization positively or negatively. The compensation policy of an organization provides the basic explanation of the compensation component, how it is calculated, who is eligible for the usage and the approval procedure.

Abdul, Muhammad, Hafiz, Ghazanfar and Arslan (2014) concurs with these findings by asserting that good compensation policy should include a balance between internal equity and external competitiveness. Compensation and benefits affect the productivity and happiness of employees, as well as the ability of the organization to effectively realize its objectives. Equity or fairness has been mentioned as a key component in creating a successful compensation system.

In addition, a study conducted by Abdullah (2014) disagrees with the findings of this study based on the fact that compensation policies adopted by organization are dependent on profitability of the firm. Further, the study revealed that compensation policies have little effect on performance of organizations.

Table 4.4: Compensation Policies

| Indicators of Measurement | N | Mean | S.D | % |
|--|----------|-------------|------------|----------|
| Employees are equally compensated | 138 | 3.98 | .781 | 98% |
| Employee are compensated based on market rates | 138 | 3.88 | .744 | 91% |
| Employee salaries are based on external competitiveness | 138 | 3.71 | .687 | 73% |
| Employees are attracted by the compensation policy of the firm | 138 | 3.42 | .621 | 72% |
| Employee have compressed weeks of work | 138 | 2.96 | .574 | 63% |
| Employee are paid on extra hours worked | 138 | 2.77 | .543 | 53% |

4.4.3 Technology

The study were sought to investigate the influence of technology on performance of their MFI's. Table 4.5 indicates that the mean scores for 2 of the 6 statements was less than 3.00 which means that majority (59%) and above agreed with the statement while the rest either disagreed or were neutral.

The findings implies that most of the MFI's were striving to adopt new technologies in the systems such as mobile and internet banking technologies to enhance customer service delivery. It was indicated that mobile and internet technologies enables customers to transact cost effectively, comply to VAT and check their balances more conveniently without moving from place to another. Adoption of internet banking, mobile banking and automated teller systems had contributed to significant performance improvement among MFI's in Kenya. However, it was noted that majority of the MFI's experienced challenges of change resistance from employees during implementation of new systems. Other challenges were lack of adequate financial resources to train employees on computer skills and investment in modern systems.

These findings correspond with Abdullah (2014) and Afsal (2013) who posit that efficiency and effectiveness of the system is enhanced through adoption of modern technologies. Employees with computer skills are more likely to be productive compared to computer illiterate workers in the competitive job market. Employees with computer skills are more likely to adopt to new changes in the business environment compared to computer illiterate workers. Shikha and Karishma (2012) concur that technology has become the superhighway of information which has created more opportunities of increasing profitability of the firm in the local and global markets.

Ngui, Elegwa and Gachunga (2014); Chebet (2015) also concurs with these findings by postulating that organizations are likely to be competitive if they adopt modern technology to enhance service delivery. Technology has created platforms to companies in terms of security and cost minimization. Human resources professionals can use

computer technology to assess employee performance and also get employee feedback for the betterment of the organization. . In addition, these finding corresponds with the findings of studies conducted by Kimori (2015) established that internet and mobile banking were drivers of organizational competitiveness. Organizations which do not embrace modern technologies are likely to experience high costs of operation and vice versa.

Table 4.5: Technology

| Indicators of Measurement | N | Mean | S.D | % |
|---|----------|-------------|------------|----------|
| Mobile banking business enable customers to open new accounts cost effectively | 138 | 4.21 | .544 | 65% |
| Internet banking business reduces costs of non-compliance to VAT | 138 | 3.98 | .487 | 73% |
| Mobile banking business has contributes to minimal costs of transaction | 138 | 3.33 | .421 | 61% |
| Mobile banking has contributed increased revenue | 138 | 3.26 | .374 | 59% |
| Internet banking business enable customers to check their balances more effectively | 138 | 2.42 | .343 | 58% |
| Internet banking business enable customers to transact cost effectively | 138 | 1.67 | .261 | 48% |

4.4.4 Labour Market Conditions

The study sought to investigate the influence of labour market conditions on performance of their MFI's. Table 4.6 indicates that that the mean scores for 1 of the 6 statements was less than 3.00 which means that majority (67%) and above agreed with the statement while the rest either disagreed or were neutral.

The findings implies that majority of the MFI's determined that the amount of money paid to their employees based on labour market conditions. With increased level of unemployment in Kenya, majority of the MFI's were underpaying employees despite their qualification. Competition among industry MFI's was a key factor that contributed to the amount of money paid to newly recruited workers. It was further established that change of economic policies like taxation also influenced remuneration decisions of MFI's favourably of unfavourably. These findings correspond with that of Ghazala and Habib (2012); Hassan (2013); Katua, Mukulu and Gachunga (2014); Manguru (2011) who argue that industry trends like competition, structure and number of players in an industry, global influence and technological developments play a critical role in influencing the way organizations remunerate their workers. Many firms are likely to downsize workers when they are not performing well financially and vice versa.

Table 4.6: Labour Market Conditions

| Indicators of Measurement | N | Mean | S.D | % |
|---|----------|-------------|------------|----------|
| The number of job seekers determine employee remuneration | 138 | 3.86 | .665 | 81% |
| The demand of goods and services determine employee remuneration | 138 | 3.77 | .654 | 80% |
| The economic policies determine employee remuneration | 138 | 3.45 | .623 | 72% |
| The new entrants in the labour market determine employee remuneration | 138 | 3.31 | .584 | 67% |
| Industry competition determine employee remuneration | 138 | 2.96 | .486 | 61% |

4.4.5 Performance Measurement

The study sought to establish the influence of the three variables of the study (employee competencies, compensation policies, technology and labour market conditions) on performance of MFI's Table 4.7 indicates that the mean scores for all the 6 statements was more than 4.00, which indicates that 95% of them agreed with the statement while the rest either disagreed or were neutral.

The findings implies that to a larger extent, the four variables of the study (employee competencies, compensation policies, technology and labour market conditions) has a strong positive statistical effect on the performance of Microfinance Institutions in Kenya. These findings are in line with that of Mutua, Karanja and Namusonge (2012); Ngatia (2011); Shikha and Karishma (2012) who also established that organization performance was determined by the automation of processes, increasing employee salaries and improving employee working environment.

Table 4.7: Performance Measurement

| Indicators of Measurement | N | Mean | S.D | % |
|---|----------|-------------|------------|----------|
| Improved customer service | 138 | 4.91 | .544 | 65% |
| System efficiency reflects performance | 138 | 4.88 | .487 | 63% |
| Employee satisfaction reflects performance | 138 | 4.73 | .421 | 61% |
| Number of members reflects performance | 138 | 4.56 | .374 | 59% |
| Minimal change resistance from workers reflects performance | 138 | 4.42 | .343 | 58% |
| Improved corporate governance reflects performance | 138 | 4.67 | .261 | 51% |
| New product development reflects performance | 138 | 4.54 | .243 | 50% |
| diversification of the MFIs in Kenya reflects performance | 138 | 4.54 | .243 | 50% |
| Minimal operational costs reflects performance | 138 | 4.47 | .231 | 49% |

4.5 Inferential Statistics

4.5.1 Diagnostic Tests

Prior to subjecting the data to regression analysis, diagnostic tests which were conducted to establish conformity with requisite statistical assumptions were; normality, linearity, homogeneity and multicollinearity tests were conducted as discussed:

4.5.2 Normality Test

Normality was tested using Shapiro-Wilk test, which has the ability to detect departure from normality. Its statistic ranges from zero to one and figures $p > 0.05$ indicates the data is normal (Hair, Black, Babin, Anderson & Tatham, 2015). Shapiro-Wilk test assesses whether data is normally distributed against null hypothesis (H_0) that the sample does not follow a normal distribution.

As illustrated in Table 4.8, the four research variables had figures ranging from -0.1 to +1.0 and most of them were skewed towards +1.0. Strategic leadership had the highest value of calculated probability (=0.872), whereas Sacco performance had the lowest value of calculated probability (0.784). In this case, the resulting calculated probability values for all the research variables are greater than 0.05; therefore, at 5% level of significance the sample follows a normal distribution as recommended by Crowther & Lancaster (2012). Normality was also met since there was a large number of participants (178) involved in the study.

Table 4.8: Normality Test

| Variables | Statistics | df | Sig |
|--------------------------|-------------------|-----------|------------|
| Employee Competencies | 0.872 | 178 | 0.003 |
| Compensation Policies | 0.811 | 178 | 0.002 |
| Technology | 0.746 | 178 | 0.000 |
| Labour Market Conditions | 0.784 | 178 | 0.001 |

4.5.3 Linearity Test

Linearity test was done using Pearson's moment correlation coefficient between firm's performance, employee competencies, compensation policies, and technology and labour market conditions. Table 4.9, indicates that there is a positive and significant linear relationship between MFI's performance and employee competencies, compensation policies, technology and labour market conditions at 5% level of significance. The results indicate that employee competencies is ($r=0.556$, $p<0.05$), compensation policies ($r=0.417$, $p<0.05$) technology ($r=0.456$, $p<0.05$) and labour market conditions ($r=0.456$, $p<0.05$) thus, this indicates that as employee competencies, compensation policies, technology and labour market conditions increased, so does microfinance performance.

The general implication of the results was that there was co-movement of variables, and in the same direction. However, it is critical to note that correlation does not necessarily mean that there is a causal relationship (Collis & Hussey, 2014). Thus, there was need to conduct regression analysis in order to estimate causal relationship. Therefore, linear regression was suitable and was estimated in this study

Table 4.9: Linearity Test

| Independent Variables | | Microfinance Performance |
|---------------------------------|---------------------|-------------------------------------|
| Employee Competencies | Pearson Correlation | 0.556** |
| | Sig(2-tailed) | 0.001 |
| | N | 178 |
| Compensation Policies | Pearson Correlation | 0.417** |
| | Sig(2-tailed) | 0.000 |
| | N | 178 |
| Technology | Pearson Correlation | 0.456** |
| | Sig(2-tailed) | 0.002 |
| | N | 178 |
| Labour Market conditions | Pearson Correlation | 0.346** |
| | Sig(2-tailed) | 0.001 |
| | N | 178 |
| **p < 0.05 | | |

4.5.4 Homogeneity Test

Homoscedasticity was tested by the use of Levene's Test (1960) of Homogeneity of Variances. Homogeneity of variances assumes that the dependent variable exhibits equal variance across the range of predictor variables (Novikov. & Novikov, 2013). If the variances in the two groups are different from each other, then adding the two together is not appropriate and will not yield an estimate of the common within-group variances. Therefore, the Levene Test for Homogeneity of the Variance was used to measure the equality of variances for the variables. If the test is significant (calculated probability > 0.05), the two variances are not significantly different and are thus approximately equal (Guest, 2012).

As illustrated in Table 4.10, it is indicated that the calculated probability is $p > 0.05$ for all the four variables of the study. The calculated probability values generated from this test ranged between 0.0742 for microfinance performance and 0.789 for employee competencies. The result shows that the significance level of Levene Test is greater than 0.05, indicating variance homogeneity as proposed by (Fisher, 2010).

Table 4.10: Homogeneity Test

| Variables | Lavene Statistics | df | Sig |
|--------------------------|--------------------------|-----------|------------|
| Employee Competencies | 8.456 | 1 | 0.789 |
| Compensation Policies | 7.432 | 1 | 0.579 |
| Technology | 6.334 | 1 | 0.234 |
| Labour Market Conditions | 6.115 | 1 | 0.534 |
| Microfinance Performance | 7.324 | 1 | 0.742 |

4.5.5 Multicollinearity Test

To establish whether multicollinearity would pose a problem, regression analysis was conducted. Table 4.11 indicates that all the VIFs of the five variables of the study were less than 10 and Tolerance greater than 0.1 respectively. VIF of greater than 10 and Tolerance less than 0.1 suggests multicollinearity (Collis & Hussey, 2014) compensation policies yielded the least VIF at 0.682 and employee competencies generated the highest VIF at 0.846. This implies that there was no multicollinearity and thus all the predictor variables were maintained in the regression model, as this is within the threshold recommended by Crowther and Lancaster (2012); Fisher (2010).

Table 4.11: Multicollinearity Test

| Model | Collinearity Statistics | |
|--------------------------|--------------------------------|----------|
| | Tolerance | Mean VIF |
| Employee Competencies | 0.846 | 1.568 |
| Compensation Policies | 0.682 | 1.467 |
| Technology | 0.712 | 1.245 |
| Labour Market Conditons | 0.831 | 1.231 |
| Microfinance Performance | 0.712 | 1.249 |

4.6 Correlation Analysis

Pearson's product moment Correlation Analysis was conducted at 95% confidence interval and 5% confidence level 2-tailed to assess the statistical relationship between the variables while multiple regressions was used to determine the predictive power of the each independent variable on performance of Microfinance Institutions in Kenya. Table 4.12 indicates that there was statistical correlation between the employee competencies (0.710), compensation policies (0.693), and technology (0.579) and labour market conditions (434).

The positive relationship indicates that there was a correlation between the four variables of the study on Performance of Micro Finance Institutions in Kenya. The Significance values of the four independent variables were less than 5% (0.0012, 0.0017, 0.0023 and 0.0027) which indicated that a unit increase of employee competencies, compensation policies, and technology and labour market conditions resulted to an unit increase in performance of MFI's in Kenya.

Table 4.12: Correlations Results Analysis

| | Employee Competencies | Compensation Policies | Technology | Labour Market Conditions |
|---------------------------------|------------------------------|------------------------------|-------------------|---------------------------------|
| | 1 | | | |
| Employee Competencies | .710 | | | |
| | .0012 | 1 | | |
| Compensation Policies | .693 | .027 | | |
| | .0017 | .799 | 1 | |
| Technology | .579 | .560 | .762 | |
| | .0023 | .000 | .560 | .1 |
| Labour Market Conditions | .434 | .539 | .270 | .356 |
| | .0027 | .000 | .010 | .001 |

****p < 0.05**

4.7 Regression Analysis

A multiple regression analysis was conducted to find out the linear relationship between all the independent variables and the dependent variable. As shown on table 4.13, the multiple regression analysis indicated that there was a significant relationship between employee competencies, compensation policies, technology and labour market conditions and Performance of Microfinance Institutions in Kenya. The significance values of the four independent variables were; employee competencies ($\beta=0.295$, $p <$

0.05), compensation policies ($\beta=-0.244$, $p < 0.05$), technology ($\beta=0.354$, $p < 0.05$), and labour market conditions ($\beta=0.333$, $p < 0.05$).

These results correspond with the view of Octavian Gheorghe, Adriana and Raluca (2012); Onyancha, Munene, and Muturi (2014) who revealed that there was a positive relationship between employee remuneration determinants and organization performance. It was revealed that there was a highly significant relationship between the four independent variables with labour market conditions having the highest level ($\beta=0.333$, $p < 0.05$). and compensation policies having the lowest level ($\beta=0.295$, $p < 0.05$).

Table 4.13: Regression Results Analysis

| Dependent Variable | Independent Variables | Beta Value | T Value | Sig | Hypothesis Testing |
|---|------------------------------|-------------------|----------------|------------|---------------------------|
| Performance of Microfinance Institutions in Kenya | Employee Competencies | 0.295 | 3.277 | 0.002 | Accepted |
| Performance of Microfinance Institutions in Kenya | Compensation Policies | 0.244 | 3.217 | 0.000 | Accepted |
| Performance of Microfinance Institutions in Kenya | Technology | 0.354 | 3.446 | 0.001 | Accepted |
| Performance of Microfinance Institutions in Kenya | Labour Market Conditions | 0.333 | 3.673 | 0.001 | Accepted |

As illustrated in Table 4.14, coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (Performance of Micro Finance Institutions in Kenya) that is explained by all the four independent variables (Employee Competencies, Compensation Policies, Technology and Labour Market Conditions). Multiple regression analysis was conducted to determine the relationship between employee remuneration determinants and the performance of Micro Finance Institutions in Kenya. As per the SPSS generated Table (4.11) above, the equation ($Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \epsilon$) became: $Y = 1.139 + 0.887X_1 + 0.752X_2 + 0.465X_3 + 0.539X_4$

According to the regression equation established, taking all factors into account (Employee Competencies, Compensation Policies, Technology and Labour Market Conditions) constant at zero, sustainable competitiveness will be 0.0133. The data findings analyzed also shows that taking all other independent variables at zero, a unit increase in Employee Competencies will lead to a 2.512 performance of Microfinance Institutions in Kenya; a unit increase in compensation policy will lead to a 2.195 performance of Micro Finance Institutions in Kenya; a unit increase in technology will lead to a 2.961 performance of Micro Finance Institutions in Kenya and a unit increase in labour market conditions will lead to a 2.782 performance of Micro Finance Institutions in Kenya.

At 5% level of significance and 95% level of confidence, employee competencies had a 0.000 level of significance, compensation policies showed a 0.001 level of significance, technology showed a 0.002 level of significance and labour market conditions showed a 0.011 level of significance. After Regression Analysis, it was concluded that there was a significant positive relationship between independent variables (Employee Competencies, Compensation Policies, Technology and Labour Market Conditions) and dependent variable (Performance of Micro Finance Institutions in Kenya).

Table 4.14: Correlation Coefficient

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---------------------------------|-----------------------------|------------|---------------------------|-------|-------|
| | B | Std. Error | Beta | | |
| 1 (Constant) | 1.139 | 1.2235 | | 0.930 | 0.000 |
| Employee Competencies | 0.787 | 0.3132 | 0.152 | 2.512 | 0.000 |
| Compensation Policy | 0.752 | 0.3425 | 0.154 | 2.195 | 0.001 |
| Technology | 0.645 | 0.2178 | 0.116 | 2.961 | 0.002 |
| Labour Market Conditions | 0.539 | 0.1937 | 0.163 | 2.782 | 0.011 |

4.8 Hypotheses Testing

Linear regression analysis was conducted in order to test the hypothesis of the study. The purpose was to test whether there was a relationship between the independent variables and the dependent variable and the strength of the relationship. Each of the independent variables: employee competencies, compensation policies, technology and labour market conditions were tested to find out their relationship with the dependent variable, MFI's performance.

4.8.1 Test of Hypothesis 1

H₀: There was no significant relationship between employee competencies and performance of microfinance institutions in Kenya.

Table 4.15 shows the results of regression analysis on employee competencies in relation to performance of microfinance institutions in Kenya. A linear regression F-test using ANOVA was carried out to test whether employee competencies influences performance of microfinance institutions in Kenya. The linear regression model of employee competencies against performance of microfinance institutions in Kenya was found to be significant ($F(1,248) = 13.69, p < 0.001$) at 5% confidence interval.

The null hypothesis was therefore rejected and the alternative hypothesis that employee competencies influences performance of microfinance institutions in Kenya was accepted. The resulting goodness of fit was $R^2 = 0.05$ indicating that 5% of the variability in Y is explained by employee competencies index while $R = 55.9\%$. This indicates that there is strong relationship between employee competencies and performance of MFI's in Kenya. There was no multicollinearity in the model because the Variance Inflation Factor (VIF) = 1.00. The regression equation was:

$$Y = 1.87 + 0.29 \text{ Employee Competencies}$$

Where;

$$Y = \text{Performance of Microfinance Institutions in Kenya}$$

The findings of the study revealed that there is a positive linear relationship between employee competencies and performance of microfinance of MFI's in Kenya. The results revealed that there was a significant influence when employee competencies was measured in terms of intellectual and social skills on performance of MFI's in Kenya. The results correspond with Maroko and Maundu (2015); Onyancha, Munene, and Muturi (2014); Dauda, Akingbade and Akinlabi, (2010); Ghazala and Habib (2012) who established that employee competencies such as analytical, technical, conceptual and social were determinants of organizational performance. Companies operating in the changing business environments can only compete by engaging workers with a mix of knowledge skills and experience.

Table 4.15: Regression Analysis between Employee Competencies and Performance of Microfinance Institutions

Table 4.15 a: Model Summary

| Model | | | | | | | Change Statistics | | |
|------------------------------|-------------------|----------|-------------------|------------------------|-----------------|----------|-------------------|-----|---------------|
| 1 | R | R Square | Adjusted R Square | Std. Error of Estimate | R Square Change | F Change | df1 | df2 | Sig. F Change |
| | .559 ^a | .052 | .048 | .86328 | 0.52 | 13.68 | 1 | 248 | .000 |
| | | | | | | | 7 | | |
| A Predictors: (Constant), X1 | | | | | | | | | |

Table 4.15 b: ANOVA^b

| Model | | Sum of Square | Df | Mean Square | F | Sig |
|-------|------------|---------------|-----|-------------|--------|-------------------|
| 1 | Regression | 10.200 | 1 | 10.200 | 13.687 | .000 ^a |
| | Residue | 184.183 | 248 | .745 | | |
| | Total | 195.023 | 249 | | | |

Predictors: (Constant), X1

b. Dependent Variable: performance

Table 4.15 c: Coefficients^a

| Model | | Unstandardized Coefficients | | Standardized Coefficients | T | Sig | Collinearity Statistics | |
|-------|----------|-----------------------------|------------|---------------------------|-------|------|-------------------------|-------|
| | | B | Std. Error | Beta | | | Tolerance | VIF |
| 1 | Constant | 1.874 | .308 | | 6.077 | .000 | | |
| | X1 | .293 | .079 | .229 | 3.700 | .000 | 1.000 | 1.000 |

a. Dependent Variable: MFI's performance

4.8.2 Test of Hypothesis 2

H₀: There was no significant relationship between compensation policies and performance of microfinance institutions in Kenya.

Table 4.16 shows the results of regression analysis on compensation policies in relation to performance of microfinance institutions in Kenya. A linear regression F-test using ANOVA was carried out to test whether compensation policies influences performance of microfinance institutions in Kenya. A linear regression F-test using ANOVA was carried out to test whether compensation policies influences performance of microfinance institutions in Kenya. The linear regression model of compensation policies against performance of microfinance institutions in Kenya was found to be significant ($F(1,248) = 41.24, p < 0.001$) at 5% degree of significance.

The null hypothesis was therefore rejected and the alternative hypothesis that compensation policies influences performance of microfinance institutions in Kenya was accepted. The resulting goodness of fit was $R^2 = 0.143$ indicating that 14.3% of the variability in Y is explained by compensation policies index while $R = 37.8\%$. This indicates that there is a moderate relationship between compensation policies and performance of microfinance institutions in Kenya. There was no multicollinearity in the model because the Variance Inflation Factor (VIF) = 1.00. The regression equation was:

$$Y = 1.18 + 0.57 \text{ Compensation Policies}$$

Where;

$$Y = \text{Performance of Microfinance Institutions in Kenya}$$

The findings of the study revealed that there is a positive linear relationship between compensation policies and performance of microfinance of MFI's in Kenya. The results revealed that there was a significant influence when compensation policies was measured in terms of internal and external equity on performance of MFI's in Kenya. The results are in line with Maina (2009); Heggsted and Mingo (2011); Lamba, Choudhary (2013); Mutua, Karanja and Namusonge (2012); Ngatia (2011); Odunga (2011) who revealed that poorly remunerated employees are likely to perform poorly leading to decreased organizational performance. They also pointed out that inequities among workers or with the management was a source of conflicts in the organization that resulted to deteriorating performance of modern competitive firms operating in the changing business environment.

Table 4.16: Regression Analysis between Compensation Polices and Performance of Microfinance Institutions

Table 4.16 a: Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of Estimate | R Square Change | F Change | Change Statistics df1 | df2 | Sig. F Change |
|-------|-------------------|----------|-------------------|------------------------|-----------------|----------|-----------------------|-----|---------------|
| 1 | .378 ^a | .143 | .139 | 82113 | .143 | 41.243 | 1 | 248 | .000 |

A Predictors: (Constant), X2

Table 4.16 b: ANOVA^b

| Model | | Sum of Squares | Df | Mean Square | F | Sig. |
|-------|-------------------|----------------|-----|-------------|--------|-------------------|
| 1 | Regression | 27.808 | 1 | 27.808 | 41.243 | .000 ^a |
| | Residue | 167.215 | 248 | .674 | | |
| | Total | 195.023 | 249 | | | |

Predictors: (Constant), X2
b. Dependent Variable: performance

Table 4.16 c: Coefficients^a

| Model | | Unstandardized Coefficients B | Std. Error | Standardized Coefficients Beta | T | Sig. | Collinearity Statistics Tolerance | VIF |
|-------|----------|-------------------------------|------------|--------------------------------|-------|------|-----------------------------------|-------|
| 1 | Constant | 1.175 | .288 | | 4.074 | .000 | | |
| | X2 | .578 | .090 | .378 | 6.422 | .000 | 1.000 | 1.000 |

a. Dependent Variable: MFI's performance

4.8.3 Test of Hypothesis 3

H₀, There was no significant relationship between technology and performance of microfinance institutions in Kenya.

Table 4.17 shows the results of regression analysis on technology in relation to performance of microfinance institutions in Kenya. A linear regression F-test using ANOVA was carried out to test whether technology influences performance of microfinance institutions in Kenya. A linear regression F-test using ANOVA was carried out to test whether technology influences performance of microfinance institutions in Kenya. The linear regression model of technology against performance of microfinance institutions in Kenya was found to be significant ($F(1,247) = 63.98, p < 0.001$) at 5% level of significance.

The null hypothesis was therefore rejected and the alternative hypothesis that technology influences performance of microfinance institutions in Kenya was accepted. The resulting goodness of fit was $R^2 = 0.206$ indicating that 20.6% of the variability in Y is explained by technology index while $R = 45.4\%$. This indicates that there is a moderate relationship between technology and compensation policies and performance of microfinance institutions in Kenya. There was no multicollinearity in the model because the Variance Inflation Factor (VIF) = 1.00. The regression equation was:

$$Y = 1.93 + 0.60 \text{ Technology}$$

Where;

$$Y = \text{Performance of Microfinance Institutions in Kenya}$$

The findings of the study revealed that there is a positive linear relationship between technology and performance of microfinance of MFI's in Kenya. The results revealed that there was a significant influence when technology was measured in terms of mobile and internet banking on performance of MFI's in Kenya. The results corresponds

with Onyancha, Munene and Muturi (2014); Riungu (2008); Shikh and Karishma(2012); Spanos and Lioukas (2011); Tandelilin, Kaaro and Mahadwartha, (2007); Abdullah (2014); Afsal (2013); Bal, Bozkurt and Ertemsir (2012) who established that new technologies such as internet banking, mobile banking and automated teller machines have significantly reduced operational costs of organizations and more especially among financial institutions such as SACCOs, banks and microfinance. Further, they indicated that business technology such as video conferencing, social networks and virtual office technology has removed workplace boundaries that previously limited business expansion. With business technology, companies can target a wider customer base and grow to higher levels.

Table 4.17: Regression Analysis between Technology and Performance of Microfinance Institutions

Table 4.17 a: Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of Estimate | R Square Change | F Change | Change Statistics df1 | df2 | Sig. F Change |
|-------|-------------------|----------|-------------------|------------------------|-----------------|----------|-----------------------|-----|---------------|
| 1 | .454 ^a | .206 | .203 | .79191 | .206 | 63.9 | 1 | .24 | .000 |
| | | | | | | 83 | | 7 | |

a Predictors: (Constant), X3

Table 4.17 b: ANOVA^b

| Model | | Sum of Square | Df | Mean Square | F | Sig |
|-------|------------|---------------|-----|-------------|--------|-------------------|
| 1 | Regression | 40.125 | 1 | 40.125 | 63.983 | .000 ^a |
| | Residue | 54.899 | 247 | 627 | | |
| | Total | 95.023 | 248 | | | |

Predictors: (Constant), X3
b. Dependent Variable: performance

Table 4.17 c: Coefficients^a

| Model | | Unstandardized Coefficients | | Standardized Coefficients | T | Sig | Collinearity Statistics | |
|-------|----------|-----------------------------|------------|---------------------------|-------|------|-------------------------|-------|
| | | B | Std. Error | Beta | | | Tolerance | VIF |
| 1 | Constant | .934 | .263 | | 3.553 | .000 | | |
| | X1 | .599 | .075 | .454 | 7.999 | .000 | 1.000 | 1.000 |

a. Dependent Variable: MFI's performance

4.8.4 Test of Hypothesis 4

H₀₄: There was no significant relationship between labour market conditions and performance of microfinance institutions in Kenya.

Table 4.18 shows the results of regression analysis on labour market conditions in relation to performance of microfinance institutions in Kenya. A linear regression F-test using ANOVA was carried out to test whether labour market conditions influences performance of microfinance institutions in Kenya. A linear regression F-test using ANOVA was carried out to test whether labour market conditions influences performance of microfinance institutions in Kenya. The linear regression model of labour market conditions against performance of microfinance institutions in Kenya was found to be significant ($F(1,247) = 53.97, p < 0.001$) at 5% level of significance.

The null hypothesis was therefore rejected and the alternative hypothesis that labour market conditions influences performance of microfinance institutions in Kenya was accepted. The resulting goodness of fit was $R^2 = 0.204$ indicating that 20.4% of the variability in Y is explained by technology index while $R = 34.4\%$. This indicates that there is a moderate relationship between labour market conditions and compensation policies and performance of microfinance institutions in Kenya. There was no

multicollinearity in the model because the Variance Inflation Factor (VIF) = 1.00. The regression equation was:

$$Y = 1.73 + 0.49 \text{ Labour Market Conditions}$$

Where;

$$Y = \text{Performance of Microfinance Institutions in Kenya}$$

The findings of the study revealed that there is a positive linear relationship between labour market conditions and performance of microfinance of MFI's in Kenya. The results revealed that there was a significant influence when labour market conditions was measured in terms of competition and supply of goods and services on performance of MFI's in Kenya. The results are supported by Habbash (2010); Hassan (2013); Hassan (2014); Heggsted and Mingo (2011); Janssens and Steyaert (2009) who established that industry regulations such as labour laws, competition, supply of goods and services and the number of job seekers can directly or indirectly influence remuneration policies of firms in the changing business environment. Further, Mutua, Karanja and Namusonge (2012) revealed that the level of economic developments and the rate of inflation a particular industry can influence remuneration policies of firms operating in developed and developing countries.

Table 4.18: Regression Analysis between Labour Market Conditions and Performance of Microfinance Institutions

Table 4.18 a: Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of Estimate | R Square Change | F Change | Change Statistics df1 | df2 | Sig. F Change |
|-------|-------------------|----------|-------------------|------------------------|-----------------|----------|-----------------------|-----|---------------|
| 1 | .344 ^a | .201 | .203 | .69181 | .204 | 53.9 | 1 | .24 | .000 |
| | | | | | | 73 | | 7 | |

a Predictors: (Constant), X1

Table 4.18 b: ANOVA^b

| Model | | Sum of Square | Df | Mean Square | F | Sig |
|-------|-------------------|---------------|-----|-------------|--------|-------------------|
| 1 | Regression | 38.115 | 1 | 41.115 | 53.983 | .000 ^a |
| | Residue | 44.779 | 247 | .667 | | |
| | Total | 55.013 | 248 | | | |

Predictors: (Constant), X4
b. Dependent Variable: performance

Table 4.18 c: Coefficients^a

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig | Collinearity Statistics | |
|-------|-----------------|-----------------------------|------------|---------------------------|-------|------|-------------------------|-------|
| | | B | Std. Error | Beta | | | Tolerance | VIF |
| 1 | Constant | .734 | .263 | | 3.443 | .000 | | |
| | X4 | .493 | .065 | .354 | 6.889 | .000 | 1.000 | 1.000 |

a. Dependent Variable: MFI's performance

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the study findings as per the study objectives, conclusions based on those findings and recommendations which are based on both the study findings and other relevant literature considered necessary and vital to be used in future to improve the study situation.

5.2 Summary

Specific Objective 1: To establish the relationship between employee competencies and the performance of microfinance institutions in Kenya.

This study hypothesized the existence of a significant relationship between employee competencies and performance of microfinance institutions in Kenya. The results confirm the existences of a statistically significant relationship between the four variables and by so doing, the study adds to existing literature by uncovering constructs of each variable and their effect on MFI's performance. However, it was noted that despite the benefits of remunerating employees based on their core competences, it was revealed that majority of the MFI's compensated their workers based on their knowledge and experience on a small extent. Retaining competent workers among MFI's was an uphill task due to competition from other players in the industry. Majority of the workers were searching for better jobs that rewarded them based on their qualification. Saccos and commercial banks were alternative organizations that employees of MFI's considered to work in if given an opportunity. It was observed that majority of the MFI's were not driven to recruit highly qualified staff due to inability to pay and stiff competition that contributed to declined profits.

Specific Objective 2: To determine the relationship between compensation policy and the performance of microfinance institutions in Kenya.

This study hypothesized the existence of a significant relationship between compensation policies and performance of microfinance institutions in Kenya. The study established that majority of the MFI's had compensation policies that were rigid to changing business trends. It was revealed that compensation policies of the MFI's did not address all the needs of potential candidates who sought for jobs thus inequities among employee salaries. Majority of the MFI's continued to experience employee turnover due to unsatisfactory salaries. Issues of qualifications and workload were not addressed in policies of the MFI's. Some compensation policies of MFI's were outdated and did not address non-monetary rewards. Most of the compensation policies only focused on monetary rewards and ignored fringe benefits like house allowances, medical covers and career development. Therefore, the findings of the study adds to existing literature by uncovering other constructs of compensation policies such as internal and external equity on performance of microfinance institutions in Kenya.

Specific Objective 3: To determine the relationship between technology and the performance of microfinance institutions in Kenya.

This study hypothesized the existence of a significant relationship between technology and performance of microfinance institutions in Kenya. The study established that technology was one of the key drivers that was perceived to be the catalyst of organizational growth and profitability among MFI's despite the challenge of implementing new systems. Top leadership of MFI's was perceived to be on the forefront of reinforcing technological changes due lack of adequate funds. Investment in internet banking, mobile banking and automated teller machines was hindered by lack of funds and top management commitment. However, some employees were of the opinion that technology was one of the ways MFI's employed to minimize costs and maximize profits at the cost of downsizing employees. Therefore, it was evident that majority of

the workers had a perception that technology was also a threat to their jobs and contributed to resistance. Therefore, the findings of the study adds to existing literature by uncovering other constructs of technology such as automation of processes and employee IT skills on performance of microfinance institutions in Kenya.

Specific Objective 4: To determine the relationship between labour market conditions and the performance of microfinance institutions in Kenya.

This study hypothesized the existence of a significant relationship between labour market conditions and performance of microfinance institutions in Kenya. The study established that labour market conditions played a key role in the amount of money MFI's paid their workers. It was revealed that to a great extent MFI's did not pay competitive salaries to newly or existing employees due to labour market conditions. It was observed that MFI's received more application from highly qualified candidates on a daily basis before advertising any vacant position.

Competition from other players in the industry including Saccos and banks was evident. Employees of MFI's considered to work in Saccos and banks if given a fair pay and other fringe benefits. Economic policies ranging from interest rates contributed greatly on the performance of MFI's. It was evident that many MFI's considered to hire at competitive salaries when the economy was performing well and vice versa. It was also observed that due to weak legal frameworks, most of the MFI's continued to recruit and pay workers without keen consideration of their qualification. Therefore, the findings of the study adds to existing literature by uncovering other constructs of labour market conditions such as completion and demand and supply of goods and services on performance of microfinance institutions in Kenya.

Therefore, from the findings of the study, it is summarized that there was a positive hypothetical relationship between employee competencies, compensation policies, technology and labour market conditions and performance of Microfinance Institutions in Kenya because all the T-Values were less than the critical value of 0.05. Thus, based

on the above correlation and regression analysis results, this study rejects the four null hypotheses of the study (H_0) and accepts the alternative hypotheses (H_1) of all the measured independent variables (H_1 , H_2 , H_3 and H_4).

5.3 Conclusion

Based on the findings of these study, a number of conclusions were made. The study revealed that majority of the MFI's continued to experience employee turnover due to inability to pay workers competitive salaries based on their core competencies. Therefore, it was concluded that unless MFI's focus on remunerating employees based on their qualification, gaining industry competitiveness will be an uphill task. The study revealed that majority of the MFI's operating in Kenya had rigid and outdated compensation policies that addressed employees needs on a small extent. Therefore, it is concluded that continuous review of compensation policies among MFI's will be a practice that will enhance their competitiveness in the dynamic business environment.

The study established that Majority of the MFI's adopted technology on a small extent due to internal challenges ranging from lack of top leadership support and employee resistance. Therefore, this study concluded that MFI's should institutionalize Information and Communication Technology to gain competitiveness. Employee training and business process re-engineering will be practices that will enhance performance of MFI's thus efficiency and effectiveness of the overall system.

The study revealed that MFI's continued to experience deteriorating performance due to stiff competition and change of economic policies. Therefore, it is conclude that MFI should continue to monitor and conduct surveys to determine industry trends that influence labour markets thus compensating their workers effectively. Projection of the demand of goods and services by MFI's in Kenya will enable them determine the input and output levels competitively.

5.4 Recommendations

This study recommends that MFI's should embrace the spirit of hiring workers based on their qualification, knowledge, skills and experience in order to maximize productivity. Human resource managers should develop policies that focus on hiring and compensating employees based on their qualifications. In order to achieve organizational goals, employee competence is the key determinant. MFI's should conduct Training Needs Assessments to determine skill gaps of their workers periodically and recommend appropriate trainings where necessary.

The study recommends that MFI's should engage external consultants to review the already existing compensation policies to determine areas of amendment. Compensation policies should be developed by engaging key stakeholders like employees, employers and the government. Compensation policies should be aligned with the organization vision and mission. Compensation policies should not only focus on monetary rewards but also non-monetary rewards. Compensation policies should be developed based on industry benchmarks. Compensation policies need to be incorporated with Government regulation thus eradicating violation of human rights in employment opportunities.

The study recommends that MFI's should invest in modern systems in order to remain competitive. Investment in mobile banking, internet banking and automated teller machines will give them a competitive edge in the changing business environment. The only way of minimizing costs and maximizing profits is through technology integration in the system. Top managers should allocate adequate funds to facilitate employee training and procurement of modern systems to enhance service delivery. MFI's should form partnership with like-minded IT firms to enhance their productivity in the long-run.

The study recommends that MFI's should analyse the level of competition in the market and strive to differentiate themselves in terms of product offering thus attracting competent workers. To remain competitive in the changing business environment, MFI's need to conduct industry surveys to determine external factors that influence their

performance. Analysing the economic factors influencing the labour markets locally and internationally will enhance MFI's competitiveness. Diversification of MFI's will promote financial stability and lead to employee satisfaction.

5.5 Areas for Further Research

This study sought to investigate the influence employee competencies, compensation policies, and technology and labour market conditions on performance of Microfinance Institutions in Kenya. However, it was noted that previous empirical studies partially or did not examine the integrated approach of remuneration determinants of this study on performance of microfinance Institutions in Kenya. Therefore, this study recommends other studies to be carried out to investigate other variables that would influence performance of MFI's in Kenya. The studies should seek to examine the moderating effect of organizational leadership on performance of MFI's. Further, future studies should seek investigate the holistic effect of the four variables of this study on performance of other sectors such as manufacturing sector in Kenya to uncover other issues that contribute to organizational performance.

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APPENDICES

Appendix 1: Introductory Letter

JEMIMA KERUBO OMBONGI

HD 412-COO3-1537/2009

JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY,

P.O BOX 62000- 00200

NAIROBI

TO WHOM IT MAY CONCERN

Dear Respondent,

REF: PhD RESEARCH STUDY

I am a student pursuing a PhD degree in Human Resource Management at the Jomo Kenyatta University of Agriculture and Technology. In partial fulfillment of the requirements to the award of the PhD degree, I am required to carry out a study on *“Employee Remuneration Determinants on the Performance of Micro Finance Institutions in Kenya”*

The choice of the topic is based on the strategic importance of achievement social-economic objectives of Kenya’s vision 2030. I kindly request your assistance by availing time to respond to the questionnaire and the interview guide. A copy of the final report will be made available to you at your request. The information given will be treated with utmost confidentiality for the purpose of this study only.

Thank you in advance.

Appendix 2: Questionnaire (For Employee of MFIs)

Please supply the required data by filling in the blanks where space is provided or by ticking [√] against the most appropriate answer.

I respondents name..... [Optional]

SECTION A: BACKGROUND INFORMATION

1. What is your designation?

2. For how long have you been working in the MFI?

- a) Less than a year []
- b) Between 2 and 6 years []
- c) Between 7 and 11 years []
- d) Above 12 years []

3. What is the Level of your Education?

- a) Diploma level []
- b) Undergraduate level []
- c) Graduate level []
- d) Masters []
- e) Others

SECTION B: DETERMINANTS OF EMPLOYEE REMUNERATION

Please rank the following statement on Likert Scale ranging from strongly disagree to strongly agree. Where; **1= (Strongly disagree) 2= (Disagree) 3= (Moderately agree) 4= (Agree) 5= (Strongly agree)**

PART A: EMPLOYEE COMPETENCIES AND ORGANIZATION PERFORMANCE

4. Indicate your level of agreement with the following statements relating to the effect of employee competencies on performance of microfinance institution (**scale 5= Strongly agree, 4= Agree, 3 = Moderately agree, 2= Disagree, 1 = Strongly disagree**)

| Statements | 5 | 4 | 3 | 2 | 1 |
|--|---|---|---|---|---|
| Employee have intellectual skills | | | | | |
| Employee have social skills | | | | | |
| Employee have adequate knowledge | | | | | |
| Employees have professional qualifications | | | | | |
| Employee have adequate experience | | | | | |
| Employees are paid based on competence | | | | | |

PART B: COMPENSATION POLICIES AND ORGANIZATION PERFORMANCE

5. Indicate your level of agreement with the following statements relating to the effect of compensation policies on performance of microfinance institution (scale 5= Strongly agree, 4= Agree, 3 = Moderately agree, 2= Disagree, 1 = Strongly disagree)

| Statements | 5 | 4 | 3 | 2 | 1 |
|--|---|---|---|---|---|
| Employees are equally compensated | | | | | |
| Employee are compensated based on market rates | | | | | |
| Employee salaries are based on external competitiveness | | | | | |
| Employees are attracted by the compensation policy of the firm | | | | | |
| Employee have compressed weeks of work | | | | | |
| Employee are paid on extra hours worked | | | | | |

PART C: TECHNOLOGY AND ORGANIZATION PERFORMANCE

6. Indicate your level of agreement with the following statements relating to the effect of technology on performance of microfinance institution (scale 5= Strongly agree, 4= Agree, 3 = Moderately agree, 2= Disagree, 1 = Strongly disagree)

| Statements | 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|---|
| Mobile banking business has greatly improved my savings ability | | | | | |
| Mobile banking business has improved my disposable income | | | | | |
| Mobile banking business has contributes to minimal costs of transaction | | | | | |
| Mobile banking has contributed increased profits | | | | | |
| Internet banking business enable customers to check their balances more effectively | | | | | |
| Internet banking business enable customers to transact cost effectively | | | | | |
| Internet banking business enable customers transfer their funds more conveniently | | | | | |

PART D: LABOUR MARKET CONDITIONS AND ORGANIZATION PERFORMANCE

7. Indicate your level of agreement with the following statements relating to the effect of labour market conditions on performance of microfinance institution (scale 5= Strongly agree, 4= Agree, 3 = Moderately agree, 2= Disagree, 1 = Strongly disagree)

| Statements | 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|---|
| The number of job seekers determine employee remuneration | | | | | |
| The demand of goods and services determine employee remuneration | | | | | |
| The economic policies determine employee remuneration | | | | | |
| The new entrants in the labour market determine employee remuneration | | | | | |
| Industry competition determine employee remuneration | | | | | |

PART E: ORGANIZATION PERFORMANCE

8. Indicate your level of agreement with the following statements relating to indicators used by your MFI's to measure performance (scale 5= Strongly agree, 4= Agree, 3 = Moderately agree, 2= Disagree, 1 = Strongly disagree)

| Statements | 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|---|
| Improved customer service | | | | | |
| System efficiency reflects performance | | | | | |
| Employee satisfaction reflects performance | | | | | |
| Number of members reflects performance | | | | | |
| Minimal change resistance from workers reflects performance | | | | | |
| Improved corporate governance reflects performance | | | | | |
| New product development reflects performance | | | | | |
| diversification of the MFIs in Kenya reflects performance | | | | | |
| Minimal operational costs reflects performance | | | | | |

Thank You for your Cooperation

Appendix 3: List of Microfinance Institutions Kenya

1. AAR Credit Services
2. ACDF
3. Adok Timo
4. BFDP
5. BIMAS
6. Century MFB
7. Caritas Microfinance Bank Ltd
8. Choice Microfinance Bank Limited
9. Daraja Microfinance Bank Ltd
10. DRC Microfinance
11. Eb-F
12. ECLOF - KEN
13. Equity Bank KEN
14. Fadhili
15. Family Bank
16. Faulu MFB
17. Greenland Fedha
18. Jamii Bora
19. Jitegemea Credit Scheme
20. Juhudi Kilimo
21. K-Rep
22. KEEF
23. KPOSB
24. KWFT MFB
25. Letshego KEN
26. Makao Mashinani
27. MCL
28. Milango Kenya
29. Musoni
30. Opportunity Kenya
31. PAWDEP
32. Platinum Credit
33. Rafiki MFB

34. Remu Microfinance Bank Ltd
35. RAFODE
36. Real People
37. Remu
38. Riverbank
39. Rupia
40. Samchi Credit Limited
41. SEED
42. SISDO
43. SMEP MFB
44. Springboard Capital
45. Sumac MFB
46. Taifa
47. U & I MFB
48. Ubunifu MFI
49. UBK
50. Ufanisi - AFR
51. Unaitas
52. Uwezo MFB
53. VisionFund Kenya
54. WEEC
55. Yehu
56. YIKE

(Source: Central Banks of Kenya, 2017)