

INFLUENCE OF COMPENSATION PRACTICES ON EMPLOYEE PERFORMANCE OF TEA COMPANIES IN RWANDA: A CASE STUDY OF RWANDA MOUNTAIN TEA.

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ABSTRACT

Competitive environment, compensation system of the company has direct impact on its employee performance. Compensation is one of the physical needs that motivates which in turn affect the employee performance. The effects of compensation on motivation vary from organization to organization. Employees themselves fail to recognize the fact that their compensation is a package and not only related to cash. The total populations of this study were 440 employees from 3 tea companies and the sample size were 205 employees of Rwanda Mountain Tea. In this study researcher was used questionnaire as data collection instruments. The compensation practices have an overall correlation employee performance of 0.801 which is strong and positive relationship between two variables. This means that approximately 80.1% variations of compensation practices were explained by the employee's performance at 5% level of significance. Pearson correlation coefficient, ($r=0.862$) shows that there is a positive and high correlation between Compensation practices and employee performance in Rwanda Mountain Tea. This means that the Compensation practices have big contribution on employee's performance in Rwanda Mountain Tea. The Tea Company is one of the vital sectors necessitating the growth and development of Rwanda economy, therefore, it is vital for Company to embark on effective compensation management policies that will protect and promote employees performance. Rwanda Mountain Tea should ensure the provision of good welfare packages that will encourage and promote employees performance. The need to retain effective and qualified work force is a necessity for a functional organization, thereby necessitating the need to provide good working conditions and effective working packages that will support in retaining effective work force.

KEY WORDS: *Compensation practices, employee performance and tea companies.*

1. Background of the study

Compensation is one of the physical needs that motivates which in turn will affect the employee performance. Job performance is influenced by many factors externally and internally. Compensation is output and the benefit that employee receive in the form of pay, wages and rewards like monetary exchange for the employee's to increases the Performance(Johnson et al.,2008).

Providing appropriate compensation within the meaning of fair and adequate to meet the requirements is one of the personnel department functions that are difficult to implement. Every organization needs a strategic compensation system for its employees that address compensation, benefits, recognition and appreciation (Kim, 2005). Compensation includes the returns to the services rendered by employees as part of employment relationships. It has a big influence in the recruitment of employees, motivation, productivity and employee turnover. The level and magnitude of compensation should be of concern because the level of compensation will determine the lifestyle, self esteem, and the value of the company.

Compensation practices plays a crucial and functional role on employee performance of difference companies because it is the heart beat of human resource management. It is also vital to both employees and the employer. This is because employees typically depend on wages and salaries, and must be equivalent to the work done. However, to managers, compensation decisions influence the cost of doing business and thus, their ability to sell at a competitive price in the product market (Salim & al, 2010).

In this era of global competition, where attracting effective and efficient employees has become a necessity for competing organizations. Saudi Arabia, is one of the most important international markets in the developing world, provides an ideal background for a study on the impact of compensation on employee's performance and work-family conflict of an employee, working in the Kingdom of Saudi Arabia.

Compensation is output and the benefit that employee receive in the form of pay, wages and also same rewards like monetary exchange for the employee's to increases the Performance (Cadran,2004).Compensation is the segment of transition between the employee and the owner that the outcomes employee contract. As the prospective of employee pay is the necessary of life. The payment receives from work done on the behalf of people getting the employment. From the employee prospective one of the most important part of cash flow. Compensation is mostly equal to half of cash flow of the companies. But in the service sector it is more than half. It is the major to attract the employee and motivate employee to increases the performance (Ivanceikh and Jackson, 2009). It is argument that mostly individuals that getting higher education they are not satisfied their jobs and their turnover is more than so that organizations are overcome to that problem design the compensation plain to retain the employees as well plays more to attract, retain and motivate to give man power.

Compensation practices can improve the performance of employees when their institution can make them better off than worse off by contributing to employee satisfaction and development (Delaney & al., 2010). Many organizations do not give emphases to the effective utilization of compensation practices so as to ensure employees performance in developing countries. Organization pay directly influences to employee voluntary turnover employee compare to their pay available in other organization. People stay or leave the company more reasons they satisfied with their job promotional opportunity and work environment (Mitchall et.al.2003).

In Rwanda compensation practices can improve the performance of organizations by contributing to employee and customer satisfaction, innovation, productivity, and development of good reputation among firms community. Series of studies have been conducted on compensation Practices in Europe, America, and different parts of Asian continents but little have been conducted in Africa in general and Rwanda in particular.

2. Statement of the Problem

The compensation practices includes not only salary, but also the direct and indirect rewards and benefits the employee is provided with in return for their contribution to the organization. Some of the benefits of employee's performance include health insurance, disability income protection, retirement benefits, daycare, tuition reimbursement, sick leave, vacation (paid and no-paid), funding of education as well as flexible and alternative work arrangements.

Today Rwanda Mountain tea company facing different challenges in compensation practices for their employees, some of those challenges facing by organisations is retention of employee, lack of training, unskilled labor in tea industry, etc.(Caragan, 2009) states that many professional companies are in a dilemma as a result of the competition that is present in attracting and retaining highly skilled workers because they fail to match the salaries being offered by their competitors or to offer more than their competitors. The challenge for Rwanda Mountain Tea Company today is therefore is to come up with an efficient reward strategy for retaining these core employees for the success of the organization.

Another challenge is that the employee is unable to predict the future needs of their employees. The fundamental issues for organisations are to keep track of the ever changing needs of employees so that they can become an employer of choice to employees. It is very imperative for organisations to have knowledge of these attributes so that they may be able to match their attraction and retention strategy to the needs of the workforce. The compensation in Rwanda Tea Companies is poorly managed and most of the time performance is affected adversely (Tumwine, 2014). Therefore the problem the researcher intends to investigate in order to understand to what extend compensation practices contribute to employee performance in Rwanda Mountain Tea.

3. General objectives

The general objective of this study was to examine the influence of compensation practices on employee performance in Mountain tea Company.

4. Specific objectives

1. To examine the importance of financial compensation on employee performance of Rwanda Mountain tea Company.
2. To identify the contribution of health care benefits on employee performance of Rwanda Mountain tea Company.
3. To examine the contribution of non-financial compensation on employee performance of Rwanda Mountain tea Company.

4. Conceptual framework

Conceptual framework is composed by two variables: independent variable (compensation practices) and dependent variable (employee performance).

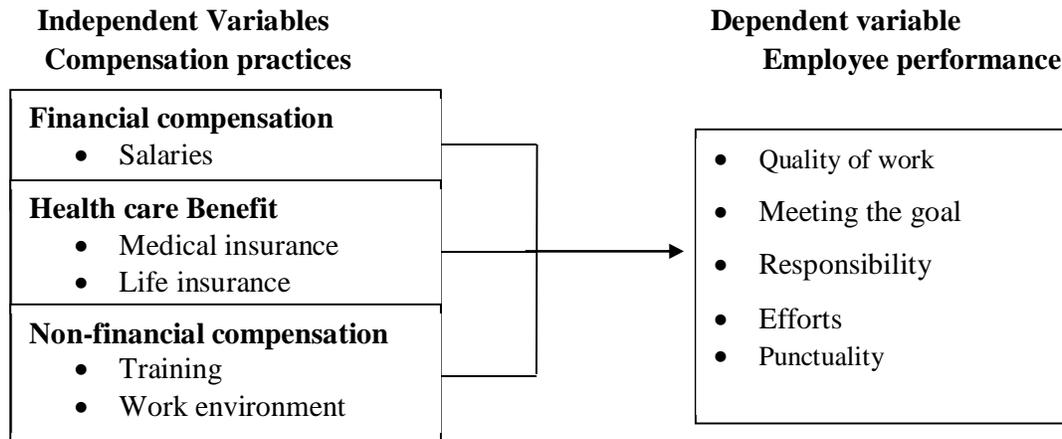


Figure7: Conceptual Framework

6. Theoretical Review

The relationship between compensation practices and employee performance was viewed from the perspectives of a number of theories relevant to the study. For the purpose of the study, the researcher reviewed a number of theories as applied by various researchers globally. The theories are further critiqued on the basis of empirical evidence found in literature on the subject matter of compensation practices and employee performance.

6.1 Human Capital Theory

Human capital signifies the combined the brainpower and experience of staff as a source of competitive improvement that cannot be imitated by rivals (Resick, 2007). This theory advocates for attracting, engaging, repayment and developing people in organizations. In the context of Agriculture and business sector. Some of the employee compensation practices in this research are meant to ensure that the performance of employees is improved this theory is relevant. However this theory has been criticized for not addressing other underlying components of employee performance. Scholars have argued that ultimately, it's only the characteristics that improve employee performance. This is because it considers reward which is also a factor of compensation. This means that employees can be rewarded for their efforts despite the fact that the theory does not examine the effect of the rewards.

4.2 Expectancy Theory

According to (Armstrong, 2010), in the expectancy theory, motivation is likely to be when there is a perceived and usable relationship between and outcome, with the outcome being seen as a means of rewarding needs. In other words, there must be a relationship between a certain reward and what has to be done to achieve it. This theory is very important in the context of this research. It is instrumental especially when designing performance-based employee wellbeing programmes. This theory helps explain why an organization's staff would feel confident that they can grow in the same organization, hence remain there, or seek development elsewhere by exiting the organisation.

5. Research Methodology

This paper presents the methodology that was used during the study. It involves the Research design, study population and sample size.

7.1 Research design

In this study researcher was used a descriptive research design, where qualitative and quantitative approach was used. According to (Kothari, 2008), research design is the conceptual structure within which research was conducted. It constitutes the blueprint for the collection, measurement and analysis of data as such the design includes an outline of what the researcher was done from writing the hypothesis and its operational implications to the final analysis of data.

7.2 Study Population

The target population of this study contains are 422 employees of Rwanda Mountain tea company. Total population of this study was employees from three tea industries. Rwanda. Kitabi tea Company, Rubaya Tea Company and Nyabihu Tea Company.

7.3 Sample and Sample Technique

For the purpose of this study, a sample size of 205 respondents was determined from total population of 422 employees by using the Slovin's formula (Yamane, 1967). A Stratified random sampling was used to select the respondents. The Stratified Random Sampling technique ensure that different groups of a population were adequately represented in the sample since it divides the population into homogenous groups such that the elements within each group are more alike than the elements in the population as a whole.

$$n = \frac{N}{1+N(e)^2} \quad \text{Therefore are for this study; } n = \frac{422}{1+422(0.05)^2} = 205 \text{ employee's}$$

Where n= stands to the desired sample size, e = stands for probability of error (the desired precision, 0.05 for 95 % confidence level), N= the estimate of the population size. The study sample size was 205 employees which were represented 422 people of the target population.

6. Model Specification

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

Y=employee performance

X1=Financial compensation

X2=Health care Benefit

X3=Non-financial compensation

ε= error term

β 0=Slope

β1, β2 and β3=Intercepts

7. Data Analysis

The data was collected by using questionnaires instrument and were analyzed quantitatively using descriptive statistics and tested the Regression analysis of the variables. The data analyzed by using the computer package SPSS. Data analysis was done in line with the study objectives, which was aligned to the conceptual framework.

8. Regression Analysis

Table 18: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.467 ^a	.801	.735	355

a. Predictors: (Constant), Financial compensation, Health care Benefit and Non-financial compensation.

Table 1 presents the coefficients of model fitness on how a compensation practice explains employee's performance in Rwanda Mountain Tea. The compensation practices have an overall correlation employee performance of 0.801 which is strong and positive contribution. This means that approximately 80.1% variations of compensation practices are explained by the employee's performance at 5% level of significance. These indicate good fit of the regression equation.

This study proves the rule of Thumb the R^2 is (0.801). This implying that compensation practices have influenced the employee's performance of Rwanda Mountain Tea.

Table 19: ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	28.573	3	7.301	7.252	.000 ^a
	Residual	.813	201	.040		
	Total	33.355	204			

a. Predictors: (Constant), Financial compensation, Health care Benefit and Non-financial compensation

b. Dependent Variable: Employee performance

Table 2 shows the overall significance of the regression estimation model. It indicates that the model is significant in explaining the relationship between compensation practices and employee performance at 5% level of significance. Analysis of variance shows that f-calculated is greater than f-critical that is $7.252 > 0.000$ and shows that f is statistically significant. This implies that the regression equation was well specified and therefore the co-efficient of the regression shows that there is a strong relationship between compensation practices and employee performance in Rwanda Mountain Tea. The analysis of variance of the predictors of the model has a significance of 0.000.

Table 20: Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.131	.081		1.728	.001
Financial Compensation	.875	.065	.833	5.050	.000
Health care Benefit	.502	.071	.052	1.631	.000
Non-financial compensation	.753	.043	.014	.122	.000

a. Dependent Variable: Employees performance

$$Y=0.131+0.875x_1+0.502x_2+0.753x_3+ \varepsilon$$

Results indicate that compensation practices are the most significant in explaining employees' performance in Rwanda Mountain Tea with a significance of 0.000 which is less than a p-value of 0.05.

This therefore means that the financial compensation would be at 0.875 when Health care Benefit and Non-financial compensation are held at a zero constants. This means that financial compensation is positively related to employee performance and therefore a unit increase of the number of financial compensation would lead to an increase in the employee performance in Rwanda Mountain Tea by 0.875. However, this is significant at 5% level of confidence. This is the same for Health care Benefit and Non-financial compensation.

9. Conclusions

It is concluded from different results that Compensation practices have positive impact on employee performance. It is proved from correlation analysis that all the independent variables have positive and high correlation to the employee performance.

The Tea Company is one of the vital sectors necessitating the growth and development of Rwanda economy, therefore, it is vital for Company to embark on effective compensation management policies that will protect and promote employees performance. Employees are integral part of the human resources management, and therefore must be properly compensated in order to effectively perform beyond expectation. It is therefore vital to say that compensation management is an issue that is critical and vital for the running and management of the Company. More so, it is the heart beat of the Company.

The objectives tested, the results show that there is a significant relationship between compensation practices and employees' performance. Conclusively, there is a significant relationship between compensation practices and employees performance, which implies that employees performance depend on financial compensation, health care benefit and non-financial compensation.

10. Recommendations

In line with this study, the following recommendations were made. Rwanda Mountain Tea Company must make sure that there is friendly and positive relationship between employers and employees in the organisation. Management creates good and friendly working conditions that will support employee's performance. Rwanda Mountain Tea should ensure the provision of good welfare packages that will encourage and promote employees performance. It is the desire of every organisation to constantly increase productivity, thereby necessitating the need to motivate employees through comprehensive compensation policies and friendly working conditions.

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