A Research Project submitted in partial fulfilment of the requirements for the award of degree of Master of Business Administration in Human Resource Management, School of Business, Kenyatta University.
DECLARATION

This project is my original work and has not been submitted for an award of any degree in any other University.

Signature .................................. Date ..................................................

Alice Awuor Odhiambo
Department of Business Administration
Kenyatta University

SUPERVISORS’ APPROVAL

We confirm that this proposal has been submitted for review with our approval as University Supervisors.

Signature .......................... Date ..................................................

Mr. Robert Nzulwa
Lecturer
Department of Business Administration
Kenyatta University

Signature .................................. Date ..................................................

Mrs. Mwende Mutuvi
Lecturer
Department of Business Administration
Kenyatta University
ABSTRACT

Reward management is concerned with the formulation and implementation of strategies and policies that aim to reward people fairly, equitably and consistently in accordance with their value to the organisation. To achieve this reward management must attain a state of total reward where both the financial and nonfinancial rewards are considered. However, the attainment of the state of total reward is not obvious; organisations must contend with the challenges of the environment and deal with individual employees. The study seeks to provide an insight into factors that affect reward management. Reward management impacts wholly on the organisational performance since the latter is a function of individual performance. Reward Management is also known as Compensation Management. It is usually concerned with the design, implementation and maintenance of remuneration and recognition systems, which help the organizations to achieve its objectives. The aim of the study is to analyse Reward Management problems and challenges at NHIF with a view of developing recommendations, which has help management, put in place effective and appreciated Reward Management systems. The findings established the NHIF employees are aware of the existence of a Reward Management system within the organization. However they are not familiar with its provisions and most of them believe that it does not favour all employees and are therefore against it. It is recommended that all NHIF employees should be involved in any future reviews of the reward management policies of the organization and there should be an employee training and awareness campaign to familiarize employees with the provisions of the reward management policies. The general objective of this study is to determine the factors affecting reward management system at NHIF. The researcher explored the various systems of reward management. The researcher was also in a position to come up with a suggested effective and fair reward management system that she may use and apply in future. Reward system is the dependent variable. The independent variable are the financial performance, individual attainment, reward polices and labour union potency. The study recommends that the organizations' consider reward management systems part and parcel of organization policy. Develop a work place policy of on how employee efforts should be rewarded in a structured way and have a proper structure of reward system. Economic theories that influence reward management are the law of demand, efficiency wage theory, human capital theory, agency theory and the effort bargain theory. The sampling technique was stratified random sampling which was used to draw respondents from Job groups HF4 to HF15. Data was analysed both quantitatively and qualitatively. Descriptive and inferential statistics was used in the study. Data was presented in percentages, tables, graphs, charts and diagrams.
DEDICATION

This management research paper is dedicated to my family, husband J.D. Ndahol Odhiambo, my son, Brent and daughters Lynn, Yvette and Britteny for their support and understanding and to all others who supported me in one way or another.
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CHAPTER ONE

INTRODUCTION

1.1 Background of the study.

Reward management is concerned with the formulation and implementation of strategies and policies that aim to reward people fairly, equitably and consistently in accordance with their value to the organisation. (Armstrong, 2006) It deals with the design, implementation and maintenance of reward practices that are geared to the improvement of organizational, team and individual performance. Hence reward management forms an integral part of an organisation's human resource management.

Reward is a compensation made in return for a service rendered, an act performed to strengthen approved behaviour and equates to achievement. There are extrinsic rewards, which cover the basic needs of income to survive (to pay bills), a feeling of stability and consistency (the job is secure), and recognition (my workplace values my skills). In Maslow's Hierarchy of Needs, these are at the lower end. We could also call these the financial rewards. On the other hand, there are intrinsic rewards, the most important of which is probably job satisfaction, a feeling of completing challenges competently, enjoyment, and even perhaps the social interactions which arise from the workplace. These are at the upper, self-efficacy end of the need hierarchy. We could also call these psychological rewards. (Bratton, J. et al, 2007)

Reward Management is best administered through reward policies, which provide guidelines for decision-making and action. Reward management is aligned to support the achievement of the overall business strategy, by addressing the longer term issues relating to how people should be valued for what they do and what they achieve. It is also integrated with other HRM strategies, especially those concerned with the human resource development. Investing in human capital requires a reasonable return, thus it is proper to reward people differently according to their contribution (Ghoshal and Bartlett, 1995).

It focuses on the development of the skills and competencies of employees in order to increase the resource based capability of the firm. It is concerned with developing a positive employment relationship and psychosocial contact among the workforce. (Armstrong, 2006)
Reward management tends to adopt a ‘total reward approach’ which recognises that there are a number of ways in which people can be rewarded, which embraces both financial and non-financial rewards, and that all these need to be taken into account and integrated in order to maximise the effectiveness of the reward policies and practises.

Reward systems have three main objectives: to attract new employees to the organisation, to elicit good work performance, and to maintain commitment to the organisation. A reward system is intended to attract and retain suitable employees. An employer who develops a reputation as “cheap” is unlikely to be desirable in the job market, because potential employees will think it does not reward effort. Such an organisation is likely to end up with the people that nobody else wants.

The reward system is also intended to maintain and improve performance. Good work performance which is an element of the organisational performance is achieved if employees are truly motivated and committed to the organisation. Hence an ideal reward system should be one that is able to achieve these objectives.

1.1.1 Development of Reward Management System and Policies.

Reward management is concerned with the strategies, policies and processes required to ensure that the value of people and the contribution they make to achieving organizational, departmental and team goals is recognized and rewarded. It is about the design, implementation and maintenance of reward systems (interrelated reward processes, practices and procedures) that aim to satisfy the needs of both the organization and its stakeholders and to operate fairly, equitably and consistently. These systems will include arrangements for assessing the value of jobs through job evaluation and market pricing, the design and management of grade and pay structures, performance management processes, schemes for rewarding and recognizing people according to their individual performance or contribution and/or team or organizational performance, and the provision of employee benefits (Armstrong, 2010).

Reward management is a means to an end. It is based on the assumption that organisations reward system is closely related to the performance of its individual staff. Even this apparently uncontroversial assumption has been the topic of much research and as Bach points out, the link between organisational and individual staff performance remains elusive (Bach and Sisson 2000). Such elusiveness is the result of many organisational and contextual factors that should be in place before whole organisational performance, and can be usefully
considered the sum of its parts (individual performance). But individual performance clearly matter and can make a difference. The important issue is to establish how much attention is paid to individual performance should be in place for organisations to perform better, and what forms such attention can take in practise.

Reward management system has been viewed as the channel through which people are rewarded according to what the organization values and wants to pay for the value they create. Thus it must be done for the right things to convey the right message about what is important in terms of behaviours and outcomes. This is to be achieved through development of a performance culture within the organisation. The reward systems have been found to motivate people and obtain their commitment and engagement. They also help to attract and retain the high quality people the organization needs and develop a positive employment relationship and psychological contract.

Therefore the need to align reward practices with both business goals and employee values; as Duncan Brown (2001) emphasizes, the ‘alignment of your reward practices with employee values and needs is every bit as important as alignment with business goals, and critical to the realization of the latter’.

Equity within the workplace is of importance. People feel that they are treated justly in accordance with what is due to them because of their value to the organization (the ‘felt-fair’ principle of Eliot Jaques 1961). It should also be emphasized that reward management is not just about financial rewards, pay and employee benefit. It is equally concerned with non-financial rewards such as recognition, learning and development opportunities and increased job responsibility (Armstrong, 2010).

Reward management has been view as being fundamentally about people, as a result scholars have developed which are; stakeholder orientated, integrated, strategic and evidence based.

Reward management is concerned with people – especially the employees who are rewarded for their efforts, skills and contribution but also the directors, managers and reward specialists who plan, manage and administrate rewards. This is in accordance with the view expressed by Schneider (1987) that: organizations are the people in them:… people make the place. His point was that: Attraction to an organization, selection by it, and attrition from it yield particular kinds of persons in an organization. These people determine organizational behaviour…Positive job attitudes for workers in an organization can be expected when the
natural inclinations of the persons there are allowed to be reflected in their behaviours by the kinds of processes and structures that have evolved there.

The stakeholder approach sees the purpose of human resource management (HRM) is to meet the needs of all the stakeholders in the business – employees, customers, suppliers and the public at large as well as management and shareholders. Reward management shares that purpose. In doing so, it can make a significant contribution to meeting the varied needs of stakeholders successfully. It is accordingly concerned with improving business performance, shaping the behaviour of employees and developing a climate of trust. And reward management can best do this if it is evidence-based. But there is also an ethical dimension. Reward management policies in association with HR policies can help to create a working environment that provides for the just, fair and ethical treatment of employees. These are policies about treating people properly and avoiding the creation of unacceptable reward practices that reflect badly on the organization. The bonus schemes for top management operated in the banks and elsewhere in the financial services sector are good examples of where reward policy and practice went wrong. They were against the interests of every stakeholder except the recipients of the huge sums of money involved.

Another approach is integrated reward management approach that provides for reward policies and practices to be treated as a coherent whole in which the parts contribute in conjunction with one another to ensure that the contribution people make to achieving organizational, departmental and team goals is recognized and rewarded. It consists of a related set of activities that impinge and impact on all aspects of the business and the HRM practices within it. As White (2005) points out, in an integrated approach ‘each individual element of reward supports the other to reinforce organizational objectives.’

Integration takes three forms; strategic integration where there is the vertical integration of reward strategy with business strategy, HRM integration where there is the horizontal integration of reward strategies with other HR strategies, especially those concerned with high performance, engagement, talent management and learning and development, and Reward integration where there is the internal integration of reward to ensure that its various aspects cohere and that a total reward philosophy is adopted that means a full range of mutually supporting financial and non-financial rewards is used.

An integrated approach will have reward being market driven, with overall performance dictating rate of progress of salaries within broad bands rather than existing grades. The recruitment will be competency based, with multi-assessment processes as the basic
approach, while performance management will not be linked to pay, but concentrated on personal development, objective setting and competency development. Lastly training and development will targeted on key competencies and emphasizing self-development.

The need for future planning is encompassed in strategic reward which can be described as an attitude of mind – to be convinced of the virtue of systematically deciding what must be done and to believe in the need to plan ahead and make the plans happen. In the words of Duncan Brown (2001) strategic reward ‘is ultimately a way of thinking that you can apply to any reward issue arising in your organization, to see how you can create value. Its aim is to create reward processes which are based on beliefs about what the organization values and wants to achieve. It does this by aligning reward practices with both business goals and employee values.’ Strategic reward also focuses on methods of achieving vertical, horizontal and internal integration.

Evidence-based reward management is the management of reward systems on the basis of fact rather than opinion, on understanding rather than assumptions, on grounded theory rather than dogma. This is in line with the views of the logical positivists (Ayer, 1959) that it is necessary to seek ‘analytical truths’ and that the fundamental question to ask when examining beliefs is: ‘How do you know what you think you know?’ It is also in accord with Quine’s (1970) opinion that beliefs can only be expressed in statements that ‘face the tribunal of experience’. Use is made in evidence-based reward management of the extensive research conducted over the last 50 years into how reward systems work in organizations and what can be done to improve them. It subjects the theories derived from this research to critical evaluation on their relevance and application in the context of particular organizations. Someone once said that ‘theory without practice is sterile, practice without theory is futile.’ But it should be remembered that, as Douglas McGregor wrote in 1960, there is nothing as practical as a good theory: that is, one substantiated by rigorous research within organizations that tells you how it is and not how you think it is.

Importantly, evidence-based reward management also makes use of the information obtained from the detailed evaluation of the effectiveness and impact of existing reward practices and from systematic benchmarking. It is concerned with establishing what constitutes good practice, although it does not assume that good practice is necessarily ‘best practice’. What
works well elsewhere will not necessarily work as well within the organization. In general, best fit is more important than best practice.

In the words of Ghoshal and Bartlett (1995) the overall aim of reward management should be to ‘add value to people’. It is not just about attaching value to them. More specifically, the aims are to, support the achievement of business goals through high performance by developing and supporting the organization’s culture, while define what is important in terms of behaviours and outcomes.

At NHIF reward management system is adopted from the Central Government, having been originally a government department. This reward management system does not wholly address the overall objective of outstanding organisational performance through the attainment of excellent individual performance which is motivated by the reward systems. The comparison of the above approaches; stakeholder orientated, integrated, strategic and evidence based to NHIF reward management systems, significant gap is identified. NHIF’s reward management policy is not being market driven but rather by the prescribed policies set during its establishment. The overall performance of NHIF does not dictate the rate of progress of salaries within broad bands rather it is tied to existing grades. The recruitment of NHIF is not competency based since it does not apply multi-assessment processes as the basic approach but it is also influenced by externalities such as politicians and persons of influence within society. At NHIF performance management is linked to pay, rather than being concentrated on personal development, objective setting and competency development. Lastly training and development is not targeted on key competencies and emphasizing self-development rather it is characterised by favouritism and disinterest among the employees. Hence is imperative to investigate and understand the factors that underpin the reward management system at NHIF and provide a recommendation on the findings and formulate policies that would help in ensuring high return on the investment in the human capital and assure the organisation a wide base of skilled resource base.

1.1.2 Organisational Background

The National Hospital Insurance Fund (NHIF) was established on the 1st of July 1966 by an Act of parliament (Cap.255 of 1966, Laws of Kenya). As a government department under the Ministry of Health, the role of the Fund is clearly spelt out and includes to collect contributions from the public who are employed and self-employed and to pay medical benefits for in-patients and hospitalization costs from the contributions of the members. The
NHIF contributions are by law statutory contributions from all the employed and self-employed persons.

The NHIF vision is financing curative health services and promoting preventive healthcare. It also provides quality, affordable and accessible health insurance to the majority of the population. To achieve this NHIF is relying on its strong management team. The NHIF organization structure is headed by the Board of Management and below: there is the Chief Executive who manages the day to day running of the organization.

The vision and mission of NHIF can only be achieved if there are commensurate results. As such the organisational performance must be backed with the sum of individual employees’ performance. Hence the reward management system must meet the requirement of both the organisation and that of the workforce.

Based on this premise this study will seek to understand the reward management system at NHIF and the factor that underpin its operation.

1.2 Statement of the Problem

Generally, the study will examine the factors affecting reward management systems in the healthcare sector in Kenya. The study will adopt a case study approach with NHIF as the case organisation. The will seek to identify the gaps in the current reward management system at NHIF and the factors that affect the system.

The ability to offer an acceptable reward is vital to HR professionals if they are to attract, engage, motivate and retain their commitment. Also the development of employees competencies so as to increase the organisation’s competence base and ensure the attainment of organisational overall goals is critical to the reward management system. With this in mind the current NHIF reward management systems does not achieve this. Hence this study will underline the factors that affect the current reward management system.

1.3 General Objective of the Study

1.3.1 General Objective

The general objective of this study is to determine the factors affecting reward management systems in the healthcare sector in Kenya: a case of national hospital insurance fund.
1.3.2 Specific Objectives
The specific objectives of this study are:

(i) To examine the effect of NHIF Financial Performance and its reward system
(ii) To determine the effect of individual attainment on the NHIF reward system
(iii) To establish the effect of NHIF reward policies on its reward system
(iv) To determine the effect of labour union on the NHIF reward system

1.4 Research Questions.
The study will be addressed by the following specific research questions:

(i) Does NHIF financial performance affect its reward system?
(ii) Does individual attainment affect NHIF reward system?
(iii) Does NHIF reward policy affect its reward system?
(iv) Does labour union affect NHIF reward system?

1.5 Significance of the Study
The findings of the study will assist top management in the Organization to know and understand the factors that affect work performance. They may be able to identify factors that make the organization not achieve its goals and objectives. There will be an improvement of the existing reward management policies and systems and this will help employees who are not able to talk about the reward management problems.

Other researchers will also benefit from the study because it will give great exposure on how reward policies should be formulated and implemented. They will also enhance their knowledge and skills through literature review.

1.6 Assumptions
The study assumes the NHIF has a human resource management policy in place and that this policy is the basis for the management of the reward policy.

1.7 Scope and Limitations of the Study

1.7.1 Scope of the Study
The research will concentrate on National Hospital Insurance Fund Headquarters in Community, Nairobi. The following departments will be targeted: Administration & Personnel, Operations and Finance Departments. In specific the research will concentrate in
administration and personnel department, which is tasked with coming up with competitive reward systems and performance management. The respondents will be drawn from across the board of the total staff on NHIF Headquarters. Special attention will be concentrated on the Human Resource and Finance Departments where these policies are done and changed from time to time. The main focus will be to collect views from the respondents on how they felt about the reward policies and what problems and challenges they face when implementing them.

1.7.2 Limitation of the study

The study inferences are mainly drawn from the data collected. Hence the challenges of ensuring quality, reliable and valid data is collected are at hand for this study. The sensitivity of the study on matter that relates to job satisfaction will pose a challenge in ensuring respondents provides unbiased information. Also problems with the accuracy of the information from the respondents will limit the study given that these differences are brought about by the knowledge gaps between different cadres of employees.

Lastly the researcher is face with budget constraints hence limiting the data collection at the headquarters of the target population.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter addresses topics which provide a contextual background to the study. The first section provides an overview of the essence of reward management. While it outlines the rationale behind reward management and evaluates the link between reward and the problems and challenges faced in reward management process. Research gaps are also identified.

2.2 Theoretical Framework

Armstrong (2006) states that performance is the process of carrying out effective policies; plans and programmes in order to achieve defined measurable results. It can be measured in terms of net profit, return on capital employed, productivity and performance received in relation to resources consumed. Company achievement targets, budgets and standards are used to assess individual performance.

Equity theory further states in effect that people will be better motivated if they are treated equitably and demotivated if they treated inequitably. As suggested by Adams (1965), there are two forms of equity; distributive equity, which is concerned with the fairness in which people feel they are rewarded in accordance with their contribution and in comparison with others; and procedural equity or procedural justice, which is concerned with the perceptions employees have about the fairness with which company procedures in such areas as performance appraisal, promotion and discipline are being operated (Armstrong Michael, 2010). Employees must know where they are and where they are going next in terms of expectations and goals. Feedback motivates people and makes them improve in the working because they feel appreciated. Some organizations are usually hesitant to give feedback mainly due to discomfort, fear of emotional reaction and inability to handle the reaction. It is crucial that organizations realize how critical feedback is to organizations development. Withholding constructive feedback is likely to affect efficiency in work (Bonnet, 1997) Saleemi (1997, p.188) says a reward policy is necessary for building up morale and increase in motivation of the employees can go a long way in reducing the friction and grievances of employees over reward differentials and in-equalities consequently increasing the level of
performance. Reward Management is necessary to keep the employees coming to work and also necessitates a creation of a system of rewards that is equitable to employers and employees alike. From the above reward policies necessitates how superior performance and performance improvement can be monitored and re-enforced.

There is a large body of literature, including research literature, on rewards and recognition programmes. Many of the studies focus on the effects of rewards on task interest and performance and are found in the literature concerned with motivation: both intrinsic and extrinsic motivation. In intrinsically motivated behaviour there is no reward except with the task itself. Reward and recognition programmes come within the discussion on extrinsically motivated behaviour that occurs when an activity is rewarded by incentives not inherent in the task (Deci, 1971).

Many contemporary authors have also defined the concept of motivation. Motivation has been defined as: the psychological process that gives behaviour purpose and direction (Kreitner, 1995); a tendency to behave in a purposive method to achieve specific, unmet desires (Buford, Bedeian, & Lindner, 1995); an inner force to gratify an unsatisfied need (Higgins, 1994); and the will to accomplish (Bedeian, 1993). For this research, motivation is operationally defined as the inner force that drives individuals to achieve personal and organizational goals. Understanding what motivates employees is one of the key challenges for managers. Although it is not possible directly to motivate others, it is nonetheless important to know how to influence what others are motivated to do, with the overall aim of having employees identify their own welfare with that of the organization (Bruce and Pepitone, 1999). In general terms rewards programmes come within the overall concept of compensation strategies which are defined as the “deliberate utilization of the pay system as an essential integrating mechanism through which the efforts of various sub-units or individuals are directed towards the achievement of an organization’s strategic objectives” (Gomez-Mejia and Balkin, 1992). They are management tools that hopefully contribute to a firm's effectiveness by influencing individual or group behaviour (Lawler and Cohen, 1992).

All businesses use pay, promotion, bonuses or other types of rewards to encourage high levels of performance (Cameron and Pierce, 1977).

At a minimum, employees expect the organization to provide fair pay, safe working conditions, and fair treatment. Like management, employees often expect more, depending on the strength of their needs for security, status, involvement, challenge, power, and responsibility. Just how ambitious the expectations of each party are vary from organization
to organization. For organizations to address these expectations an understanding of employee motivation is required (Beer et al., 1984). Carnegie (1975) emphasizes the human aspects of management. They postulate that as it is people who make a business succeed – or fail – it is the organization’s chief responsibility to motivate their people so that they will assure success. The authors believe that each human being has the potential for creativity and for achieving goals. The infinite question is how organizations reach this potential and how they stimulate creativity and foster in their people the desire to succeed and to achieve self-fulfilment through their work. The common theme of the above authors is the belief that people need to be respected and treated as precious human capital, more essential to an organization’s effectiveness than its financial capital. People are now seen as the primary source of a company’s competitive advantage. Therefore, the way people are treated increasingly determines whether an organization will prosper or even survive (Lawler, 2003). Organizations are under constant pressure to enhance and improve their performance and are realizing that an interdependent relationship exists between organizational performance and employee performance. In the following section the focus will be on the motivational theories and the impact that these theories have on enhancing employee performance.

2.2.1 Reward Management Philosophy

Reward management is based on a well-articulated philosophy – a set of beliefs and guiding principles that are consistent with the values of the organization and help to enact them. These include beliefs in the need to achieve fairness, equity, consistency and transparency in operating the reward system. The philosophy recognizes that if HRM is about investing in human capital from which a reasonable return is required, then it is proper to reward people differentially according to their contribution (ie the return on investment they generate). The philosophy of reward management recognizes that it must be strategic in the sense that it addresses longer-term issues relating to how people should be valued for what they do and what they achieve. Reward strategies and the processes that are required to implement them have to flow from the business strategy.

Reward management adopts a ‘total reward’ approach, which emphasizes the importance of considering all aspects of reward as a coherent whole that is integrated with other HR initiatives designed to achieve the motivation, commitment, engagement and development of employees. This requires the integration of reward strategies with other HRM strategies,
especially those concerning human resource development. Reward management is an integral part of an HRM approach to managing people.

The philosophy will be affected by the business and HR strategies of the organization, the significance attached to reward matters by top management, and the internal and external environment of the organization. The external environment includes the levels of pay in the labour market (market rates) and it is helpful to be aware of the economic theories that explain how these levels are determined, as summarized in Table 2.1

Table 2.1 Summary of Economic theories that influence reward management

<table>
<thead>
<tr>
<th>Name of theory</th>
<th>Summary of theory</th>
<th>Practical significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>The law of supply and demand</td>
<td>Other things being equal, if there is a surplus of labour and supply exceeds the demand, pay levels go down; if there is scarcity of labour and demand exceeds the supply, pay goes up.</td>
<td>Emphasizes the importance of labour market factors in affecting market rates</td>
</tr>
<tr>
<td>Efficiency wage theory (the economy of high wages)</td>
<td>Firms will pay more than the market rate because they believe that high levels of pay will contribute to increases in productivity by motivating superior performance, attracting better candidates, reducing labour turnover and persuading workers that they are being treated fairly.</td>
<td>Organisations use efficiency wage theory when they formulate pay policies that place them as market leaders, or at least above the average.</td>
</tr>
<tr>
<td>Human capital theory</td>
<td>A worker has a set of skills developed through education and training which generates a stock of productive capital.</td>
<td>Employees and employers each derive benefits from investment in creating human capital. The level of pay should supply both parties with a reasonable return on that investment.</td>
</tr>
</tbody>
</table>
The owners of a firm (the principals) are separate from the employees (the agents). This difference can create ‘agency costs’ because agents may not be so productive as the principals. The latter therefore have to device ways of motivating and controlling the efforts of the former.

A system of incentives to motivate and reward acceptable behaviour. This process of ‘incentive’ alignment consists of paying for measureable results that are deemed to be in the best interest of the owners.

Management has to assess what level and type of inducements it has to offer in return for the contribution it requires from its workforce.

(Armstrong, 2010)

2.2.2 Reward Package

The foundation of an individual’s reward package is the basic rate. Basic rate is the amount of pay constituting the rate for the job. It may be varied according to the grade of the job or for manual and some service workers, the level of skill required. The base pay is influenced by internal and external relativities; these are measured by some form of job evaluation and tracking market rates respectively. Alternatively, levels of pay may be agreed upon through collective bargain with trade unions or by reaching individual agreements (Armstrong, 2010).

The recognition of an agreed reward package for an organisation is dictated by the reward policies it adapts as well as the market factors and involvement of trade unions.

2.3 Empirical Review

Many of the general studies, for example those referred to in the meta-analyses conducted by Guzzo et al. (1985) and Jenkins et al (1998), were based on experiments. These often demonstrated a positive link between reward practise and the performance but the
methodology was not one that could easily replicated by practitioners on a regular basis. Other studies, such as those conducted by Hansen (1997) and Stajkovic and Luthans (2001), consisted of an in-depth examination of the relationship between reward and performance, but again, the methodology was beyond the scope of a typical practitioner. Such studies can demonstrate that reward works but they do not provide much help to reward specialists who want to find out for themselves.

Marsden and Richardson (1994) in their examination of the impact of performance-related pay in the Inland Revenue, they used an attitude survey, and Kessler and Purcell (1992) relied on interviews in their review of performance-related pay, but latter commented that; There are major difficulties in finding measures of the effectiveness of PRP effectiveness. The bottom line measure of effectiveness for any payment system is arguably an improvement in overall organisational performance, assumed to flow from improved employee performance. It is however clear that the complex range of factors interacting to determine organisational performance makes it difficult to isolate the impact of a payment system alone. Kessler and Purcell (1992)

In their research on the evaluation of changes in pay structure in seven large employers Corby et al. (2003) show that significant decisions are the outcomes of a social political process, only partly shaped by the evidence and influenced by factors such as the pursuit of self and group interests and limitations of information and understanding. Their advice is for practitioners to have a realistic view of what is achievable, focus for evaluation in only a few key areas rather than compelling a wishlist, use existing mechanisms such as employee attitude surveys and human capital reports as far as possible and consider perceptions and qualitative criteria, not just ‘hard’ cost business figures.

Heneman (2002) comments that the evaluation of the effectiveness of a strategic reward system is often overlooked, but it is an indispensible final step in the process of implementing a compensation program indeed, assessing the effectiveness of any procedure is just as important, if not more so, than its design and execution. And because it is often complicated to evaluate the effectiveness of a reward programme in terms of financial performance, so-called ‘soft factors’ such as employee behavioural reactions to the programme are sometimes an acceptable replacement.

Kanungo and Mendonca (1988) advocate a final review stage in introducing new reward systems. This consists of reformulating the reward package objectives or redesigning the reward system, or both, based upon the diagnosis of the present reward system.
At this stage, a great deal of learning takes place, as management reflects on the perceptions and expectations of its employees and their impact on organisational goals. It is also a time for important decisions – not merely to respond in a reactive mode, but to take a proactive stance which considers how best the reward system can be creatively employed to cope with new challenges which constantly confront a dynamic organisation. Therefore, although review is the final step, it is an ongoing process which enables management to keep on top of the situation at all times.

Scott et al. (2006a) suggest a six step approach: 1) set goals and objectives, 2) identify evaluation criteria, 3) select an evaluation methodology, 4) collect and analyse data, 5) interpret findings, and 6) develop and implement programme improvement strategies.

Although the above literature identifies factors that affect reward management, it fails to indicate strategies that should be incorporated to influence personnel performance equitably. This study attempts to fill this gap. These studies were not specific and did not encompass any organisation as unique as National Hospital Insurance Fund (NHIF). The purpose of the study is to analyze the reward management systems in NHIF.

Nel P.S, P.S Gerber and P.S Vab Dyke (2000) states that organizations spend a very proportion of their gross income on paying the people who work for them, and a large amount of this goes to the senior people who direct the business. It is an accepted fact that people must be rewarded for the services they provide to our organizations, and it is also accepted that the majority of these rewards are monetary. Every organization must be aware that the design of its reward system rests on the objectives of compensation/reward management, names what the compensation/reward system must achieve. The system must attract good employees by structuring salary packages that tempt people to apply for the job in the first place; it must also be able to retain such workers because many other employers in the market will be seeking their services as well.

According to Risher (1997) our wage and salary programmes have been designed to reinforce bureaucratic structures. Traditional pay systems have focused on each job in isolation, ignoring the interaction or organizational members and buying employees time by the hour. There have rarely been any incentives to provide for rewards above the hourly wage.

The new work paradigm argues that people are the only sustainable source of competitive advantage, and they really do want to contribute to the organization’ Success. Risher proposes the hypothesis that employees who work in a rewarding environment often work
very hard. The reward environment is thus the starting point for adding value to the organization.

Newsman and Krzystofiak (1998) maintain that companies must look at compensation as a value creation function in the organization. There are two basic principles of this compensation approach and these include, value-chain compensation creates value for both the organization and the employee and, it balances the four major compensation objectives of sustaining membership, motivating performance, building employee commitment, and encouraging growth in employees’ skills. A reward system becomes value adding when its designers take into account the employees’ priorities as well. The way in which the latter rank rewards at any given time determines the basis of compensation structures. Rewards are ranked differently at different times, for example; job security ranks highly as a reward during time of high unemployment.

According to Armstrong (2010) reward management is concerned with formulation and implementation and policies that aim to reward people fairly, equitably and consistently in accordance with their value to the organization. It deals with the design implementation and maintenance of reward practices that are geared to the improvement of organizational, team and individual performance. Reward Management is an integral part of the Human Resource Management approach to managing people. The overall strategic aim of reward management is to develop and implement the reward policies, processes and practices required to support the achievement of the organization’s goals by helping to ensure that it has the skilled, competent, and well-motivated and committed people it needs. The philosophy underpinning the strategy is that people should be rewarded for the value they create.

2.4 Reward Management System

Reward systems consist of interrelated processes and practices which combine to ensure that reward management is carried out effectively to the benefit of the organisation and those who work there.

Reward management is a central activity to regulate the employer-employee relationships. Employers use a wide variety of rewards to attract and motivate the employees and retain their interest in the job. The design of the reward system for employees is subject to internal and external factors affecting an organizations performance. Also, the organizational objectives are kept in mind before designing the reward structures. (IEC, 2009) The reward management process is illustrated as follows:
Reward systems are based on the reward strategy, which flows from business strategy. Reward strategies direct the development and operation of reward practices and processes, and also form the basis of reward policies, which in turn affect reward practices, processes and procedures (Armstrong, 2010).

2.5 Conceptual Framework.

This section discussed and explained the relationship between the dependent variable which is Reward System and the independent variables which are:

2.5.1 Financial Performance.

In any organization profitability is tied to performance. When employees are not well rewarded the profitability of the company may not be as high as expected. Performance measures should provide evidence of whether or not the intended result has been achieved and the extent to which the jobholder has produced that result. For an organization to achieve its objectives, it has to plan the objectives by setting its targets and budgets so that these may be reviewed according to the performance.

Employee motivation and performance management depend on good systems that offer both financial and non financial rewards. Employees want the rewards to be shared fairly and equitably. If they are not, dissatisfaction can cause severe moral and performance problem.
Armstrong (2006) states that a good rewards and remuneration systems have ensures that each person receives appropriate financial and non financial recognition for the personal contribution they are making and the overall value for their position to the organization. This include creating and maintaining an organisational structure and culture that facilitates both employee and organisational performance, recognising and rewarding individual and team performance, financially in relation to the overall contribution made, implementing compensation systems that fairly treat and recognise all employees regardless of their level within the organisation. Lack of harmonized pay structure is a recipe for disaster because it affects motivation of staff. Employees will always look out for opportunities to exit the company and such organization continues to be training school leavers to prepare them for other better employers. Pay structures provide a framework for managing pay. They can be in take the following forms.

A base rate pay is the amount of pay (the fixed salary or wage) that constitutes the rate for the job. It may be varied according tot eh grade of the job or, for manual workers, the level of skill required. Base pay will be influenced by internal and external relativities. The internal relativities may be measured by some form of job evaluation. External relativities are assed by tracking market rates. Alternatively, levels of pay may be agreed through collective bargaining with trade unions or by reaching individual agreements. Allowances for overtime, shift working, unsocial hours or increased cost may be added to base pay. The base rate may be adjusted to reflect increases in the cost of living or market rates by the organization, unilaterally or by agreement with a trade union.

Contingent pay additional financial rewards may be provided that are related to performance, competence, contribution, skill or experience. These are referred to as ‘contingent pay’. They may be added to base pay, ie ‘consolidated’. If such payments are not consolidated they are described as ‘variable pay’

Employee benefits include pensions, sick pay, insurance cover, company cars and a number of other ‘perks’. They compromise elements of remuneration additional to the various forms of cash pay and also include provisions for employees that are not strictly remuneration, such as annual holiday.

A good reward and remuneration system ensures that each person receives appropriate financial and non financial recognition to account for the personal contribution they are making and the overall value of their position to the organization. A motivated employee will
achieve a great deal. A demotivated employee will be slow, prone to error and not likely to achieve.

Job evaluation is a process to determine the contribution of a position to an organisation. Good salary administration requires that employees should receive financial recognition for the contribution that they make, and that positions of equal value should be entitled to equal compensation.

Performance measures should provide evidence of whether or not the intended result has been achieved and the extent to which the jobholder has produced that result. For an organization to achieve its objectives, it has to plan the objectives by setting its targets and budgets so that these may be reviewed according to the performance.

The pay structure may consist of pay ranges attached to grades, which provide scope for pay progression based on performance, competence, contribution or service. Alternatively, a ‘spot rate’ structure may be used for all or some jobs in which no provision is made for pay progression in the job.

Performance management can be defined as a strategic integrated approach to delivering sustained success to organizations by improving the performance of the people who work in them and by developing the capabilities of teams and individual contributors. This may be measured by the kind of profits the organization makes and the way in which each organization reward its employees. For any company to be able to make its profits it must meet its targets set out during the planning stage. The pay structures provide a framework for managing people.

2.5.2 Individual Attainment

Each employee or individual has his/her own individual personality, intelligence, education and many other characteristics and behaviour at work is depended on both the personal characteristics of individuals (personality and attitudes) and the situation which they are working. According to Flyn, G.(1998) states that each individual may rise through hierarchy or the promotion ladder through his/her efforts of maybe education, experience, output e.t.c and therefore all individuals may find themselves in different categories although they have the same education or experience. Attainment of tests measure abilities or skills that have already been acquired by training or experience.
Every employee has his/her own individual personality, intelligence, education and other characteristics and their behaviour at work depends on both personal and individual characteristics.

Employees develop a shared perception of their organization’s career hierarchy and this shared perception produces systematic managerial selection preferences that influence individual attainment.

Managers do develop a shared perception of their organization’s career hierarchy. However, managers’ perceptions are not unanimous, and the analysis examines two explanations for perceptual variation.

Individual attainment within organizational careers or career mobility is explained by individual attributes and by demographic processes. These seemingly unrelated views can be reconciled by suggesting that employees develop a shared perception of their organization’s career hierarchy, and that this shared perception produces systematic managerial selection preferences that influence individual attainment.

There is a connection between two important and previously distinct perspectives that fall toward the extreme ends of the micro-macro spectrum. The first is the historically dominate view from psychology and microeconomics that individual attributes produce mobility within organizations career hierarchies (Hall 1976). The approach emphasizes the contrasting personal characteristics that appear to produce successful and unsuccessful employees. The second explanation, emerging from the labour market literature, suggests that demographic processes channel organizations employees through career hierarchies (White 1970)

This view focuses on how job vacancies within a career hierarchy influence the probability of individual promotions. Proponents of the two views do not claim that either explanation presents a completely specified theory. However, their focus on a single level of analysis, the former on individuals and the latter on organizations, make the two views appear independent. The individual view acknowledges but takes little account of demographic influences on promotion, whereas the demographic view acknowledges.

Explaining how individual become successful and predicting which individuals will be successful are important concerns both for individual and for those who design the human resource systems (Bray and Howard 1981) which much of it is focussing on organization careers. Career theories have produced many useful explanations for individual attainment within organizations that need to be considered. However these theories need to be
compartmentalized by level of analysis. Most explanation fall within a narrow region along the spectrum from "micro" to "macro" with few exploring how these explanations fit together. (Nystrom and McArthur 1989)

2.5.3 Reward Policies

Armstrong (2006) states that a policy of seeking to be a market leader will see a company also adopt market leader remuneration styles. Companies remuneration will always remain above the market rates. Such policies may be based on the need to attract and retain the best achieve internal and external consistencies in pay and performance. The company dictates the reward management systems and therefore these policies in most organizations are strictly followed especially when there is no external interference. A reward system of any organization consists of two parts namely the performance and reward.

Reward management policy and practice are subject to a number of influences. These factors arise from internal and external environment and conceptual factors relating to theories and beliefs, strategic management, total reward, human capital management, factors affecting levels of pay, motivation, engagement and commitment and psychological contrast.

The internal environment consists of the organizations culture and its business technology and people. The external features of the external environment are competitive pressure, globalization and changes in demographics.

Strategic management is an aspect of strategic reward which is ultimately a way of thinking that you can apply to any reward arising in the organization.

Total reward policies provide for a holistic approach to be adopted to reward management which ensures that all are treated as a coherent portfolio of practices and policies. Total reward is the combination of financial and non-financial rewards available to employees.

Human capital management is concerned with obtaining, analysing and reporting on date which informs value-adding people management strategic, investment and operational decisions at corporate level and at the level of management. The human capital management approach to management will assemble data on the effectiveness of reward management policies but in a more advance form will attempt to assess the impact of remuneration policies on people and business thus informing strategic plans.

Factors affecting levels of pay influence pay decisions regarding the rate for the job market rates and pay reviews. Lack of harmonized pay structure is a recipe for disaster because it
affects motivation of staff. Employees will always be on the lookout for opportunities to exit the company and such organizations continue to be training school leavers to prepare them for other better employers. Pay structure provide a framework for managing pay they may take the following forms.

The base rate is the amount of pay (the fixed salary or wage) that constitutes the rate for the job. It may be varied according to the grade of the job or, for manual workers, the level of skill required may be measured by some form of job evaluation. External relativities are assessed by tracking market rates. Alternatively, levels of pay may be agreed through collective bargaining with trade unions or by reaching individual agreements. Base pay may be expressed as an annual, weekly or hourly rate. For manual workers this may be called a ‘time rate’ system of payment. Allowances for overtime, shift working, unsocial hours or increased cost of living in London or elsewhere may be added to base pay. The base rate may be adjusted to reflect increases in the cost of living or market rates by the organization, unilaterally or by agreement with a trade union.

Contingent pay additional financial rewards may be provided that are related to performance, competence, contribution, skill or experience. These are referred to as ‘contingent pay’. Contingent payments may be added to base pay, ie ‘consolidated’. If such pay are not consolidated (ie paid as cash bonuses) they are described as ‘variable pay’.

Employee benefits include pensions, sick pay, insurance cover, company cars and a number of other ‘perks’. They compromise elements of remuneration additional to the various forms of cash pay and also include provisions for employees that are not strictly remuneration, such as annual holidays.

Every organization has its own policies in terms of recruitment, training, reward management, promotions e.t.c. Human resource policies help to ensure that when dealing with matters concerning people, an approach in line with corporate value is adopted throughout the organization. To provide frameworks within which consistent decisions are made and promote equity in the way in which people are treated. They provide guidance on what managers should do in particular circumstances they facilitate empowerment, devolution and delegation. For an organization to be able to measure the company policies it may use its recruitment procedures, training, how reward are awarded, promotions e.t.c
2.5.4 Labour Unions potency

Labour unions is an organization of workers that have banded together to achieve common goals such as better working conditions. According to Gole, G.A (2002) Trade Unions through its leadership, bargains with the employer on behalf of the union members and negotiate labour contracts (collective bargaining) with employers. The may include the negotiation of wages, work rules, complaint procedures, rules governing hiring, firing and promotion of workers, benefits, workplace safety and policies. The agreements negotiated by the union leaders are binding on the rank and file members and employer.

Trade Unions have the following activities:-

a) Provision of benefits to members – provide a range of benefits to insure members against unemployment, ill health, old age and funeral expenses. Provision of professional training, legal advice and representation for members is also an important benefit to trade union members.

b) Collective bargaining – trade unions are able to operate openly and are recognized by employers, they may negotiate with employers over wages and working conditions.

c) Industrial action – trade unions may enforce strikes or resistance to lockouts in furtherance of particular goals.

d) Political activity – trade unions may promote legislation favourable to the interests of their members or workers as a whole.

Unions have played a prominent role in the enactment of a broad range of labour laws and regulations covering areas as diverse as overtime, minimum wage, the treatment of immigrant workers, health and retirement coverage, civil rights, unemployment insurance and workers’ compensation and leave for care of newborns and sick family members. Common to all theses rules is a desire to provide protections for workers either by regulating the behaviour of employers or by giving workers access to certain benefits in times of need (Weil 2003; Davis 1986; Amerg 1998).

It is important that unions play a role of ensuring that labour protections are not just ‘paper promises’ at work place. Government agencies charged with enforcement of regulations cannot monitor every workplace nor automate the issuance of insurance claims resulting from unemployment or injury. Union have been crucial by giving workers the relevant information about their rights and the necessary procedures but also by facilitating action by
limiting employer reprisals, correcting disinformation, aggregating multiple claims, providing resources to make a claim, and negotiating solutions to disputes on behalf of workers (Freeman and Rogers 1999; Weil 2003; Hirsch, et al. 1997)

Union membership increases the likelihood that a worker will file a claim or report an abuse. E.g unemployment insurance, worker’s compensation, the occupational safety and health act, the family medical leave act, pensions, and the fair labour standards act’s overtime provision. (Wandner and Stettner 2000)

Primarily, unions provide information to workers about benefit expectations, rules and procedures and dispel stigmas that may be attached to receiving a social benefit. Unions also can negotiate in their contracts layoff recall procedures based on seniority and protection against firing for other than a just cause, as well as help workers build files in the case of a disputed claim (Budd and McHall 1997)

Additionally, the union-wage differential reduces the likelihood that unemployed workers will be ineligible for benefits because their pay is too low (Wegner 1999)

As with unemployment insurance, unions provide information to workers through their representatives, and they can often negotiate procedures to handle indemnity claims. Through grievance procedures and negotiates contracts, unions protect workers from employer retaliation and furthermore, act to dispel the notion among workers that employer retaliation is commonplace (Hirsch et al. 1997)

Law governing workers compensation are primarily made at the state level but generally form an insurance system in cases where a worker is injured or becomes ill at the workplace. The employer is liable in the system regardless of fault and in return they are protected from lawsuits and further liability. Fear of employer imposed penalties and employer disinformation are important other factors weighed by workers deciding whether to act.
2.6 Chapter Summary

In this chapter, a review has been carried out of the reward management. The essence of reward management and the economic theories that necessitate reward management. Reward management philosophy has been discussed and the strategy and process that are required to implement them. Finally a conceptual framework has been developed to explain the dependent variable which is the reward system and the independent variables which are the financial performance, individual attainment, organization policies and the labour union.

Every Organization has its own policies in terms of recruitment, training, reward management, promotions etc. Human Resource policies help to ensure that when dealing with matters concerning people, an approach in line with corporate value is adopted throughout the organization.

They provide frameworks within which consistent decisions are made and promote equity in the way in which people are treated. Because they provide guidance on what Managers should do in particular circumstances they facilitate empowerment, devolution and
delegation. For an organization to be able to measure the company policies it may use its recruitment procedures, training, how reward are awarded, promotions e.t.c.

Performance management can be defined as a strategic integrated approach to delivering sustained success to organizations by improving the performance of the people who work in them and by developing the capabilities of teams and individual contributors. This may be measured by the kind of profits the organization makes and the way in which each organization rewards its employees. For any company to be able to make its profits it must meet its targets as set out during the planning stage. The pay structures provide a framework for managing people.

Each employee has his /her individual personalities, intelligence, education and many other characteristics and behaviour at work is depended on both the personal characteristics of individuals and the situations. Companies and Human Resource specialist are concerned with ethical standards in two ways i.e their conduct as professionals and their values that govern their behaviour and the ethical standards of their firms. Human Resource professionals are part of Management and they should not speak out and oppose plans or actions that are clearly at variance with the values of the organization. Managers should do their best to influence changes in those values where they feel are necessary and they should not tolerate injustice or inequality of opportunity. Company ethics and values may be measured by the discipline in the organization, fairness in promotions and rewards.

Labour unions is an organization of workers that have banded together to achieve common goals such as better working conditions. Trade Unions through its leadership, bargains with the employer on behalf of the union members and negotiate labour contracts (collective bargaining) with employers. They may include the negotiation of wages, work rules, complaint procedures, rules governing hiring, firing and promotion of workers, benefits, workplace safety and policies. The agreements negotiated by the union leaders are binding on the rank and file members and employer.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the research methodology that was used to answer research question in chapter one. It presents the research design, data sources, the procedures in data collection, research instruments and techniques of analysis and presentation.

3.2 Research Design

This study is designed as a cross-sectional survey of employees of the NHIF. A cross-sectional survey is a survey of members of a population at one point in time. The survey aims at describing factors affecting the reward management system in NHIF.

3.3 Target Population

National Hospital Insurance Fund has a total population of 820 employees at the headquarters comprising of senior management, middle management and lower cadre employees. The researcher wishes to take 10% of the headquarter population as the target of this population for the research. It is hoped that recommendations received from the study was easily be replicated across the board given that compensation within job grades is uniform.

3.4 Sampling Procedure and Sample Size

3.4.1 Sampling Procedure

A multi stage sampling procedure involving purposive sampling technique and stratified random sampling techniques was employed. NHIF is purposively sampled out of all the organisations in the healthcare sector. Stratified random sampling was used to draw respondents from job groups HF4 to HF15.

3.4.2 Sample size Determination

For the purpose of this study the researcher would wish to research on employees from grades HF 4 to HF 15. For the random sample, the $K^{th}$ term was used to determine the respondents for each sample e.g. every $8^{th}$ number if the total is 24 after which every $3^{rd}$ employee in a particular job group will be included as a respondent in this study. A sample
was at least 10% or more in order to be credible (Emory 1985; Mugenda and Mugenda, 2003). In view of the authors thoughts therefore, a sample of 10% is acceptable and was chosen for this study.

Table 3.4.3 Sample size

<table>
<thead>
<tr>
<th>Category</th>
<th>Target population</th>
<th>Sample size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top management</td>
<td>10</td>
<td>1</td>
</tr>
<tr>
<td>Senior management</td>
<td>100</td>
<td>10</td>
</tr>
<tr>
<td>Middle management</td>
<td>220</td>
<td>22</td>
</tr>
<tr>
<td>Subordinate staff</td>
<td>490</td>
<td>49</td>
</tr>
<tr>
<td>Total</td>
<td>820</td>
<td>82</td>
</tr>
</tbody>
</table>

3.5 Data Collection Procedure

3.5.1 Research Instruments

Primary data was collected from the field using questionnaires. The questionnaire was administered to NHIF employees by the researcher. The questionnaire contains both closed and open-ended questions (Appendix I).

3.5.2 Administration of the questionnaire

A comprehensive structured questionnaire with closed and open-ended questions was administered to respondents by the interviewer.

3.6 Data Analysis

Once data is received it was processed. Processing according to Kothari (1990) entails editing, coding, classification and tabulation of the collected data so that they are amenable to analysis. Data processing is followed by data analysis. Data collected was analysed both quantitatively and qualitatively. Quantitative data was coded and organised for analysis using SPSS (Statistical Package for Social Scientists version), while qualitative aspect of data collected was analysed based on *priori* and *posteriori* themes (*priori* themes are already identified themes/variables e.g. individual attainment, *posteriori* themes are issues that may emerge in analysis of data collected). While quantitative analysis assist in creating simple
tables or diagrams which show the frequency of occurrence through establishing statistical relationships between variables to complex statistical modelling (Saunders et al 2003), qualitative data was utilized to provide an in-depth understanding of people's experiences, perspectives and histories in the context of their personal circumstances or settings. Descriptive and inferential statistics was used in the study. Data was presented in percentages, tables, graphs, charts, and diagrams.

3.7 Ethical Issues.

As per the procedures of the organization permission was requested from the relevant authorities. Confidentiality must be highly kept by both the respondents and the researcher together with the research assistant. The respondents' consent and rights must also be taken care of so that there are no conflicts of interests. The information received was only used for this particular study.
CHAPTER FOUR

DATA REPRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents the results of the study survey. The results are presented in four sections: section 4.2 gives background data of the respondents, section 4.3 results on reward management policies, section 4.4 results on reward management and structures and section 4.5 challenges and problems facing the NHIF reward management system. The results presented in this chapter are based on 80 completed and useable questionnaires obtained from the study survey.

4.2 Respondents Background Information

Study respondents were asked to indicate their gender, level of education, their professional qualification and the number of years they have worked for NHIF. Frequency was looked at and a percentage was done. The results are summarized in table 4.2 below:
Table 4.2 Background information

<table>
<thead>
<tr>
<th>Variable</th>
<th>Categories</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td>Male</td>
<td>49</td>
<td>61.3%</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>31</td>
<td>38.8%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>80</td>
<td>100.0%</td>
</tr>
<tr>
<td>Level of Education</td>
<td>Secondary</td>
<td>8</td>
<td>10.0%</td>
</tr>
<tr>
<td></td>
<td>College</td>
<td>30</td>
<td>37.5%</td>
</tr>
<tr>
<td></td>
<td>University</td>
<td>42</td>
<td>52.5%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>80</td>
<td>100.0%</td>
</tr>
<tr>
<td>Professional Qualification</td>
<td>Masters</td>
<td>15</td>
<td>18.8%</td>
</tr>
<tr>
<td></td>
<td>Degree</td>
<td>31</td>
<td>38.8%</td>
</tr>
<tr>
<td></td>
<td>Diploma</td>
<td>12</td>
<td>15.0%</td>
</tr>
<tr>
<td></td>
<td>Certificate</td>
<td>22</td>
<td>27.5%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>80</td>
<td>100.0%</td>
</tr>
<tr>
<td>Years worked in NHIF</td>
<td>0-2 yrs</td>
<td>15</td>
<td>18.8%</td>
</tr>
<tr>
<td></td>
<td>3-5 yrs</td>
<td>34</td>
<td>42.5%</td>
</tr>
<tr>
<td></td>
<td>6-9 yrs</td>
<td>19</td>
<td>23.8%</td>
</tr>
<tr>
<td></td>
<td>Above 10 yrs</td>
<td>12</td>
<td>15.0%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>80</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Table 4.2 above shows that 49 respondents (61.3%) were male while 31 were female. Majority of respondents (52.5%) were holders of university degrees, 15 of which were master’s degrees. Finally, the table also shows that most respondents (42.5%) have worked for the NHIF for a period of between 3-5 yrs.
4.3 Reward Management Policies

4.3.1 Reward Management System

Respondents were asked to indicate if they believed there was rewards management policy at NHIF, if yes what for it was. Respondents were further asked to indicate their position regarding the Reward Management System in the organization. The results are summarized in Table 4.3 below:

<table>
<thead>
<tr>
<th>Variable</th>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Have a Reward System</td>
<td>Yes</td>
<td>41</td>
<td>53.9%</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>35</td>
<td>46.1%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>76</td>
<td>100.0%</td>
</tr>
<tr>
<td>Type of Reward System</td>
<td>Written</td>
<td>37</td>
<td>69.8%</td>
</tr>
<tr>
<td></td>
<td>Unwritten</td>
<td>16</td>
<td>30.2%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>53</td>
<td>100.0%</td>
</tr>
<tr>
<td>Opinion about the Current Reward System</td>
<td>Strongly in favour</td>
<td>11</td>
<td>17.2%</td>
</tr>
<tr>
<td></td>
<td>In favour</td>
<td>14</td>
<td>21.9%</td>
</tr>
<tr>
<td></td>
<td>Against it</td>
<td>39</td>
<td>60.9%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>64</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

The results summarized in Table 4.3 above shows that most respondents (53.9) believed the NHIF had a reward management system and this reward management system was clearly stipulated in writing (69.8). Finally, most respondent (60.9%) indicated that they were against the reward system in its current form. Only 11 respondents (17.2%) were strongly in favour of the reward system.
4.3.2 Deficiencies of Current Reward Management System

Respondents were asked to indicate what they felt were the deficiencies of the current reward management system in place at NHIF. The results are summarized in table 4.3.2 below:

<table>
<thead>
<tr>
<th>Deficiencies of Current Reward Management System</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Doesn’t recognize individual performance</td>
<td>16</td>
<td>24.6%</td>
</tr>
<tr>
<td>Are not known to staff</td>
<td>28</td>
<td>43.1%</td>
</tr>
<tr>
<td>System does not work for everyone/favour everyone</td>
<td>31</td>
<td>47.7%</td>
</tr>
<tr>
<td>Reward Systems only recognize profession</td>
<td>8</td>
<td>12.3%</td>
</tr>
<tr>
<td>Poor decision making, quality and planning</td>
<td>8</td>
<td>12.3%</td>
</tr>
<tr>
<td>Poor planning by the top managers</td>
<td>4</td>
<td>6.2%</td>
</tr>
<tr>
<td>Managers only consider professional qualifications</td>
<td>8</td>
<td>12.3%</td>
</tr>
<tr>
<td>Lacks motivation element</td>
<td>8</td>
<td>12.3%</td>
</tr>
<tr>
<td>Does not exist/haphazard</td>
<td>4</td>
<td>6.2%</td>
</tr>
<tr>
<td>Not competitive</td>
<td>4</td>
<td>6.2%</td>
</tr>
<tr>
<td>Reward only long serving staff</td>
<td>6</td>
<td>9.2%</td>
</tr>
<tr>
<td>Total</td>
<td>125</td>
<td>192.3%</td>
</tr>
</tbody>
</table>

The above results show that 31 respondents (47.7) identified the fact that the system does not work in favour of every one of its deficiencies. Four respondents (6.2%) indicated that the system did not exist or was haphazard, was not competitive and was characterized by poor planning of the top managers.

4.3.3 Elements of a sound reward system

<table>
<thead>
<tr>
<th>Element</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity in rewards</td>
<td>68</td>
<td>89.5%</td>
</tr>
<tr>
<td>Recognition of efficient performance</td>
<td>80</td>
<td>100.0%</td>
</tr>
<tr>
<td>Incentive payment</td>
<td>64</td>
<td>84.2%</td>
</tr>
<tr>
<td>Total</td>
<td>212</td>
<td>273.7%</td>
</tr>
</tbody>
</table>
The above results show that all respondents believe that the ideal reward system should recognize efficient employee performance. Sixty-four respondents (84.2%) also indicate that their desired reward system should include some form of incentive payment.

### 4.4 Reward Management Systems and Structures

#### 4.4.1 Awareness and Application of Reward Management Policies

Respondents were asked to indicate if they were aware that NHIF had Reward Management policies, if they had been involved in the formulation of these policies, how they rated the reward management policies at NHIF and if they believed NHIF adhered to the Reward Management policies. The results are summarized in table 4.4.1 below:

<table>
<thead>
<tr>
<th>Variable</th>
<th>Response</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aware of Existence of Policies at NHIF</td>
<td>Yes</td>
<td>41</td>
<td>53.9%</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>35</td>
<td>46.1%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>76</td>
<td>100%</td>
</tr>
<tr>
<td>Involved in Formulation of Polices</td>
<td>Yes</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>76</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>76</td>
<td>100%</td>
</tr>
<tr>
<td>Effectiveness of Reward Management Policies</td>
<td>Effective</td>
<td>23</td>
<td>30.3%</td>
</tr>
<tr>
<td></td>
<td>Fairly effective</td>
<td>14</td>
<td>18.4%</td>
</tr>
<tr>
<td></td>
<td>Dormant</td>
<td>39</td>
<td>51.3%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>76</td>
<td>100%</td>
</tr>
<tr>
<td>Organization adheres to policies in place</td>
<td>Yes</td>
<td>19</td>
<td>26.0%</td>
</tr>
<tr>
<td></td>
<td>Partly</td>
<td>22</td>
<td>30.1%</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>32</td>
<td>43.8%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>73</td>
<td>100%</td>
</tr>
</tbody>
</table>

The results summarized in Table 4.4.1 above show that 41 respondents (53.9%) were aware of the existence of Reward Management Policies at NHIF. However, none of them had been involved in the formulation of these policies. Thirty-nine (51.3%) respondents further thought that these policies were dormant. Finally, 32 respondents (43.8%) indicated that the organization did not adhere to the Reward Management Policies in place.
4.4.2 Objectives and Effects of Reward Management System on Performance.

Respondents were asked what they thought were the clear objectives of their organization’s reward management policies; if the reward management policies had effects on general performance; whether a proper reward management system could enhance organizational performance; and if their daily performance was affected by the reward management system. The results are summarized in Table 4.4.1 below.

Table 4.4.2 Objectives and Effects of Reward Management Policies on Performance

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objectives of Reward Mgt.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Help obtain best talent for the org.</td>
<td>24</td>
<td>38.7%</td>
</tr>
<tr>
<td>Planning employee devpt.</td>
<td>7</td>
<td>11.3%</td>
</tr>
<tr>
<td>Improving of overall org. effectiveness</td>
<td>31</td>
<td>50.0%</td>
</tr>
<tr>
<td>Total</td>
<td>62</td>
<td>100.0%</td>
</tr>
<tr>
<td>Positive Effects of Reward System</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>22</td>
<td>32.4%</td>
</tr>
<tr>
<td>Partly</td>
<td>28</td>
<td>41.2%</td>
</tr>
<tr>
<td>No</td>
<td>18</td>
<td>26.5%</td>
</tr>
<tr>
<td>Total</td>
<td>68</td>
<td>100%</td>
</tr>
<tr>
<td>Better Reward Mgt Polices may Enhance performance</td>
<td>76</td>
<td>100%</td>
</tr>
<tr>
<td>Total</td>
<td>76</td>
<td>100%</td>
</tr>
</tbody>
</table>

The results summarized in Table 4.4.2 above show that 31 respondents (50.0%) believe that objectives of the reward management policies are to improve overall organizational effectiveness.

Twenty eight respondents (41.2%) believe the reward management policies have a positive effect on overall performance. Finally all respondents indicated that better reward management policies may enhance performance.
4.5 Challenges and Problems of NHIF Reward Management System.

4.5.1 Challenges of the Reward Management System.

Respondents were asked to give their opinions about the current reward management policies at NHIF. The results are summarized in table 4.5.1

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Should be rewritten to recognize individual performance</td>
<td>12</td>
<td>23.5%</td>
</tr>
<tr>
<td>Should be more flexible</td>
<td>4</td>
<td>7.8%</td>
</tr>
<tr>
<td>Policies are unclear</td>
<td>20</td>
<td>39.2%</td>
</tr>
<tr>
<td>Should be fully implemented</td>
<td>11</td>
<td>21.6%</td>
</tr>
<tr>
<td>Immediate supervisors be empowered to manage rewards</td>
<td>4</td>
<td>7.8%</td>
</tr>
<tr>
<td>Total</td>
<td>51</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

The results above show that the most serious challenge facing NHIF Reward Management Policies is their lack of clarity to most employees (39.2%). Lack of flexibility and failure to involve immediate supervisors in the reward system has also been identified by 4 respondents (7.8%) as a challenge.
4.6 Suggestions for improvement of NHIF Reward Management Policies.

<table>
<thead>
<tr>
<th>Suggestions</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reward should be based on staff performance</td>
<td>16</td>
<td>11.8%</td>
</tr>
<tr>
<td>Educate staff on current reward systems</td>
<td>24</td>
<td>17.6%</td>
</tr>
<tr>
<td>Equitably distribute rewards to all job groups</td>
<td>8</td>
<td>5.9%</td>
</tr>
<tr>
<td>Include other benefits other than salary rewards</td>
<td>15</td>
<td>11.0%</td>
</tr>
<tr>
<td>Make clear and precise incentives</td>
<td>22</td>
<td>16.2%</td>
</tr>
<tr>
<td>Conduct job evaluation and have proper staff placement</td>
<td>8</td>
<td>5.9%</td>
</tr>
<tr>
<td>Proper establishment of objectives and processes</td>
<td>20</td>
<td>14.7%</td>
</tr>
<tr>
<td>Involve immediate supervisors in awarding rewards</td>
<td>4</td>
<td>2.9%</td>
</tr>
<tr>
<td>Rewards should also include motivational components</td>
<td>4</td>
<td>2.9%</td>
</tr>
<tr>
<td>Involve employees in reward management policy making</td>
<td>11</td>
<td>8.1%</td>
</tr>
<tr>
<td>Quarterly Evaluation of staff</td>
<td>4</td>
<td>2.9%</td>
</tr>
<tr>
<td>Total</td>
<td>136</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

The results summarized in table 4.5 above show that most respondents (17.6%) would like to have staff educated on the Reward Management Policies of the organization. Four respondents (2.9%) also indicate they would like quarterly evaluation of staff, inclusion of motivational elements in the reward policies and the involvement of immediate supervisors in offering awards.
CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

This study’s main objective was to analyze NHIF Reward Management problems and challenges with a view of developing recommendations, which will help the management put in place an effective Reward System. The population of the study consisted of 820 employees of the NHIF Headquarters. A sample of 80 employees was drawn from this population and given the study questionnaire to complete.

The major findings of the study are that most respondents believed that NHIF had a reward management system and that this reward management system was clearly stipulated in writing. All respondents believe that the ideal reward system should recognize efficient employee performance.

Finally all respondents indicated that better reward management policies might enhance performance. The most serious challenge facing the NHIF Reward Management policies is their lack of clarity to most employees. Most respondents (17.6%) would like to have staff educated on the Reward management policies of the organization and that they would also like quarterly evaluation of staff, inclusion of motivational elements in the reward policies and the involvement of immediate supervisors in offering awards.

5.2 Conclusions and Recommendations

It is concluded that NHIF employees are aware of the existence of a reward management system within the organization. However, they are not familiar with its provisions and most of them believe that it does not favour all employees and are therefore against it.

It is also concluded that the reward management system at NHIF is dormant and has been ineffective in improving performance and motivating employees. While employees believe the overall objectives of the reward management systems should be to improve overall organizational effectiveness, the system at NHIF has failed to achieve this objective.

It is also concluded that there should be other benefits other than salary rewards. This will motivate employees and thus the organizations goals and objectives can easily be achieved.
It is recommended that the organization should embark on an employee training and awareness campaign to familiarize employees with the provisions of the reward management policies. The policies should also be reviewed so that they consider performance of employees rather than the professional qualification or job experience alone. These have been identified by respondents as some of the reasons why they believe the system does not work for them.

The organization should conduct a job evaluation and have proper staff placement. This will ensure that employees are performing duties as per their job description hence will improve their performance. This will enable the organization to meet its objectives and goals.

The organization should have a clear and precise incentives to enable employees understand them well. Employees should be treated equally. There are two forms of equity; distributive equity, which is concerned with the fairness in which people feel they are awarded in accordance with their contribution and in comparison with others; and procedural equity or procedural justice, which is concerned with the perceptions employees have about the fairness with which the company procedures in such areas as performance appraisal, promotion and discipline are operated.

It is also recommended that all NHIF employees should be involved in any future reviews of the reward management policies of the organization since most of them believe that the policies are not in their favour. All employees should also be educated on the current reward systems to enable them understand and accept it.

It is recommended that Trade Unions through its leadership, bargains with the employer on behalf of the union members and negotiate labour contracts (collective bargaining) with employers. They may include the negotiation of wages, work rules, complaint procedures, rules governing hiring, firing and promotion of workers, benefits, workplace safety and policies.

It is recommended that reward should be based on staff performance. This will enable employees to perform effectively and efficiently.

A proper establishment of objectives and processes should be put by the organization. This will enable employees work to achieve the objectives.

It is recommended that the government should set policies which govern the organizations. Proper policies should be put in place for the organizations to run effectively.
I would recommend future researchers to identify the gaps in the current reward management system in other organizations and to identify the factors that affect the system. This will enable other organizations to adopt market leader remuneration styles.
REFERENCES


APPENDIX 1: QUESTIONNAIRE.

I am an MBA student at Kenyatta University. In partial fulfilment of the requirements for the award of MBA (Human Resource Management) degree, I am conducting a study title, “Factors affecting reward management systems in the healthcare sector in Kenya”: A case study of National Hospital Insurance Fund.

PART 1: General Information

(Please tick one option as appropriate)

1. What is your gender?
   a. ( ) Male
   b. ( ) Female

2. What is your highest level of education?
   a. ( ) Form 1-4
   b. ( ) Certificate
   c. ( ) Diploma
   d. ( ) Degree and Above

3. What is your age?
   a. ( ) 20 – 24 yrs
   b. ( ) 25 – 34 yrs
   c. ( ) 35 – 44 yrs
   d. ( ) 45 – 60 yrs

4. What is your level of management in the organization?
   a. ( ) Top management
   b. ( ) Middle management
   c. ( ) Support staff

5. How many years have you been working in this organization?
   a. ( ) 1-5 yrs
   b. ( ) 6-10 yrs
   c. ( ) 11-15 yrs
   d. ( ) 15 yrs and above

6. What is your job grade?
   a. ( ) HF 2-5
   b. ( ) HF 6-9
   c. ( ) HF 10 – 12
   d. ( ) HF 13 - 15

1. How do you rate financial performance with reward management system in the organization?
   a. ( ) Excellent
   b. ( ) Good
   c. ( ) Fair
   d. ( ) Poor

2. Does financial performance affect reward management system in the organization?
   a. ( ) Yes
   b. ( ) No
   c. Explain your answer

3. How does financial performance affect reward system in the organization?
   a. ( ) Positively
   b. ( ) Negatively

4. Are you satisfied with the financial performance in regards to reward system in the organization?
   a. ( ) Yes
   b. ( ) No

5. How would you rate financial performance to a fair reward system?
   a. ( ) very high
   b. ( ) High
   c. ( ) Moderate
   d. ( ) Low

Part 3: Individual Attainment

1. Does the reward management system adopted by the organization boost your individual attainment?
   a. ( ) Yes
   b. ( ) No

2. What is your level of individual attainment?
   a. ( ) Very high
   b. ( ) High
   c. ( ) Moderate
   d. ( ) Low
3. Does your individual attainment affect your performance in the organization?
   a. ( ) Yes
   b. ( ) No
   c. Explain your answer
      ........................................................................................................

4. Is your individual attainment directly relates to reward system in the organization?
   a. ( ) Yes
   b. ( ) No

5. How does reward system affects individual attainment in the organization?
   a. ( ) Positively
   b. ( ) Negatively
   c. Explain your answer
      ........................................................................................................

Part 4. Reward Policies
1. Are you satisfied with the reward policies adopted by the organization?
   a. ( ) Yes
   b. ( ) No

2. How do you rate the reward policies to a fair reward system in the organization?
   a. ( ) Excellent
   b. ( ) Good
   c. ( ) Fair
   d. ( ) Poor

3. Does reward policies in the organization affect the reward systems?
   a. ( ) Yes
   b. ( ) No

4. Is reward policies necessary to improve reward system in the organization?
   a. ( ) Yes
   b. ( ) No
   c. if yes explain how .................................................................

5. How do you compare reward policies to the market rate within your job level?
   a. ( ) Above market rate
   b. ( ) At per with market rate
   c. ( ) Below the market rate
Part 5. Labour Union Patency

1. Does labour union patency affect the reward system in the organization?
   a. ( ) Yes
   b. ( ) No

2. How do you rate the effect of labour union patency to the reward system in the organization?
   a. ( ) Very high
   b. ( ) High
   c. ( ) Moderate
   d. ( ) Low

3. How often do labour union meet in regards to reward system?
   a. ( ) Quarterly
   b. ( ) Mid year
   c. ( ) Yearly

4. How would you describe labour union patency in regards to the reward system in the organization?
   a. ( ) Not flexible
   b. ( ) Flexible
   c. ( ) Very flexible

5. How did you come to know the labour union patency? Please explain how?

Part 6. Reward System

1. Are you satisfied by the reward system adopted by the organization?
   a. ( ) Yes
   b. ( ) No

2. How do you rate the reward management system of the organization?
   a. ( ) Excellent
   b. ( ) Good
   c. ( ) Fair
   d. ( ) Poor

3. Does reward management system affect your performance?
   a. ( ) Yes
   b. ( ) No

4. Does reward management system motivate you to improve your performance?
5. How does reward system affect your motivation towards your job?
   a. ( ) Positive
   b. ( ) Negative

6. Does the reward management system meet your needs?
   a. ( ) Yes
   b. ( ) No
### APPENDIX III: WORK PLAN

<table>
<thead>
<tr>
<th>S/r</th>
<th>Activities</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>April</th>
<th>May</th>
<th>June</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Finalizing of proposal</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>2</td>
<td>Submission and defense of proposal</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Data collection and Data analysis</td>
<td></td>
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<td></td>
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<td>4</td>
<td>Data analysis</td>
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<td></td>
</tr>
<tr>
<td>5</td>
<td>Printing, binding</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Submission of report</td>
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<tr>
<td>ITEMS</td>
<td>COST (KSH)</td>
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<td>---------------------------</td>
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</tr>
<tr>
<td>1 Stationery and Photocopying</td>
<td>10,000.00</td>
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<td></td>
</tr>
<tr>
<td>2 Internet &amp; Printing</td>
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<td></td>
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<td></td>
<td></td>
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<tr>
<td>3 Contingencies</td>
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