



THE MODERATING INFLUENCE OF EMPLOYEE ENGAGEMENT ON THE RELATIONSHIP BETWEEN LABOUR PRODUCTIVITY AND PERFORMANCE BASED REWARD

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Abstract: *The performance and productivity of each individual in an organization leads to the prosperity of the organization and a nation as a whole. Labour productivity is therefore very important since it indicates the extent to which an organizations labor force is efficiently creating output. The aim of this study was to establish the moderating influence of Employee Engagement on the Relationship between Labour productivity and Performance based Reward. The specific objective was to establish the moderating effect of Employee Engagement on the relationship between Performances based Reward and Labour productivity. An explanatory research design was adopted where a census method was used, involving all 205 HR managers in state Corporations in Kenya. The data was first explored for the underlying factor structure through factor analysis before descriptive and inferential statistical analyses. The study established that there is a significant moderation effect of Employee engagement on the relationship between performance Based rewards. The study recommends that organizations wishing to experience higher Labour productivity should seriously consider Employee Engagement strategies, as it will enhance their reward strategies. This study recommends further research to determine the moderating effect of Employee Engagement on the relationship between Labour productivity and Work life balance.*

Key Words: *Labour productivity, Human resource management practices, performance management, reward management, employee engagement, state corporations*

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1.0 INTRODUCTION

1.1 Background of the Study

People management has long been established as a very important aspect of any organization. This is because it is the people who add value to any organization or nation. The prosperity of any nation therefore depends upon the personal performance and productivity of each individual and that of organizations. According to Navaratne (2008) and Price (2004), a company can achieve a competitive advantage and reach its goals by adopting an efficient usage of its personnel. It is the people in the organizations who create value by using corporate assets to create the product and services that people need (Tiwari, 2012). Empirical studies suggest that Human Resource Management practices contribute significantly to Labour productivity (Wright, 2003). According to Balgobind (2007) and Tiwari (2012), HR practices contribute significantly to creating a competitive advantage by creating human resources that are unique and difficult to replicate and therefore contribute to Labour productivity.

In the last three decades there has been a lot of debate of the impact of human resource Management strategies on the organization's performance, this has helped to evolve the HR research (Becker and Huselid, 2006; Bae et al., 2001; 2002; Boselie et al., 2003). Explaining organizations' performance variations remain one of the most enduring subjects of study. A number of studies have shown that there is a clear relationship between HR practices and an organizations performance and productivity, (Khatri, 2000). According to Long (2011) evidence has shown that economic development is positively related to investment in human capital, in Vietnam state owned corporations that begun to apply HRM practices, similar to those in the developed countries, noted improved financial performance.

According to Tiwari (2012) Theories on best practices or high commitment theories suggest that universally, certain HRM practices, either separately or in combination are associated with improved organizational performance. Saxena and Tiwari (2009) examined the HRM Practices implemented by leading IT Companies such as TATA, Infosys and Wipro in India. They developed the 3cTER Framework of HRM practices and identified Training and Development, Employer-Employee Relations, Recognition through Rewards, Culture building, Career Development, Compensation and Benefits as important HRM Practices (Tiwari, 2012).



1.2 STATEMENT OF THE PROBLEM

Kenya aspires to achieve a high and sustained economic growth consistent with the Government's employment, wealth creation and poverty reduction Objectives, which are top priority under vision 2030. Kenya aims to increase annual GDP growth rates to 10% and to maintain that average till 2030 under vision 2030. However what has been achieved so far in the years of 2008 to 2009 according a G.O.K report (2012) has been 1.6% in 2008, 2.6% in 2009 and 4.3% in 2011 respectively, clearly this falls short of the targeted 10% annual GDP growth rate. GDP per capita may therefore be viewed as a rough indicator of a nation's prosperity. According to an economic survey done by the G.O.K (2008) there is a declining contribution of Kenya's employment to growth in GDP as well as wealth creation. There has been a decline in Labour force productivity despite the increased in levels of employment and wage bill, this is according to a report by I.E.A (2010).

Going by the above analysis, Kenya's growth target is seemingly ambitious and cannot be realized and sustained without serious reform (KIPPRA, 2012). According to I.E.A, (2010) The gap between Kenya's economy and those of the high performing Asian tigers has widened tremendously since the country's independence in 1963 with Kenya recording low GDP compared to the Asian tiger Countries. This implies that a worker in East Asia produces more output per hour relative to a Kenyan worker. High unit Labour costs associated with relatively low Labour productivity will finally cripple the Kenyan economy. The developed countries and the Asian tigers, have over the years emphasized on increasing Labour productivity so as to improve G.D.P person as well as raise the standards of living. This study sought to establish the moderating influence of Employee Engagement on the relationship between Labour productivity and performance based Reward.

1.3 OBJECTIVES OF THE STUDY

The study addressed the following specific objectives:

1. To establish the effect of Performance and Reward management on Labour productivity in State Corporations in Kenya
2. To investigate the moderating influence of Employee Engagement on the relationship between Performance based reward and Labour productivity



1.4 HYPOTHESIS

H₀: Employee Engagement does not significantly moderate the relationship between performance based reward and Labour productivity

2.0 LITERATURE REVIEW

2.1 The Independent variable: Performance Based Reward

Armstrong (2009) notes that performance management is a means of getting better results from the whole organization, or teams and individuals within it, by understanding and managing within agreed framework of planned goals, standards and competence requirements. In meta-analysis of 104 articles, Boselie et al., (2005) concluded that performance management is among the top HRM practices. Strong evidence in literature highlight that performance management has positive link with business performance. According to Homayounizadpanah and Baqerkord (2012), their research established that there is a positive and significant relationship between Performance management and employee productivity, efficiency and effectiveness. Boselie, Dietz, & Boon, (2005). argued that performance management system have a positive link with improved productivity of organizations. The effective process of monitoring and feedback between employees and supervisors strengthens their relationships (Bloom & Reenen, 2010; Capeli, 2001). From the above discussion it can therefore be concluded that the purpose of performance management is to improve performance by creating accountability to goals and objectives of the organization.

Measurement of employees' performance allows the company to provide compensation fairly to the deserving individuals according to certain predetermined criteria like employee competency, teamwork ability, initiative, soft skills and ethics. Bratton and Gold (2007,) state that reward refers to 'all of the monetary, non-monetary and psychological payments that an organization provides for its employees in exchange for the work they perform'. Motivating employees through a good reward system constitutes a difficult and challenging task for general managers as it can positively affect employees' behaviour toward their jobs and increase their commitment and thus their performance. Armstrong and Murlis (2007, page 34) states that reward strategies are an important part of an organization's HR strategy. Therefore good reward systems lead to increased Labour productivity, because it acts as a motivator. This is because well-rewarded employees feel that they are being



valued by the organizations that they are working for. This encourages them to work harder and better because they are aware that their well-being is taken seriously by their employers, and that their career and self-development are also being honed and taken care of by their organization. According to Bloom & Reenen (2010) and Tsai (2004) It is commonly believed that if rewards are used effectively, they can motivate individuals to perform and thus can have a positive effect on Labour productivity which in turn has a positive effect on organizational performance. A reward and compensation system is also based on the expectancy theory, which suggests that employees are more likely to be motivated to perform when they perceive that there is a strong link between their performance and the reward they receive (Fey and Bjorkman, 2001)

2.2 Moderating variable: Employee Engagement

Schaufeliet al (2002, p 74) describes engagement as a positive, fulfilling, work-related state of mind characterized by vigor, dedication, and absorption. Job satisfaction and commitment to an organization are not the same as employee engagement. According to West and Dawson (2012), Engagement has been used to refer to a psychological state (e.g., involvement, commitment, attachment, mood), a performance construct (e.g., either effort or observable behavior, including pro-social and organizational citizenship behavior), a disposition (e.g., positive affect), or some combination of these. NHS National Workforce Projects, (2007) defines employee engagement as a measure of how people connect in their work and feel committed to their organization and its goals. People who are highly engaged in an activity feel excited and enthusiastic about their role, say time passes quickly at work, devote extra effort to the activity, identify with the task and describe themselves to others in the context of their task. This therefore means that engaged employees are interested in the success of an organization and also identify with this success.

Employee engagement can therefore be a predictor of Labour productivity since it leads to positive behavior such as taking personal initiative, organizational citizenship behavior and employee effectiveness (Macey and Schneider 2008).

A meta-analysis of nearly 8,000 business units in 36 companies found that engagement was also linked to business unit performance (Harter *et al* 2002). Xanthopoulou *et al* (2009) also found a link between work engagement of restaurant workers and objective daily financial returns. These studies show the relationship between employee engagement and Labour



productivity, since it leads to higher output per individual employee. However, according to West and Dawson (2012), one consequence of poor engagement may be burnout, absenteeism, Labour turnover, stress and poor physical health, indifference to work to mention a few. Employee engagement therefore plays a key role in Labour productivity.

2.3 Independent variable: Labour productivity

According to Navaratne (2010) Labour productivity can be written simply as: $\text{Labour Productivity} = \frac{\text{Total Output}}{\text{Total Labour input}}$, where Labour productivity can be measured by looking at productivity per hour, productivity per person, total production, Labour turnover, absenteeism, number of industrial actions to mention a few. Productivity is the relationship between the quantity of output and the quantity of input used to generate that output. It is basically a measure of the effectiveness and efficiency of your organization in generating output with the resources available.

According to a study by Spring Singapore (2011), Productivity is critical for the long-term competitiveness and profitability of organizations. Productivity is the relationship between the quantity of output and the quantity of input used to generate that output. It is basically a measure of the effectiveness and efficiency of your organization in generating output with the resources available. Output could be in the form of goods produced or services rendered.

There is a substantial and rapidly expanding body of evidence that speaks to the strong connection between how firms manage their human resources and the economic results achieved. (Bloom & Reenen, 2010). Theory and evidence on the relationship between HR practices and organizational performance has expanded considerably in the last two decades, although questions remain unanswered. An exhaustive review of empirical studies concluded that, on average, high-involvement work systems are associated with significantly higher Labour productivity and hence operational performance and some studies have linked HR practices specifically to better Labour productivity (Navaratne, 2010).

In a research by Schuler & Jackson (1987), statistically significant results were obtained between HRM practices and Labour productivity, that study found that HRM practices such as Training and Development, performance and Reward management had a positive effect on an organization's profitability and productivity.



3.0 RESEARCH METHODOLOGY

3.1 Research Design

This research used the positivism research paradigm. The concept of Positivism is directly associated with the idea of objectivism. Explanatory research design was used for this study. According to Kothari (2004), explanatory research design is suitable for those studies that seek to determine relationships between variables. According to Dawson (2002) and Ranjit (2005), explanatory design focuses on the why questions and this involves developing causal explanations to explain the phenomenon under study when the problem is not very well understood and unstructured.

3.2 Sample and Sampling procedure

In this study the target population was the State Corporations in Kenya which are 205 in number (source: State Corporations Advisory Committee, 2014) while the target respondents were the 205 HR managers in the state corporations in Kenya. HR managers were regarded as a suitable unit of analysis since they are the policy makers, and are the implementers of HRM practices and are therefore better placed to give an opinion on the relationship between Performance based pay and Labour productivity, with employee Engagement as a moderator. A census approach was used because it affords more extensive and detailed study, and therefore it provides more accurate and exact information as compared to the sample enumeration (Gupta ,1994), therefore there was no need for a representatives sample.

3.3 Research Instruments and Data Collection and Analysis

Primary data was collected using questionnaires as the data collection instrument. The questionnaires were composed of semi structured and open ended question which were used as the response format for the variables. The semi structured questions provided a set of alternative solutions for the respondent to fill the one that best fits their opinion using a modified five-point Likert scale was used to measure the effect of performance based reward and employee engagement on Labour productivity . The open ended questions on the other hand, were aimed at helping to capture the opinions of the respondents regarding the variables under investigation. Once the questionnaires were received they were coded and edited for completeness and consistency. The data obtained was cleared and coded



then SPSS was used for data analysis using both descriptive and inferential statistical data analysis.

The quantitative data was analyzed using descriptive statistics and inferential statistics using Statistical Package for Social Sciences (SPSS). Descriptive statistics such as the means and standard deviations were calculated to summarize the data. This technique gives simple summaries about the sample data and present quantitative descriptions in a manageable form Gupta (1996).

A correlation analysis was conducted to establish the relationship between the independent and dependent variables; this helped to test the hypotheses of the study and show the degree of relationship between the independent and dependent variables. Pearson r was used to determine if there was a significant, positive association between each independent variable and Labour productivity. The hypothesis testing was done at 5% level of significance. Regression analysis was also used to find out if an independent variable predicts a given dependent variable. According to Fowler (2004), linear regression is an approach to model the relationship between scalar variable Y and one or more variables denoted X . It helps to evaluate the contribution of each independent variable in explaining the dependent variable, when the other variables are controlled, the R Square value was obtained for each variable.

Previous research on the relationship between HR practices and organizational performance or productivity have used bivariate correlational analysis or multiple regression (Navaratne , 2010) to see if there is a significant relationship between independent, dependent and intervening variables. It is on this basis that correlation and regression analysis were used.

Moderated multiple regression (MMR) was used to test the moderating effect of Employee Engagement. Moderated multiple regression (MMR) analysis is defined as an inferential procedure which consists of comparing two different least-squares regression equations (Aguinis, 2004; Aiken and West, 1991). MMR analysis was used to compare the moderating effect of the employee Engagement by analyzed and interpreting the R^2 change in the models obtained from the model summaries so as to test the hypothesis that employee Engagement does not moderate the relationship between performance based reward and Labour productivity.



4.0 RESULTS AND DISCUSSION

The response rate was 87% while the factor thresholds of variables was above the threshold of 0.33. According to Kothari (2005), it has become customary for loadings of 0.33 to be as values to be interpreted.

The objectives of this study was to establish the effect of Performance and Reward management on Labour productivity in State Corporations in Kenya and to investigate the moderating influence of Employee Engagement on the relationship between Performance based reward and Labour productivity. Table 4.1 shows that there is a positive significant linear relationship between performance and reward management with Labour productivity, with a Pearson correlation coefficient of 0.568 and a p- value of 0.000, this shows a significant correlation between Performance and reward management with Labour productivity. This means that 56.8% of Labour productivity can be explained by performance and reward management and as performance and reward management increases Labour productivity also increases in the same direction.

Therefore performance and Reward management significantly influences Labour productivity in state corporations, this is because it has a p- value of 0.000 which is less than 0.05. This means that the null hypothesis is rejected and the alternative hypothesis accepted, that performance and Reward management is significantly related to Labour productivity instate corporations. A research by Navaratne et.al (2008), on the Effects of HRM practices on Labour productivity in selected firms in Sri Lanka, obtained a Pearson correlation of 0.67, also showing a strong and significant positive correlation.

Table 4.1: Correlation between dependent variable and Performance based Reward

		Performance & Reward Management	Labour Productivity
Performance based Reward	Pearson Correlation	1	.568**
	Sig. (2-tailed)		.000
	N	168	168
Labour Productivity	Pearson Correlation	.568**	1
	Sig. (2-tailed)	.000	
	N	168	168

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



Table 4.2 shows the model summary from the hypothesis that employee Engagement does not moderate the relationship between Performance based reward and Labour productivity. In model 1 without the interaction effect of Employee Engagement on performance based Reward the R square value is 0.606 and $p = 0.000$. This implies that 60.6% of Labour productivity is explained by performance and reward management as well as employee engagement. However model 2 shows the results after the moderation effect /interaction term of (Employee engagement *Performance and Reward management) is added to the equation. The R square value is 0.618 and $p = 0.022$ in model 2. This shows an R square change (ΔR^2) of 0.013 and $p = 0.023$ indicating a significant moderation effect of Employee Engagement on Labour productivity.

The results show a significant presence of moderating effect, where the moderating effect of employee engagement explains 1.3% variance on Labour productivity, above and beyond the variance of performance and reward management as well as employee engagement. This implies that Employee Engagement moderates the relationship between Labour productivity and Performance and Reward Management and has an enhancing effect, where increasing Employee Engagement increases the effect of performance and Reward management on Labour productivity. Therefore the null hypothesis is rejected since employee engagement moderates the relationship between Labour productivity and Performance and Reward management. This findings are similar with a research by conducted by West and Dawson (2012) on health workers, which showed that effective performance management leads to increased employee engagement, which in turn translates to improved employee performance and Labour productivity.

Table 4.2: Variation in the Moderated Regression Model for Performance & Reward management

Mode	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	0.778(a)	0.606	0.601	.19690	0.606	126.743	2	165	0.000
2	0.786(b)	0.618	0.611	.19430	0.013	5.455	1	164	0.022



a. Predictors: (Constant), Employee Engagement, Performance & reward management

b. Predictors: (Constant), Employee Engagement, Performance & Reward management, (Employee Engagement* Performance & Reward management)

5.0 CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusion

The study sought to determine the effect of Performance and Reward management on Labour productivity in State Corporations in Kenya and to investigate the moderating influence of Employee Engagement on the relationship between Performances based reward and Labour productivity. Based on the findings, the study concludes that performance based pay significantly affects Labour productivity, this is because a Pearson correlation coefficient of 0.568 and a p- value of 0.000 was obtained, which shows a significant correlation between Performance and reward management with Labour productivity. The study also concludes that Employee Engagement plays a moderating role on the relationship between performance based reward and Labour productivity, this is because after using Moderated multiple regression (MMR) analysis, it indicates a significant moderation effect of Employee Engagement on Labour productivity, where employee engagement explains 1.3% variance on Labour productivity. This study therefore concludes that employee engagement can help to increase or reduce Labour productivity in organizations.

5.2 Recommendations

The study makes the following recommendations based on the findings

1. Performance based rewards needs to be used effectively so as to encourage Labour productivity in State Corporations in Kenya. This is because employees are more likely to be motivated to perform when they perceive that there is a strong link between their performance and the reward they receive (Fey and Bjorkman, 2001)
2. Employee engagement drivers need to be incorporated in the HR strategy of state corporations, this is because of the enhancing role that employee engagement plays in Labour productivity, which according to NHS National Workforce Projects, (2007) helps employees to connect to their work and feel committed to their organization and its goals and want to be part of the success of their organizations.



5.3 Suggestions for further research

The study recommends further research on the role of employee engagement on Labour productivity by conducting a longitudinal research, so as to clearly determine its impact on the organizational performance within the Kenyan and African context.

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