

**EFFECT OF PERFORMANCE MANAGEMENT PRACTICES ON EMPLOYEE RETENTION:
A SURVEY OF SELECTED WATER AND SANITATION COMPANIES IN KENYA**

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Abstract

The purpose of the study was to establish the effects of performance management practices on employee retention of selected Water and Sewerage Companies in Kenya. The study was guided by the following Specific Objectives: To establish the effect of performance appraisal on employee retention of selected Water and sewerage Companies in Kenya. To determine the effect of performance reward system on employee retention of selected Water and Sewerage Companies in Kenya And To establish the effect of performance feedback on employee retention of selected Water and sewerage companies in Kenya. The study adopted a descriptive research design. The population of the study consisted of 210 respondents of Water and Sewerage Companies in Kenya. The study used stratified random sampling. The sample size of the study consisted of 63 respondents. The study employed both primary and secondary methods of data collection. The researcher analysed data using inferential and descriptive statistics. The study concludes that by performance appraisal has a positive effect on the employee retention Therefore, improving employee performance by using performance management system is a way to improve organizational performance. Therefore, the study recommends that there is a need for the improvement of employee performance appraisal process in the company through training, communicating the appraisal process to the stakeholder, provision of proper feedback, standardizing the instrument and through different ways of indicating corrective actions Rewards plays a significant role in the life of employee, it is recommended that employers must not interpret it as the only basis for retaining their employees because among other things, employees must deserve the kind of compensation they receive. The feedback should be given with a positive attitude as this can have an effect on the employees' future performance.

Keywords: Employee retention, performance appraisal, performance feedback and performance rewar

I. INTRODUCTION

1.1 Background of the Study

In today's competitive world, companies have been implementing tools to measure their performance and stay in business. To gain leverage from their rivals in the market, companies are attempting to find new performance indicators and, so far, one of these competitive advantages is human capital. Since the 1980s, there has been an increasing emphasis in the use of HR measurement. Organisations undertake several functions (such as accounting, marketing, research and development), however, managing human resource is one of its key functions. There has been immense realization of the impact of strategic use of HRM practices and visionary organisations are setting the pace to leverage this aspect for competitive advantage (Khan, 2010). As HR positions itself as a strategic business partner, one of the most effective ways to do so is to support the strategic business goals through key performance indicators (KPIs). Thus, by using HR measures, companies will be able to achieve success and have a competitive advantage over their rivals.

Employee retention is critical in most organizations today and employee turnover is high as employees look for jobs elsewhere that have offer better packages or employees end up being head-hunted by rival companies which end in making the organization loose skilled employees. Loss of talented employees results to a drop in performance (Homayounizad and Baqerrkord, 2012). Organizations face a lot of problems when they have a high turnover rate due to employees leaving the organization for reasons such as job dissatisfaction, poor working conditions, not having a decent salary packages and if there are no advancements in career. High turnover rates lead to low performance in the organization therefore, organizations have to come up with policies and practices on retaining employees so as to ensure that employees stay in the organization for a longer duration and have a positive effect on their performance (Rawat, 2013).

The importance and immense contribution of human resource to organisations cannot be overemphasized. Human resource is valuable and serves as the backbone of organisations the world over. Employees are a key resource that can be strategically placed for an organization to attain competitive advantage. It is asserted that resources that are rare and valuable create competitive advantage. Also, studies have shown that, organisations increase and sustain competitive advantage through the management of scarce and valuable human resources thus; the success of any organization is dependent on the quality and efficiency of its human resources, (Salau, et al.2014).

Therefore, the Organizations need to have in place effective employee retention strategies put in place so as to ensure that the best employees are retained. Having effective retention strategies requires the Human resource manager to have an ongoing diagnosis of the nature and causes of turnover. By having a better handle of why the employees are leaving or want to leave the organization, effective retention strategies can be adopted and reduce turnover (James and Mathew, 2012). HRM practices can also be used to elicit some positive behavioral outcomes as well as advance the skills and abilities of employees.

One aspect that has been touted to have significant potential to influence employee retention, but which has received minimal scholarly attention, is performance management, (Fletcher, 2011). Performance management comprises all activities that guarantee that organizational objectives are constantly being attained in an efficient and effective manner. Normally, performance management focuses on the organizational performance, employees, departments, and to some extent, the processes that are usually employed to build a service or product, as well as other key areas in an organization that would lead to employee productivity (Homayounzadpanah and Baqerrkord, 2012). Performance management as an integrated and strategic approach towards enhancing the employee and organizational productivity by bettering the performance of employees through developing the individuals and teams' capabilities. In organizations where there are no career growth employees tend to leave and work elsewhere. Therefore, having in place promotion opportunities is essential in retaining staff as they are looking in advancing their career goals. Providing employees with career paths and steps on how they can reach their goals and achieve them will ensure that they stay in the organization and stay loyal the human resources specialists do not make full use of the psychometric tools available.

1.2 Statement of the Problem

According to the impact performance review report on water sector services 2010/11 published by Water Services Regulatory Authority (WASREB) based on performance key indicators (KPIs) revealed that 28 out of 65 water services providers had achieved 43% acceptable (KPIs) required in the water sector and average personnel cost increased from 46% in 2009 to 47% in 2010 due to high expenditure on hiring and training of unskilled personnel. In 2015/16/17 the report further indicates that performance of water utilities has more or less stagnated indicating only marginal performance improvement between 36% in 2014/15 to 38% in 2016/17. The analysis revealed that selected water companies' in Kenya had faced several human resources challenges which included the following; working environment; overstaffing; redundancy; ineffective performance contracting policies which had been a major internal threat affecting most of water utilities performance. Hence recommending for continuous performance evaluation to ensure the companies has lenient and efficient staff that could enable the companies to achieve the sector targets. Therefore, this study aims at finding out the effects of performance management practices on employee retention at Selected Water and Sewerage Companies in Kenya.

1.3 Research Objectives

- i. To establish the effect of performance appraisal on employee retention of selected Water and sewerage Companies in Kenya.
- ii. To determine the effect of performance reward system on employee retention of selected Water and Sewerage Companies in Kenya.
- iii. To establish the effect of performance feedback on employee retention of selected Water and sewerage companies in Kenya

II. LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 Job Embeddedness Theory

According to Mitchell et al. (2001), job embeddedness theorizes that employees remain in the organization as long as the inducements to stay there match or exceed their expectations. Job embeddedness influences employee's decision to whether remain in the company or leave. By being embedded in a job, the individual will be less likely to leave the organization thus having a positive impact on their performance. Organizations should ensure that their employees are job embedded as this will keep the individual from leaving the company hence resulting to employee retention.

Performance appraisal can be an effective source of management information, given to employees. According to Dewhurst, et al (2010) there are three main groups of purposes: performance reviews, potential reviews and reward reviews. The managers discuss with employees the progress in their current positions, their strengths and areas requiring further development. In regards to the potential reviews, the discussion is on the employees' opportunities for progression, and the type of work they will be fitted for in the future and how this can be achieved as well linking to the appraisal system as Human resource practitioners should try and ensure that employees are embedded to their jobs through the three dimensions of job embeddedness; links, fit and sacrifice. Therefore, job embeddedness is beneficial to organizations when it comes to retaining employees as it enables the firm to know why people decide to stay thus creating appropriate retention strategies that suit the organization. It comprises of measures taken to inspire employees to remain in the company for the maximum period of time. Hiring knowledgeable people for the job is essential for an employer but retention is even more important than hiring. This is true as many employers have underestimated costs associated with turnover of key

2.1.2 Adams Equity Theory

Premised on assertions by Adams (1965), Equity theory elucidates that employees pursue the maintenance of equity between the contributions that they bring to a job and the results that they obtain from it against the perceived contributions and results of others. The theory posits that employees seek to maintain equity between the input that they bring into the job such as education, time, commitment, and effort and the outcome they receive (Cook and Crossman, 2014). The implication is that the higher the degree of employees perceiving fairness, the more they are motivated to perform and also their levels of commitment increases hence they are likely to remain there for long. Performance policy will be based on the philosophy that employees are the most valuable asset and the attainment of corporate objectives depends on how efficiently and effectively the staff carry out their responsibilities. It was the responsibility of management, all employees and unions concerned to sustain jobs and to ensure continued profitability of the company (Hutchings, et al., 2011).

Equity theory suggests that employees "perceptions of a working situation in terms of how fairly they are treated compared with others influence their level of motivation". According to equity theory, employees make comparisons and determine their own work outcomes versus the effort or input required to achieve the outcomes and compare these with outcomes and efforts of other employees, (Chiboiwa, et al 2010).

2.1.3 Maslow's Hierarchy of Needs Theory

According to Hierarchy of Needs Theory (Maslow, 1943). According to Maslow, motivation is a function of a sequence of five basic needs which are physiological, safety, love, esteem and self-actualization. Maslow's theory was based on the premise that higher-level needs are not important and is not manifested until lower-level needs are satisfied (Steers & Porter, 1991). Once a worker's basic need for food, clothing and shelter are satisfied he/she becomes increasingly concerned with ego, esteem and self-actualization. Thus, the most basic needs of individuals are labelled as physiological needs. This is followed by the safety needs which include security and protection from physical and emotional harm. The third level of needs is social needs such as affection, love, and belongingness; this is followed by the esteem needs and it includes self-respect, status, prestige, and recognition. The highest level of need is self-actualization which is the drive to become what one is capable of becoming and achieving one's potential (Mullins, 2010).

2.2 Conceptual Framework

Independent variables

Dependent variable

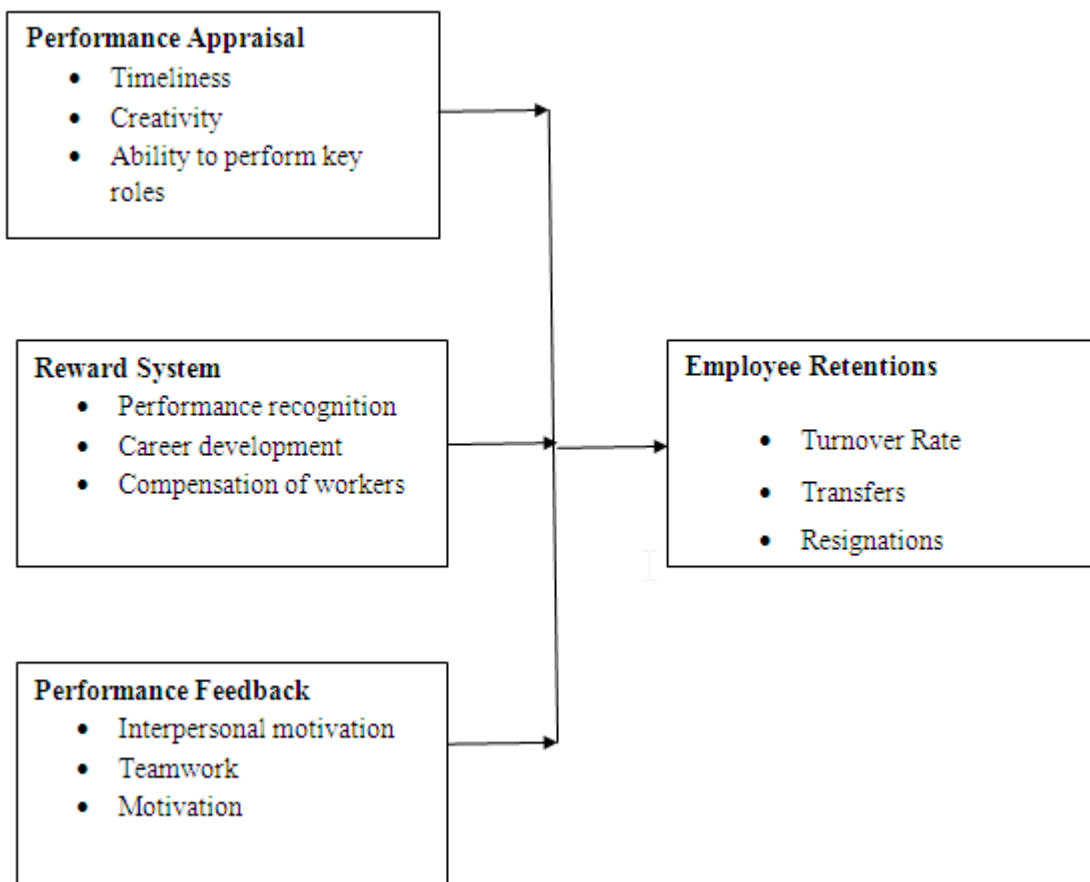


Figure 2.1: Conceptual framework

2.3 Empirical review

Performance appraisal has been labelled as “the process of identifying, observing, measuring, and developing employee performance in organization” (Carrol and Scheider, 2012, pg 4). It is about all the workings desired for the well-performed appraisal procedure. Identification criteria position the appraisal progression to the purpose of what has to be inspected and the performance related criteria. The observation factor means that the supervisors need to regularly detect the identified features. The measurement component designates that the supervisor has to decipher the explanations into a judgmental rating (Moulder, 2011).

According to Mone and London (2010) the method of personnel appraisal also goes a long way in determining the success and competitive positioning of an organization through the number of techniques that can be used to measure performance appraisals. This can be measured by looking at an individual’s performance in respect to another, evaluation of their performance in relation to a given set of behaviours in measuring the performance of the workers against the goals of the organization the supervisory rating, subordinate rating method, peer rating and the multi-source rating method is based on the information collected from a cross section of the stakeholders who account for the main performance appraisal.

According to Dewhurst et al. (2010), rewarding employees goes beyond just financial remunerations. Some of these contain the commendation that employees are able to obtain from their bosses, the occasion to take on significant projects or tasks, and even leadership consideration. The attention granted by the leaders refers to the treatment of the employees by their managers in such a manner that the employees consider being well. This is largely due to the fact that the well-rewarded employee feels that they are being valued by the company. They are also encouraged to work harder and better if 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 company.

III. RESEARCH METHODOLOGY

3.1 Research Design

The study applied a descriptive research design. Descriptive research design provided an opportunity to have a clear view of the problem from other related sources and narrowed the research around these important items of analysis in selected Western Region Water and Sewerage Companies.

3.2 Target Population

The study investigated the influence of performance management practices on employee retention. The population of the study consisted of the Directors, Senior managers Middle managers, Supervisors and Employees of selected Water and Sewerage Companies in Kenya which comprised of four departments which include the following: Human Resource, Technical, Audit, Commercial and Finance departments and the Managing Director Office.

3.3 Sampling design and sample size

The researcher used 30% of the study population to represent the entire population of 210

Managers. The sample size resulted in a total of 63 respondents out of 210 includes Director (9), Unit manager (9) head of Technician (9) and Supervisors (9). Employees (9) Human Resource Manager (9), head of Audit department (9). According to (Mugenda and Mugenda 2009) a representative sample is one that is at least 10-30% of the study population, hence the respondents were picked using stratified random sampling. The use of this technique was aimed at allowing all elements in the population equal chances of inclusion in the resultant sample.

Also, the study used multistage sampling framework by modifying random sampling techniques with systematic approach to determine sample size of 63 out of 210 respondents which was selected among the departments as indicated below.

Sample N represent =210 which is the entire employee population.

n=Represent 63 sampled respondents.

For example 30% of the respondents were;

$$30/100*210=63$$

3.4 Data Collection Instruments

This study employed both primary and secondary methods of data collection. For primary data, questionnaires instruments were structured and administered to selected respondents. The questionnaire was closed ended questions. The questionnaire had the advantage of obtaining standard responses to items in the questionnaire, making it possible to compare between sets of data. For secondary data, books, journals, manuals, magazines and newspaper

3.5 Data Analysis and presentations

The researcher analysed data using descriptive analysis. The data collected was systematically organized to facilitate analysis. The response in the questionnaire was assigned numerical value to aid in processing. Numbers was assigned to the close ended questionnaires. Data was then being converted to numerical codes representing attributes of variables. Code categories are exhaustive and mutually exclusive. Data was described quantitatively using descriptive statistics which include frequencies, means, and percentages through tables, pie charts and bar charts. This was done with the aid of a computer programme-Statistical Package for Social Sciences (SPSS) version 22 for windows. The multiple regressions model was used as given below.

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

Where:

β_0 = Constant term

(β_i ; $i=1,2,3$) = Regression coefficients values

(X_1 ; X_2 ; X_3 ; $i=1, 2, 3$) = values of various independent variables

ϵ = error term

Y = employee retention of selected Water and sewerage companies in western region

X_1 = Performance appraisal

X_2 = Performance reward system

X_3 = Performance feedback

IV. RESULTS AND DISCUSSION

4.1 Regression Analysis

The dependent variable of the proposed model was performance of banks and the independent variables of the study were performance appraisal, performance feedback and performance reward system. The model is presented algebraically as follows;

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

The variables of the study were: employee retention of selected Water and sewerage companies in western region expressed by Y, X_1 = performance appraisal, X_2 = performance feedback, X_3 = performance reward and ε = Error term (the residual error of the regression).

The linear regression analysis models the relationship between the dependent variable which is performance and independent variable which is effects of performance management practices. Coefficient of determination explains the extent to which changes in the dependent that is explained by all the three independent variables (performance appraisal, performance feedback and performance reward system). ANOVA Test and Adjusted R square were computed as the preliminary test for multiple linear regression model adopted in the study. These were used to show the significance of the regression model adopted in the study.

Table 1: Model Summary with employee retention

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.945 ^a	0.893	0.882	0.422
a. Predictors: (Constant), performance appraisal, performance feedback and performance reward system				

Model summary shows that the output for model fitness and value of adjusted R squared was 0.893. This shows that the variables (performance appraisal, performance feedback and performance reward system) tested had a variation of 89.3% on the employee retention of selected Water and Sewerage Companies in Kenya at 95% confidence interval. The three independent variables that were studied, explain only 89.3 % of the effect of performance management practices on employee retention of selected Water and Sewerage Companies in Kenya by the adjusted R². This therefore means that other factors not studied in this research contribute 10.7% of the effect of performance management practices on employee retention of selected Water and Sewerage Companies in Kenya. Therefore, further research should be conducted to investigate the other factors (10.7%) that affect effect of performance management practices on employee retention. R is the correlation coefficient which shows the relationship between the study variables. The findings show that there was a strong positive relationship between the study variables as shown by R which is the correlation coefficient of 0.945.

Table 2: Analysis of Variance

ANOVA						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	83.608	4	0.172	0.94	.442 ^b
	Residual	7.249	51	0.183		
	Total	90.857	55			
a. Dependent Variable: performance management practices on employee retention						
b. Predictors: (Constant), performance appraisal, performance feedback and performance reward system						

From the ANOVA statistics in table above, the processed data, which is the population parameters, had a P-value of 0.0442 which was more than the set level of significance of 0.05 for normally distributed data. The results further revealed that the model had an F-ratio of 0.940 which was not significant at 1% level of significance. This result indicates that the overall regression model is statistically not significant and is useful for prediction purposes at 10% significance level. This further indicates that the independent variables used (performance appraisal, performance feedback and performance reward system) are not statistically significantly in predicting employee retention of selected Water and sewerage companies in Kenya.

Table 3: Regression Coefficients with employee retention

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	15.78	0.33		4.77	0
	Performance appraisal	0.481	0.147	0.468	3.26	0.002
1	performance feedback	0.416	0.18	0.315	2.33	0.025
	performance reward system	0.316	0.109	0.267	2.92	0.005

a. Dependent Variable: employee retention of selected Water and sewerage companies in western region in Kenya.

The regression result indicates all the three independent variables had positive coefficients. The coefficients are used to answer the following regression model which relates the predictors (independent) and dependent variables. As per the SPSS generated established regression equation which was

Employee retention = $\beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$ became:

Employee retention = $15.78 + 0.481 * \text{Performance appraisal} + 0.416 * \text{performance feedback} + 0.316 * \text{performance reward system}$

The regression coefficients for the employee retention show that holding performance appraisal, performance feedback and performance reward system) constant employee retention will be 15.78. The findings presented also shows that taking other independent variables at zero, a unit to increase in Performance appraisal will lead to 0.481 increases in employee retention, and performance feedback will lead to 0.416 increase in employee retention; performance reward system will lead to **0.316** At 5% level of significance and 95% level of confidence All coefficient values for variables (performance appraisal, performance feedback and performance reward system on employee retention with **P= 0.002, 0.025, and 0.005** level of significance respectively) were significant because P value (Sig value) were less than 0.05 testing at 95% level.

This is greed to in literature as according to Mone and London (2010) the method of personnel appraisal also goes a long way in determining the success and competitive positioning of an organization through the number of techniques that can be used to measure performance appraisals. This can be measured by looking at an individual's performance in respect to another, evaluation of their performance in relation to a given set of behaviours in measuring the performance of the workers against the goals of the organization the supervisory rating, subordinate rating method, peer rating and the multi-source rating method is based on the information collected from a cross section of the stakeholders who account for the main performance appraisal. According to Dewhurst et al. (2010), rewarding employees goes beyond just financial remunerations. Some of these contain the commendation that employees are able to obtain from their bosses, the occasion to take on significant projects or tasks, and even leadership consideration. The attention granted by the leaders refers to the treatment of the employees by their managers in such a manner that the employees consider being well. This is largely due to the fact that the well-rewarded employee feels that they are being valued by the company. They are also encouraged to work harder and better if 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 company.

V. CONCLUSIONS AND RECOMMENDATIONS

The study concludes: Performance appraisal has a positive effect on the employee retention Therefore; improving employee performance by using performance management system is a way to improve organizational performance. Whereas, much attention is not given concerning performance appraisal process in the organization and there was not opportunity for employees to

participate in setting the standard of appraisal. In addition to that the appraisal process is not well known, the standards and results are not communicating to the employee, the requirement of measuring the retention of employee of the employee is sometime depends on the behavior of the employee rather than the standards

Employees have different attitudes and values regarding the varied aspects of their work; the effects of performance management on retention cannot be affected by job satisfaction. Thus, employees could either stay or leave the organization if they are not happy with the performance management practices that have been initiated but not necessarily because they are not satisfied with their job. The rewards and benefits are appreciated by the employees. Also, there appears to be no complaints on salary issues and there was an indication that total compensation is reviewed from time to time.

The study concludes that provides evidence that Performance feedback has a significant effect on employee retention in the organization. However, Performance feedback alone is not enough to retain a highly skilled, motivated and experienced workforce that the organization needs to excel. Therefore, the study recommends that: There is a need for the improvement of employee performance appraisal process in the company through training, communicating the appraisal process to the staffs', provision of proper feedback, standardizing the instrument and through different ways of indicating corrective actions. Rewards plays a significant role in the life of employee, it is recommended that employers must not interpret it as the only basis for retaining their employees because among other things, employees must deserve the kind of compensation they receive. Certainly their qualifications, experience and retention must be commensurate with the compensation they receive.

The feedback should be given with a positive attitude as this can have an effect on the employees' future performance. The result, the problems and the possible solutions are discussed with the aim of problem solving and reaching consensus. Therefore, HRM managers should strive to look for newer and innovative employee retention practices because it appears employees are keen on them.

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