

The Relationship between Allocation of Equal Employee Benefits and Employee Job Satisfaction and Performance at the Kenya Pipeline Company, Kenya

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Abstract

The purpose of this paper is to examine the effects of awarding equal employee benefits on employees' level of job satisfaction. It also explores the link between equal employee benefits and job performance based on a study conducted at the Kenya Pipeline Company, Eldoret Branch in Kenya. The study employed the interpretive case study methodology and descriptive survey research to obtain in depth information from the respondents. The target population comprised 180 employees at KPC, Eldoret branch. Stratified random sampling was used to select 49 employees, and purposive sampling to sample 6 senior management staff. Data was collected using a questionnaire, document analysis and an interview schedules. Documents such as the company's journals and the strategic plan were analyzed so as to complement data obtained through the questionnaire and the interview schedule. Descriptive and inferential statistics were used to analyze the data. The study established that there is a positive correlation between equal employee benefits and level of job satisfaction among employee. There was also a significant correlation between equal employee benefits and increased efficiency as well as profitability. Conversely, there was no significant relationship between equal employee benefits and corporate image, employee retention, cost reduction and staff morale. From the findings, it is essential for the company to harmonize the benefits package so as to cushion itself and its employees against the harsh effects of inflation. Lastly, the company ought to review its benefits award structure so as to make it more competitive, equitable and transparent. The study contributes knowledge useful in streamlining employee rewards systems in a bid to attain competitive advantage, improved performance and good corporate image. The company will also attract and retain the best talent as a result of adopting best practices in employee benefits management, as the management will benefit from good relations with its employees and will save on costs associated with lockouts and strikes.

Keywords: equal employee benefits, job satisfaction, performance, kenya pipeline company.

INTRODUCTION

Research aimed at quantifying the links between employee satisfaction and customer satisfaction, productivity, and financial performance began in 1980 with Benjamin Schneider's survey of satisfaction levels of bank customers and employees (Robert, 2001). Studies by Frederick Reichheld's, *The Loyalty Effect* (1996) and Heskett *et al.*'s *The Service Profit Chain* (1997), have produced the first sets of hard data quantifying these links. Both studies have concluded that there are direct and quantifiable links between customer service variables (such as satisfaction and loyalty), employee variables (such as satisfaction, enthusiasm, loyalty, commitment, capability, and internal service quality), and financial results (Sweetman, 2002).

In 1997, Development Dimensions International (DDI) conducted focus groups, customer interviews, and surveys to determine drivers of an effective service environment. DDI found evidence of a circular relationship between employee satisfaction and retention, customer satisfaction, loyalty, and

increase in company profitability. In addition, employee satisfaction was strongly related to employee commitment and loyalty, and both measures have proven relationships to retention and productivity (Koy, 2001). The study found that employees' perceptions of their capabilities, satisfaction, and length-of-service were correlated with customer satisfaction.

According to an Anonymous (2002), Gallup reports that highly satisfied groups of employees often exhibit above-average levels of the following characteristics: customer loyalty (56 percent), productivity (50 percent), employee retention (50 percent), safety records (50 percent) and profitability (33 percent).

A Watson Wyatt Worldwide study has found that the practice of maintaining a collegial, flexible workplace is associated with the second-largest increase in shareholder value (nine percent), suggesting that employee satisfaction is directly related to financial gain (Bruce & Ira, 2002). The study suggests that

effective human resources practices lead to positive financial outcomes more often than positive financial outcomes lead to good practices. The issue of causation - did the increases in employee satisfaction cause the increase in customer satisfaction, productivity or profitability, or vice versa - is not often addressed in research. However, according to Koys (2001), a 2001 study examined whether or not positive employee behaviours and attitudes influence business outcomes or if the opposite, that positive business outcomes influence employee behaviour established that employee satisfaction, behaviour, and turnover predict the following year's profitability, and that these aspects have an even stronger correlation with customer satisfaction.

Gallup report (2006) indicates that companies found the following from their efforts to study the links between employee satisfaction, customer satisfaction, productivity, and financial performance: unhappy employees are less productive and more likely to have higher absence rates. Satisfied employees are more productive, innovative, and loyal, increases in job satisfaction lead to increases in employee morale, which lead to increased employee productivity and employee satisfaction leads to customer retention (Gallup Reports, 2006).

While companies with the strongest financial performances often had employee populations reporting high levels of employee satisfaction, companies with poor financial performance also had high levels of employee satisfaction. Companies must build their own models because customer satisfaction is only one variable in understanding the relationship between employee satisfaction, customer satisfaction, and financial performance. Moreover, each company must determine how it defines employee satisfaction and customer satisfaction, which can even differ between departments and business units within one company (Grant, 1998). Employee attitudes cannot influence organizational effectiveness on their own, as employees must also behave appropriately - a factor which is not included in the available models (Sweetman, 2002).

Recent research indicates that employee satisfaction does not necessarily contribute directly to productivity. Satisfaction may be viewed as a passive attribute, while more proactive measures such as motivation levels and brand engagement are viewed as more closely linked to behavioural change, performance, and, ultimately, to bottom line performance (Goetzl & Ozminkowski, 2002).

According to the 2003 Institute for Employment Studies research, employee commitment had a higher correlation to customer satisfaction than employee satisfaction. Of note is that employee commitment had twice the impact of employee satisfaction on

customers' future spending intentions: a one-point increase in employee commitment led to a monthly increase of \$200,000 in sales per store and reduced absenteeism. Employee productivity depends on the amount of time an individual is physically present at a job and also the degree to which he or she is "mentally present" or efficiently functioning while present at a job. Companies must address both of these issues in order to maintain high worker productivity, and this may occur through a variety of strategies that focus on employee satisfaction, health, and morale (Stern, 2003).

Sears used an "employee-customer-profit chain" to analyze aggregated data from 800 stores, finding that employee attitudes towards their company and their jobs lead to positive employee behaviours toward customers. Sears found that a five percent increase in employee satisfaction drives a 1.3 percent increase in customer satisfaction, which results in 0.5 percent increase in revenue growth (Koys, 2001; Low & Kalafut, 2002). Between 40 and 80 percent of customer satisfaction and loyalty is determined by the customer-employee relationship, depending upon the industry and market segment. At Sears, employee satisfaction accounts for 60 to 80 percent of customer satisfaction. At the Royal Bank of Canada, 40 percent of the difference in how customers view its services can be linked directly to their relationship with bank staff (McDermott, 2001). PNC Bank Corporation found an 84 percent correlation between branches and their levels of customer satisfaction and employee satisfaction (Low & Kalafut, 2002).

Employee benefits have grown in importance over the past several decades (Decenzo & Robbins, 2002). Along with the increasing costs of employee benefits, the effects of such programs have received more attention. Little statistical evidence is available regarding the contribution of employee benefits to productivity, in particular, at firm level.

The benefits programme is a part of a total compensation package where it is often defined as a non monetary reward, non-cash payment and/or indirect payment. These terms are used interchangeably in organizations, but it still refers to the same thing (Henderson, 2006; Milkovich & Newman, 2007). The design and administration of the benefits programs are often affected by the dynamic changes that occur outside and inside organizations. Inside organizational factors are also called internal alignment variables (e.g. corporate strategies, management philosophy, nature of jobs, and level of outcomes). Outside organizational factors are also known as external competitive variables (e.g. economic pressure, government policies, laws and regulations, ownership, culture and customs) (Henderson, 2006; Milkovich & Newman, 2007). Considering these factors, most organizations

have changed their paradigms from a traditional job-based benefits (e.g. compulsory allocations, welfare, social needs and recreation) to one that emphasizes employee contributions (e.g. performance and flexible benefit packages) (Henderson, 2006).

Many scholars think that allocating the type, level and/or amount of benefits properly based on both criteria may help individuals to fulfil their needs and expectations, as well as improve their standards of living and statutes in society (Williams, 1995; Williams, Malos & Palmer, 2002). Thus, it may lead employees to support the organizational and human resource management's strategies and goals (Henderson, 2006; Milkovich & Newman, 2007). The early development of a compensation system much focuses on the internal properties of the benefits program. For example, many researches describe the definitions, objectives, types and importance of benefits program, as well as methods of distributing non-financial rewards to all employees within organizations (Henderson, 2006; Williams, 1995).

Further research in this area reveals that distributing benefit types properly may directly influence individual outcomes, especially job performance. For example, medical benefits, official duty claims and promotion are identified as the most important benefit types. If these benefits are properly allocated based on job and performance, this can lead to an enhanced job performance in organizations (Henderson, 2006; Williams, 1995). Surprisingly, a careful observation of such relationships shows that the effect of the benefit types on job performance is not consistent if feelings of distributive fairness in rewards are present in organizations. This relationship explains that an individual perceives fairness in rewards about the distribution of medical treatments, promotion and official duty claims can lead to increased job performance (Adams, 1963; Greenberg, 1990a).

An individual's perception of fairness about the distribution and change of resources may affect his/her attitude and behaviour (Greenberg, 1990a). For example, when employees perceive the interaction between output (e.g. benefit types) and input (e.g., effort and skills) ratio as equitable, this may motivate their performance. When employees perceive inequity in the interaction between such output and input ratio, this may cause discomfort. When employees perceive other employees are rewarded more for the same effort, they will react negatively (e.g. shirk) to correct the output to input imbalance. Relying on Adams' (1963) equity theory, feelings of equity or inequity about benefits programme may affect job performance (Lipold, 2002; Morris, Arzmi & Wood, 2004).

Employee benefits - viewed as a hygiene factor and provided to employees because of membership in the organization - do not motivate employees (Milkovich & Newman, 1990). Benefits may be valuable in recruiting and retaining employees, but are typically unrelated to productivity (Mondy *et al.*, 2002). Furthermore, citing various studies, Hennessey (1989) argues that benefits cannot help firms achieve competitive advantages. Similarly, Huseman *et al.* (1978), Sutton (1986) and McCaffrey (1987) argue that benefits can be seen a means to meet organizational objectives, such as increasing morale and retaining and attracting good employees; however, they claimed that benefits can affect employee attitudes and performance through operation of benefit programmes.

PROBLEM STATEMENT

Successful companies have a history of good reward systems in the form of employee benefits awarded to staff differentially based on individual performance. The concern of the study on which this paper is based, was that some companies are award equal employee benefits regardless of individual performance. This gap of disregarding individual employee effort in allocation of benefits is detrimental, especially to hardworking employees leading to low performance. The award of equal benefits fails to recognize workforce diversity. In most Kenyan state corporations and organizations, employee benefits are awarded equally for a specific job grade (GOK, 2007). This in return has contributed to high labour turnover; loss of talent, increased labour costs unmet targets and in most organizations such as KPC has not yet attained the top ten positions in national rankings of performance since the inception of performance contracting in Kenya. The author of this paper, therefore, seeks to establish the effects of equal employee benefits on organizational performance with a view to bridging the existing gap and improving on performance.

MATERIALS AND METHODS

The study targeted employees of the Kenya Pipeline Company (KPC) who work at the Eldoret branch. The branch has eleven departments with a population of 180 employees. Twenty are in senior management and 160 are in middle and junior level management. The study used an interpretive case study. Quantitative analysis was used to strengthen the qualitative aspect. A descriptive research design was adopted for the study.

Stratified sampling was used to draw a representative sample of 30% from senior, mid and junior level management employees into the study. Systematic sampling was then employed to draw respondents from the 11 departments existing in KPC, Eldoret branch namely; Administration, Instrumentation and Control, Security, Finance, IT, Operations,

Mechanical, Electrical, Procurement, Quality Control and Health and Safety departments. From a population of 180 employees, 6 senior management staff and 48 staff drawn from middle level and junior level were selected to constitute a sample size of 54 respondents. The six (6) senior management staff were interviewed whereas the forty-nine (49) employees were given questionnaires to fill.

Document analysis was also used to obtain the required data for this study. Data analysis was done with the aid of the Statistical Package of Social Science (SPSS). Qualitative data was summarized into themes and patterns and categorized into a homogeneous group with the quantitative data. Data was coded and analyzed using descriptive and inferential statistics. The output was then presented in the form of frequency tables, graphs and correlations.

RESULTS AND DISCUSSION

Effects of Awarding Equal Employee Benefits

Respondents were asked to rank the following effects of employee benefits from the most significant to the least significant, that equal employee benefits makes employees: happy and satisfied, committed, feel part and parcel of the organization, leads to decline in gender discrimination, employee retention, increased transparency and increased sense of belonging. Their ranking was as indicated below.

Table 1: Distribution of the Effects of Award Equal Employee Benefits

Ranking	Effects of award Equal Employee Benefits	Frequency	Percentage
First	It makes employees happy and satisfied	35	71.4
Second	It leads to a high morale among employees	22	44.9
Third	It enhances employee retention	17	34.7
Fourth	It makes employees committed	16	32.7
Fifth	It makes employees feel part and parcel of the organization	10	22.0
Sixth	It gives employees a sense of belonging	22	44.9
Seventh	Leads to decline in gender discrimination	10	33.4
Eighth	It increases transparency in the company	27	55.1

Source: Author, 2011

The respondents ranked the following effects of awarding equal employee benefits highly:

- Equal employee benefits make employees happy and satisfied.
- Equal employee benefits lead to a high morale among employees.
- Equal employee benefits enhance employee retention in the company.

- Equal employee benefits make employees committed.
- Equal employee benefits make employees feel part and parcel of the organization.

The following were, however, rated lowly by the respondents:

- Equal employee benefits give employees a sense of belonging.
- Equal employee benefits lead to decline in gender discrimination.
- Equal employee benefits increase transparency in the company.

The study sought to establish the significance of the relationship between employee benefits and its effect on job satisfaction. The findings are indicated in the correlation table below. The hypothesis stated that: There is no significant influence between employee benefits and employees level of job satisfaction.

Table 2: Types of Equal Employee Benefits and their Effects on Job Satisfaction

Effects of equal employee benefits	Pearson's r	Significance	N
Makes employees happy and satisfied	0.066	0.000	49
Leads to a high morale among employees	0.329	0.000	49
Enhances employee retention in the company	0.375	0.000	49
Makes employees committed	0.070	0.000	49
Makes employees feel part and parcel of the organization	0.329	0.000	49

Critical value at 0.05 level (2-tailed).

The study therefore established that there was a weak positive correlation between employee benefits and their level of job satisfaction ($r = 0.066$, $p=0.05$), morale ($r = 0.329$, $p=0.05$), retention ($r = 0.375$, $p=0.05$), commitment ($r = 0.07$, $p = 0.05$) and their sense of ownership ($r = 0.329$, $p = 0.05$).

The Link between Equal Employee Benefits and Job Performance

The study sought to ascertain whether or not there was a link between employee benefits job performance. From the findings, it was evident that a majority of the employees indicated that equal employee benefits had led to high efficiency (69.3%), increased profitability (73.3%), low employee turnover (53%), cost reduction (63%) reduced gender discrimination (53%) enhanced corporate image (79.6%) and high morale (69.3%) at the company.

Chi-square tests of independence established that equal employee benefits had a correlation with some of the performance indicators and did not show a correspondence with others. The study established that there was a significant correlation between equal employee benefits and the level of job performance as indicated by the chi square values of the

performance indicators such as: increased efficiency ($\alpha = 0.036$, $p=0.05$) and profitability ($\alpha= 0.000$). Conversely, the Chi-square test established that there was a significant relationship between equal employee benefits and performance indicators such as: enhanced corporate image ($\alpha = 0.993$, $p=0.05$), employee retention ($\alpha = 0.629$, $p= 0.05$), cost reduction ($\alpha = 0.130$, $p = 0.05$) and increased staff morale ($\alpha = 0.052$, $p = 0.05$).

These weak positive correlation coefficients (.066, .329, .375 and .07 respectively) indicate that there are weak statistically significant ($p < .05$) linear relationships between employee benefits and job satisfaction. Such that when employees are awarded benefits there is bound to be a direct response in relation to their job satisfaction. The job satisfaction is expected to be either low or high. The weak correlations however are indicative of the fact that despite the existence of a link between employee benefits and level of job satisfaction, seemingly there could be other confounding variables such as the quality of the benefit package, criteria used in awarding benefits, age, individual personality and the level of education which impact on this influence. The relationships presented above therefore, do not imply causality.

The study established that equal employee benefits influence job performance. This is in congruence with Gallup reports which established that highly satisfied groups of employees often exhibit above-average levels of the following characteristics: customer loyalty, productivity, employee retention, safety records, and profitability. According to a study by Gallup studies (2006), unhappy employees are less productive and more likely to have higher absence rates. Satisfied employees are more productive, innovative, and loyal, increases in job satisfaction lead to increases in employee morale, which lead to increased employee It can therefore be averred that the link between equal employee benefits and job performance among employees at KPC is varied. The relationships however, are correlational and do not imply causality. It is imperative that productivity and employee satisfaction leads to customer retention (Gallup, 2006).

CONCLUSION AND RECOMMENDATIONS

Employees at the KPC suppose that equal employee benefits makes employees happy and satisfied, is a morale booster among employees, enhances employee retention in the company, makes employees committed and enhances their sense of company ownership. The study established an insignificant association between equal employee benefits and increased efficiency as well as profitability. Conversely, the Chi-square test established that there was a significant relationship between equal employee benefits and corporate

image, employee retention, cost reduction and staff morale. The respondents ranked the effects of awarding equal employee benefits highly, saying that equal employee benefits: make employees happy and satisfied; lead to a high morale among employees; enhance employee retention in the company; make employees committed, and make employees feel part and parcel of the organization.

Companies should review its benefits award structure so as to make it more competitive, equitable and transparent. There is also a need for the company to align benefits to performance so as to cater for the gifted and talented employees.

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