



**EFFECT OF GRADING STRUCTURE ON THE RELATIONSHIP BETWEEN  
REMUNERATION DEFFERENTIALS AND EMPLOYEE PERFORMANCE IN  
PUBLIC UNIVERSITIES IN KENYA: A CASE STUDY OF JARAMOGI OGINGA  
ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY**

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**Abstract**

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*The Wage differentials are major issues that have made it difficult for the public sector to attract and retain talent. Linking pay to performance is something employers increasingly seek to achieve but still a challenge to many organizations including public universities. This study assessed the moderating effect of grading structure on the relationship between remuneration differential and employee performance in public universities in Kenya with particular interest on Jaramogi Oginga Odinga University of Science and Technology. This study adopted descriptive case study research design.. Findings of the study were: basic salary remuneration and allowances remuneration differentials were most influential on employee performance and it affected morale of employees, retention of employees and level of service delivery and achieving university mission and vision as an indicator of performance of motivated employees; the effect of grading structure in the university on the relationship between remuneration differentials and performance of employees in the university the results indicated that allowances remuneration differential influenced employee performance indicators like increased the number of research works done; increased readiness to undertake performance contracting and curriculum development for new programs in the university; for the basic salary remuneration differential the number of students served was the highest rated performance indicator, increase in the number of working hours; but the number of research works done was rated least at 36.6% when it is attached to basic salary remuneration differential.*

**Keywords:** enrolment, public universities, strategic management

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## 1.0 Introduction

One of the key issues of public debate and attention in Kenya is wage differentials that have made it difficult for the public sector to attract and retain talent. While surveys from developed countries show that public sector wages are on average higher than those of the private sector however evidence from developing countries is either limited or non-existent. The general perception is that employees in the private sector, particularly the highly skilled ones, earn much higher salaries compared to their public sector counterparts. An additional problem is the perception that there are even wider disparities within the public service itself, with those in the higher cadres earning disproportionately higher salaries. Also, within certain levels in the public service, education and experience do not seem, as they should, to account for differences in the wages. As a result of these perceptions, and coupled with the rising costs of living, several public servants have during 2011-12 “downed their tools” to demand higher wages. It is believed that wage differentials, both within the public service and between the public service and the private sector, lower morale and in effect output in the public sector. On this basis public universities in Kenya are not an exception to this problem.

Terrell (1993) study on public-private wage differentials pointed out that that public sector employment accounts for a significant portion of wage employment in developing countries. The ability to attract and retain highly skilled personnel is a major challenge in increasing government capacity to produce and implement good policies, including wage determination policy. In employment, a major debate revolves around public sector wage differentials that are significant for attracting and retaining talent. Substantial wage differentials result in low morale among public sector workers, thereby leading to poor performance. In most cases, perceived wage differentials have led to agitation among public workers for higher basic pay, better allowances and reduced salary margins between different subsequent pay grades as evidenced by strikes by various Kenyan professional groups including public universities. Linking pay to performance is something employers increasingly seek to achieve. Jobs with performance related pay (PRP) attract workers of higher ability and induce workers to provide greater effort (Booth and Frank, 1999). Much of the academic and policy literature on performance related pay focuses on its role as an incentive system (Marsden, 2004).

In recent years, there has been a discernable trend, particularly in the private sector, towards the linkage of rewards to employee performance in an attempt to enhance the achievement of organizational objectives (Mullins, 2005). Compensation is thus tied to performance. In many developed economies there has been a resurgence of interest in PRP, encouraged by governments (Perry, Engbers and Jun, 2009; Booth and Frank, 1999). This is consistent with the new view of organizations as a network of contracts linking incentives to performance (Dun-Icavy and Hood, 1994). As Milkovich and Newman (1996) observe, compensation is viewed from different perspectives by society, employees and managers. Society considers compensation as a measure of equity or justice, hence the slogan, ‘equal work for equal pay’. This reflects the public outcry against discrimination of any kind in the distribution of rewards. Employees consider compensation as a return for services rendered. They see it as a reflection of their personal worth in terms of skills and abilities, as well as the education and training they have acquired. Managers, however, view compensation from two perspectives: as a major expense and as a possible influence on employee attitudes and behaviors through compensation-based

motivational strategies. This potential to influence employees' work attitudes and behavior, and, subsequently, the productivity and effectiveness of the organization, is another reason why many people believe that pay decisions can become a source of competitive advantage (Milkovich, 1998).

In the public policy debate, it has been common to associate the introduction of PRP with the aim of improving incentives and motivation among public employees (Brown and Heywood, 2002). In Africa (Ghana inclusive), employees have for a long time been awarded financially on the basis of their entry qualifications and the perceived value of their job analysis and evaluation. Fosh (1990), in her study on attitudes to income inequalities in East Africa, found that differences in academic qualifications were the most cited reason for pay differentials. In addition, the design and operation of payment systems has been based upon custom and practice, as well as collective bargaining and characteristics of the labour market.

In Kenya, remuneration differential is not a new concept in public sector, according to the study by, KIPPRA (2013) remuneration differentials has severe implication on overall productivity in the public sector and the capacity of the sector to implement policies and reforms. The study stresses that the employment policy in Kenya inadequately addresses issues around remuneration differences within the public sector. The study informed on the state and magnitude of public remuneration differences in Kenya, and its impact of such on employee retention, morale and output in the public sector and its effects on economic growth, and the cost of labour. Wages in the public sector tend to have minimal variations compared to the private sector. Unlike the private sector, the public sector is not necessarily motivated by profit, hence it might not necessarily regard productivity as the most important attribute from human capital. Public sector jobs are also more service oriented. Therefore, the nature of public sector jobs makes it difficult to measure productivity and performance. Other factors that might come into play include the equitable distribution of public sector jobs and seniority.

According to the study public sector wages tend to be institutionally set based on structured pay grades, in contrast to the practice in the private sector where wages are based on estimated marginal returns of labour. Although government organs sign performance contracts for their institutions, performance appraisal is not used as a basis of pay determination, but is invariably applied to bonus sharing and other non-permanent benefits, which individual government organs opt to advance to employees in their institutions. Performance contracts are not adequately cascaded to individual workers, making it difficult to differentiate a productive and non-productive worker. The public sector in Kenya has in the recent past experienced increased wage demands due to the rise in trade union activity. In the absence of a proper means for wage setting, the public sector is likely to encounter intermittent demands for increased wages. This constrains the government from adjusting the size of the civil service in spite of the adverse effects that it may have on the wage bill. Public sector wage determination in Kenya, therefore, remains a big problem, since public expectations are sometimes inconsistent with the required approaches to creating efficiency and paying competitive wages.

Job satisfaction is quite important for human resource management and employees. Maxham (2003) found that job satisfaction positively correlates with customer satisfaction. The study argues that employees who are satisfied in their job will provide better service to customers and

their satisfaction will increase. The finding further shows existence of large vertical inequalities in wages within the public sector. This is particularly severe between the lower cadres and the highest cadres. The wide inequality is caused by the huge salaries obtained by individuals in the highest job groups, for example in the top 10% of the public wage earners. Wide wage differences also exist within the private sector, with earnings even higher at the top compared to those of the lower cadres, the within-sector (vertical) wage difference being greater than that in the public sector. The market clearing wage is distorted by pay structures in both the public and private sectors. The wage differential between the two sectors and within the sectors has caused a wage distortion in the wage economy. The principles of wage determination have been violated, and education and experience are rarely considered in wage determination. Therefore, this study is designed to examine the effects of remuneration differences on employee performance with particular interest on Jaramogi Oginga Odinga University of Science and Technology (JOOUST) employees. The University like any other government institution may be affected by remuneration differentials which is dominant in the public sector.

## **1.2 Statement of the Problem**

Remunerations deferential according to KIPPRA (2013) have severe implication on overall productivity and performance of employees in the public sector and the capacity of the sector to implement policies and reforms. For example effect on employee retention, morale and output in the public sector, and their effects on performance, and on the cost of labour. Despite the relative importance played by wages, the overall job satisfaction that an individual derives from an organization is the most significant determinant of whether the individual quits or stays in the public sector. A percentage increase in the proportion of public sector workers who are satisfied would result in about 19% reduction in turnover in the general public sector and 17% in civil service. Incentives and allowances play a significant role in ensuring employee retention within the public sector. However, basic salaries alone significantly decrease retention chances. JOOUST has over the years faced low employee morale, high rate employee turn- over and inequalities in employee grading. This has greatly affected the performance of employees and this research intend to find out how the effects of remuneration differentials such as employee morale, employee retention and job grading structures affect performance of employees in the organization. It is against this background that the researcher focused on effect of grading structures on the relationship between remuneration differential and employee performance at Jaramogi Oginga Odinga University of Science and Technology (JOOUST) since no known research has been at done to address the problem.

## **1.3 Objectives of the Study**

- i. To establish the influence of basic salary remuneration differentials on employee performance at Jaramogi Oginga Odinga University of Science and Technology.
- ii. To find out the extent to which allowances remuneration differentials influence employee performance at Jaramogi Oginga Odinga University of Science and Technology.

- iii. To establish the moderating effect of job grading structure on the relationship between remuneration differentials and employee performance at Jaramogi Oginga Odinga University of Science and Technology.

## **1.4 Literature Review**

This section focused on two theories; the equity theory and the goal setting theory to direct this study.

### **1.4.1 Equity Theory**

The equity theory was first developed by J. Stacy Adams in 1969. Adams was a workplace and behavioural psychologist who asserted that employees seek to maintain equity between the inputs that they bring to a job and the outcomes they receive from it against the perceived inputs and outcomes of others (Adams 1969). Equity theory focuses on determining whether the distribution of resources is fair to both relational partners. Equity theory suggests that employee perceptions of what they contribute to the organization, what they get in return, and how their return-contribution ratio compares to others inside and outside the organization, determine how fair they perceive their employment relationship to be (Adams, 1969).

### **1.4.2 Goal Setting Theory**

This theory was developed by Locke, Shaw, Sarri and Latham in 2008 and it defined a goal as what an individual attempts to accomplish; it is the object or aim at certain actions. The basic assumption of goal-setting is that goals are immediate regulators of human actions (Locke et al., 2008). Evidence from the goal setting research indicates that specific goals leads to increase performance and that difficult goals, when individuals have accepted them, results in higher performance than easy goals (Locke 1968 in Austin and Bobko, 1985; in Locke, 2004). Goal setting has four motivational mechanisms (Bryan and Locke, 1967; Locke and Latham, 2002). The first motivational mechanism is that goals that are personally meaningful and interesting tend to focus an individual's attention on what is important and what is relevant (Locke et al., 2008). The second mechanism is that goals have an energizing function. Simply put higher goals leads to more effort than lower goals (Bryan and Locke, 1967). The third mechanism is that goals affect persistence. Persistence is the effort expended on a specific task over a certain amount of time (Laporte and Nath, 1996). Normally, the more difficult a goal is to achieve, the higher the persistence. The last motivational mechanism holds that goals affects action indirectly by leading to the arousal, discovery and use of knowledge and strategies (Wood and Locke, 1990 in Locke et al., 2002).

## 2.0 Conceptual Framework

A conceptual framework was developed based on the empirical literature reviewed by the study

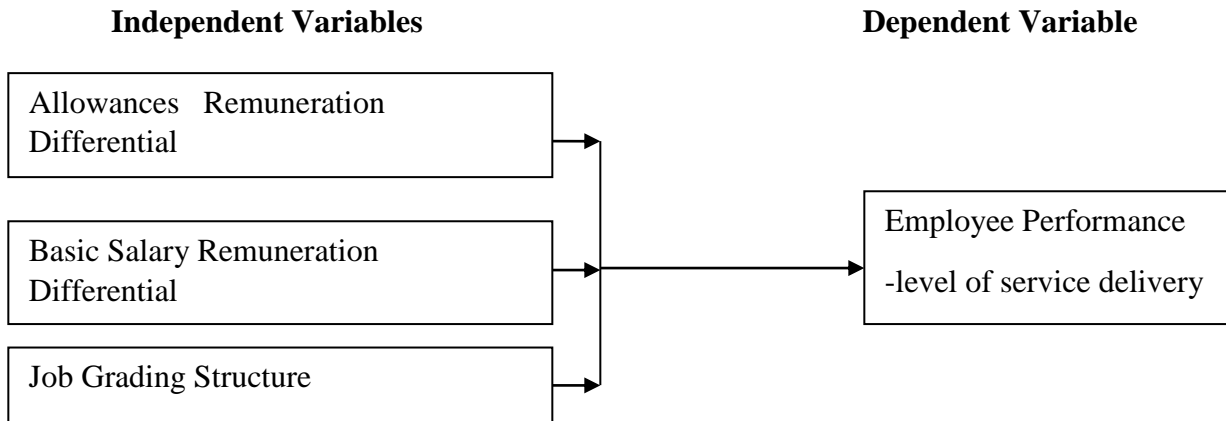


Figure: 1: Conceptual Framework

## 3.0 Research Methodology

This study adopted descriptive case study research design. It provided data for describing phenomena by obtaining and measuring specific variable. Descriptive case research design was adopted because it describes the area of interest and also because the data will be collected from a relatively large number of cases making it more representative. It includes gathering of information with the intention of describing the effects if remuneration differentials on employee performance at Jaramogi Oginga Odinga University of Science and Technology. Generally, population can be defined as a complete set of individuals, cases or objects with some common observable characteristics of a particular nature distinct from the other population. According to The target population for this study was teaching and non- teaching employees of Jaramogi Oginga Odinga University of Science and Technology who are serving on permanent terms of service. The target population of interest in this study was 391 employees. The target Population for this study will be the employees of JOOUST. This study adopted a census sampling technique and therefore all the 391 respondents were covered adequately in the study.

Data was analyzed using quantitative analysis by employing descriptive statistics procedures. Descriptive statistics techniques were used to summarize the sample data by use of percentages, frequency, distribution and mean. Data results were presented using different forms of tables such us frequency tables and tabulation tables.

## 4.0 Results of the Study

### 4.1 Duration of Service of the Respondents

The study established the duration of service in terms of years the respondents had served as employees of the institution as a university. The information collected from the field was presented as in table 1 on the next page.

**Table 1 Duration of Service of the Respondents**

<b>Duration in years</b>	<b>Frequency</b>	<b>Percentage</b>
Less than 1 year	34	8.7%
Between 1 year and 3 years	119	30.43%
Between 3 years and 5 years	205	52.42%
Above 5 years	33	8.4%
<b>Total</b>	<b>391</b>	<b>100%</b>

Majority of the respondents had served the university for between 3 years and 5 years. The results concurs with past studies like Graham and Benneth (1989) who defined turnover as "the relationship between the number of persons joining the organization and those leaving due to resignation, retirement or retrenchment and average number of people on the payroll". According to IRS (2000) states that rates of turnover provide a graphic illustration of the turbulence within an organization high rates of attrition can destabilize a business and demotivate those who attempt to maintain levels of service and output against a background of vacant posts, inexperienced staff and general discontent." Obviously recruitment, induction and training costs all rises with an increase in labour turn over. According to the CIPD report (2000), turnover may be a function of negative job attitudes, low job satisfaction, combined with an inability to secure employment elsewhere, that is, the state of labour market. On the other hand turnover is a normal part of the organizational functioning, and while excessively high turnover may be expected and can be beneficial to an organization.

#### **4.2 Grading Structure of the Respondents**

The study established the job grading structure of the respondents in this study. The information obtained from the field was presented as in table 2 below

**Table 2 Grading Structure of the Respondents**

<b>Grade Category</b>	<b>Frequency</b>	<b>Percentage</b>
Staff in Grades 1-4	154	39.38%
Staff in Grades 5-10	90	23.02%
Staff in Grades 11-15	147	37.59%
<b>Total</b>	<b>391</b>	<b>100%</b>

Table 2 indicate that 39.38% of the total respondents were in grade 1 to 4 while those in grade 11 to 15 formed 37.59% and the least was those employee in grade 5 to 10 in the university. The study further established whether the respondents were satisfied with the remuneration in their basic salary and allowances differentials respectively. The responses obtained were as presented in table 3.

**Table 3 Satisfaction as per Grading Structure Remuneration Differential**

Grade Category	Frequency	Percentage
Strongly Agree	210	53.70%
Agree	73	18.67%
Disagree	42	10.4%
Strongly Disagree	66	16.87%
<b>Total</b>	<b>391</b>	<b>100%</b>

Table 3 indicate that majority of the respondents strongly agree with grading structure and its remuneration differential and are satisfied. 18.67% of the total respondents agree that they are satisfied with the remuneration differentials while 16.87% of the total respondents strongly disagree on the grading structure and related remuneration differentials. This result differs with Swanepoel (2003), whose study described that employees be rewarded according to the position held without considering their performance. The increments in basic pay depended on internal and external assessment of jobs. But this result concurs with Bohan (2004) who explains that traditional pay systems were based on the three factors: the job, maintaining the level of equality in standard pay among employees in the organization and paying competitive salaries.

#### 4.3 Remuneration Differentials and Employee Performance

The study established the effect of remuneration differentials on employee performance in the university. The response rate obtained from the field was recorded as in table 4 below

**Table 4 Remuneration Differentials and Employee Performance**

Basic salary remuneration differential	Employee performance		
	Attribute	Frequency	Percentage
	Most influential	279	71.35%
	More influential	103	26.34%
	Moderately influential	5	1.28%
	Less influential	3	0.76%
	Not influential	1	0.25%
Allowances Remuneration Differential	Most influential	263	67.20%
	More influential	98	25.06%
	Moderately influential	13	3.32%



Less influential	10	2.55%
Not influential	7	1.79%

Table 4 indicate that majority of the respondents 71.35% (279) expressed that basic salary remuneration differential was most influential on employee performance; but the on the allowances remuneration differentials 67.2% (263) of the total respondents expressed that it influenced employee performance in the university. The study results concurred with Greenwald (2014) research on employee morale that there is always a link between morale and productivity. However many significant evidences demonstrate that in the long run high-producing employees does tend to have high morale. High morale puts employees in a frame of mind to be dynamic and in intense desire to accomplish and seek increased responsibility (Hilgert et al, 1995). Employees are willing to be cooperative, loyal, voluntary discipline, initiative-interest, and pride in organization. These distinguishing features make workers satisfying in their position, have confidence in their capability, and work with keenness to meet the organization's strategic business objectives. Companies with high morale keep their employees for longer period. They do not have to lose time for training, and the employees who are there know what is expected of them and know how to do their jobs effectively and in less time than someone who is just starting out (Barret, 2016).

#### 4.4 Remuneration Differentials and Employee Performance

The study established the influence of employee remuneration differentials and performance indicators. The respondents were asked to rate the indicators on a five point Likert scale ranging from 1.0= not influential, 2.0= less influential, 3.0 moderately influential 4.0 more influential and 5.00 most influential. The information obtained from the field was presented as in table 5 below

**Table 5 Remuneration Differentials and Employee Performance**

Statement	5	4	3	2	1	$\Sigma f_i$	$\Sigma w_i f_i$	$\Sigma w_i f_i / \Sigma f_i$
Employee morale increases level of service delivery	213	74	61	40	3	391	1627	4.160
Employee morale promote high productivity within the work force in terms of working hours	84	193	110	3	1	391	1529	3.910
Employee morale leads to less supervision.	58	164	94	72	5	391	1377	3.520
Remuneration differential promote employee retention	203	74	76	26	12	391	1603	4.100
Remuneration differential contributes to achieving university mission and vision as employees are motivated	184	140	60	4	3	391	1671	4.27

Table 5 indicate that remuneration differentials influence on employee performance shows that morale of employees increases at the same time it increases level of service delivery. This performance indicator was rated by the respondents at 4.160 weight mean strength that it is more influential on employee performance. For the promotion of employees retention or turnover as the indicator of performance it was rated by the respondents at 4.100 mean weight while achieving university mission and vision as an indicator of performance of motivated employees and related to performance the respondents rated it at 4.27 mean weight which is the highest magnitude in terms of response rate by respondents. According to Brian (2006), employee engagement and level of contribution depends on staff feeling that they are fairly rewarded for their skills, knowledge and contribution. There is no right or wrong pay and benefit package. Further, fundamental purpose is to provide positive consequences for contributions to desired performance by employees (Wilson, 2003). The only way employees will fulfill their employers dream is to share in their dream.

#### 4.5 Grading structures on Remuneration Differentials and Employee Performance

The study established the effect of grading structure in the university on the relationship between remuneration differentials and performance of employees in the university. The categorization of the information was on basic salary remuneration, allowances remuneration differentials and employee performance indicators were used. The information obtained was presented as in table 6 below.

**Table 6 Grading structures on Remuneration Differentials and Employee Performance**

Remuneration differential	Effect on Employee Performance	Frequency	Percentage
	Increases number of students served	246	62.9%
Allowances differential	Increase in working Hours	184	47.1%
	Increase in number of research works done	318	81.3%
	Ready to undertake performance contracting	341	87.3%
	Contribution to curriculum development	327	83.6%
	Less employee supervision	237	60.6%
	Reduced number of complaints	268	68.5%
Basic Salary differential	Increases number of students served	374	95.6%
	Increase in working Hours	317	81.1%
	Increase in number of research works done	143	36.6%
	Ready to undertake performance contracting	193	49.4%
	Contribution to curriculum development	216	55.24%
	Less employee supervision	184	47.1%

Table 6 indicate that allowances remuneration differential influence on the employee performance indicators, the respondents indicated that 81.3% revealed that it increases the number of research works done; 87.2% of the respondents expressed that it increased readiness to undertake performance contracting and 83.6% of the respondents expressed that it helps in curriculum development for new programs in the university. For the basic salary remuneration differential the number of students served was indicated as the highest rated performance indicator by the respondents at 95.6%; while increase in the number of working hours was rated by 81.3% of the total respondents. The number of research works done was rated least at 36.6% by the respondents when it is attached to basic salary remuneration differential. In relation to reduced number of complaints the respondents expressed upto 42.95 that this remuneration differential contribution to this performance indicator.

## 5.0 Conclusion

From the findings the study concludes that remuneration differentials influence employee performance in public universities. Further allowances remuneration differentials have greater effect on employee performance than basic salary remuneration differentials on employee performance in public universities. From the findings and conclusion on grading structures, allowances remuneration and basic salary remuneration differentials the management of public universities may maximize the use of allowances remuneration differentials to maximize employee performance.

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