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Effects of Retirement Benefits on Organisational Performance in Kenya: A Case of Makueni County

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Abstract

Employees form the human capital factor in all organizations and symbolizes all human abilities irrespective of the inherent or learnt qualities, whose worth could be improved by suitable development investments. Organizations therefore need to ensure that they offer compensation and welfare packages that increase employee motivation. The motivation of employees increases when their needs which leads to increased productivity and efficiency in delivery of service. Achieving optimal performance in public service remain a challenge in Kenya. The study sought to evaluate the effect of retirement benefits on the performance of Makueni County Public Service. The social exchange theory guided the study. Out of the 3679 employees, proportionate stratified random sampling was used to identify 376 respondents and a semi-structured questionnaire was used to collect the primary data. Descriptive research design was used while descriptive statistics, specifically the mean and the standard deviation was used to analyse the data while inferential statistics was done by use of a regression model. The regression analysis showed that 45.3% of the organizational performance is was explained by availability of retirement benefits. The study concludes that retirement benefits have a positive significance correlation on organizational performance and the availability of these benefits boosts employees' satisfaction and consequently their performance and that of the organization in general. The study recommends that County Government of Makueni should ensure an equitable provision of retirement benefits; train staff on the available retirement benefits and provide staff with options to choose from. The study recommends that the human resource directorate should conduct sessions with employees to identify the gaps in the staff retirement benefits and action on the recommendations.

Keywords: *Retirement Benefits, Organizational Performance, County Government of Makueni*

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1.0 Introduction

Performance and higher productivity among organization are the main target and dreams of organizations. The extent to which employees are able to expend their efforts towards the accomplishment of organizational goals is depended upon how they are treated and taken care of by organization stakeholders (Bernardin, 2010). Performance came into existence in the 19th century and was used to define the results of sports contest. It evolved in the 20th century and developed as a series of definitions which encompassed in a wide range what is perceived through performance.

In Kenya, public sector reforms of 2007 were initiated to improve and promote the efficiency of the public service sector. The economic report by the G.O.K (2012) indicated that there was a decrease in the contributions made by the employment sector in the GDP of the country despite wealth creation by the sector. The main cause of drop in the economic growth and development is poor labor productivity. There are several welfare facilities which include: intra-mural welfare facilities which are provided within the organizations boundaries and they include provision for safety measures, first aid services and good working conditions. The second category is extra-mural facilities which are provided outside the organization boundaries and they are voluntary. These include recreation facilities, housing and educational facilities. The third category is the statutory facilities which are passed by law and cannot be ignored and their mishandling is punishable by law. The fourth category is the mutual facilities which are outside statutory requirements and are voluntarily undertaken by staff for their own interests. The final one is voluntary facilities which are provided by employers voluntarily and increase productivity of staff (Dyer, 2006).

The County Government of Makueni, the human resource unit and the County Public Service Board (CPBS) has developed and adopted the county human resource manual which elaborates the county staff welfare. The county has a pension scheme which employees and the employer contribute monthly. The staff on contract basis are entitled to a gratuity after the end of their contract period (Makueni County Public Service Human Resource Manual, 2017).

1.1 Statement of the Problem

A human resource plan plays an important role to ensure that organization achieves its set goals and targets. The employee welfare packages are put in place to enhance organizational productivity and promote the working conditions for the employees within the organization (Ndinya, 2017). The employee motivation increases when their needs are met consequently increasing productivity which leads efficient and effective delivery of services, a precursor to improved organizational performance. There is a challenge in the efforts to achieve optimal performance in public sector service despite many studies being done to determine how welfare programmes influence the performance of employee.

Karori (2006) studied the perception of employee welfare programs in the large manufacturing firms in Nairobi; establishing that majority of the firms provide welfare programs for their employees and Wainaina (2011) studied how welfare programs and employee satisfaction were related at Capital Group Limited concluding that the welfare programs boosted employee levels of satisfaction. Masinde (2011) found out that welfare benefits lead to greater level of motivation which consequently help firms retain employees and boosts their productivity. Kuria (2012) found that the welfare programs influence employee satisfaction. The reviewed studies indicated that

there are limited studies on the effect of retirement benefits programs on organizational performance. This constituted gap in knowledge and this current study seeks to address that gap.

Dismal performance of the County Public Service came to light when the County Government adopted performance contracting effective FYs 2017/18. An employee satisfaction survey was conducted in the 2018/19 financial year and the findings indicated that the employees were dissatisfied with the work environment and the welfare programs. This study therefore seeks to determine how employee welfare programs at the County Government of Makueni affects the performance of the County Government.

1.2 Objective of the Study

The study aimed at evaluating the effect of retirement benefits on organizational performance County Government of Makueni.

2.1 Theoretical Framework

This study was anchored on Social Exchange Theory. This theory was developed by a sociology theorist known as George Homans (1958). It is among the most influence concepts of understanding workplace dynamics. The social exchange theory thrives on the assumption that activities taken by the organization to encourage its employees leads to employee commitment to the organization (Aldhuwaihi, 2013). Based on the assumption of the theory, employees when they join the organization expect that the organization will provide good working conditions and good culture. The employee will then apply their knowledge and abilities to achieve the goal of the organization. The favorable exchange between the organization and its employees leads to an increased commitment to the organization. According to the social exchange theory, a casual model is articulated which explains the relationship between organizational culture, strategic orientation, organizational culture and organizational commitment which then affects the organizational performance. The social exchange theory is based on three principles which include; reciprocity, rationality and specificity which explains the relationship between employer and employee (Enoksen, 2012). The rationality principle explains that employees will have an association with the organization which will result to rewards and satisfaction of the needs and wants of the employees. The reciprocity principle reasons that social relationship is always reciprocated between the employer and the employee. The specificity principle theorizes that the reciprocity type is able to endure an exchange relationship between the organization and the employee (Enoksen, 2012).

Strategic orientation and organizational culture are a main areas organization should focus on to improve employee commitment to the organization. In exchange of this, employees will increase their loyalty to the organization and this will significantly affect the outputs of the organization which include performance (Pinho, 2012). The link between organizational commitment, organizational culture, strategic orientation and organizational performance are intertwined and exhibits the resource exchange relationship (Enoksen, 2012). The reciprocity of all these components are likely to bring satisfaction to both the employee and the employer. This theory will be the anchor theory since explains all the variables under study.

2.2 Empirical Review

According to Jaekwon Ko (2013), organizations provide traditional benefits such as retirement benefits in order to improve the attitude of employees. These benefits include pension schemes, security plans and severance pay which are aimed at giving employees financial security to employees after they exit workforce. A study conducted by Bernardin (2010) Chinese companies' emphasis on social security which is aimed at achieving sustainable development. Descriptive study design was used in the and it concluded that the implementation of labor friendly policies help companies perform better than similar firms in term of both operating result and returns on long run stock market.

A study by Zirra (2019) on benefits' influence on employee performance at the NASCO group, Jos plateau state, using stratified sampling on 189 employees concluded that retirement benefits significantly influence employee productivity. Pensions highly determine the behavior of workers and encourages retention of young employees in the organization and the older worker are encouraged to retire timely since their financial security is guaranteed. The study recommended that the management to review the current retirement package since this will enable the organization attract and retain competent employees. The study however failed to explore how these benefits impact the performance of public service. This is the gap the current study seeks to answer.

Haan (2014) sought to estimate the structural lifecycle model of employment, retirement and consumption decisions made by individual employees in Germany. The findings indicated that a 3.76 increase in years in the pension age and that there was a reduction of 26.8% in the annual value of public pension benefit which would cause a balance in the fiscal consequences that are related to increase in the life expectancy anticipated to occur in the next forty years. The study concluded that employees can voluntarily forfeit 8.51% of their baseline consumption in order to avoid the cut in the pension value per year. The findings indicated that once the pension age is increased it increases the wellbeing of eighty-seven percent of employees and encourages retention of employees and job satisfaction. This study however did not look at how retirement benefits impact the performance of organizations which prompted the researcher to determine the effect of retirement benefits on organizational performance.

A study by Robles (2018) found out that despite retirement policies being a push factor for unemployment of old aged workers, they are also a pull factor. The pension benefits pull old aged workers out of employment way before the retirement period. The availability of retirement benefits contributes to the pull factor of retirement. Employee benefits should include pension schemes for employees as they offer financial security after retirement. These retirement benefits tend to attract and retain the highly qualified employees.

3.0 Methodology

The research used descriptive research design. This study design was appropriate for this research because it helped identify characteristics, frequencies, trends and categories. The design was fundamental in addressing the study question on how the retirement benefits affects the performance of Makueni County.

The study was conducted in County Government of Makueni Headquarter offices located in Wote Town. The study targeted all the 3679 employees of the County Government of Makueni Public Service deployed in different departments. This study adopted a proportionate stratified sampling

technique identifying 376 respondents. The study used questionnaire for data collection. The tool was pretested in the same context and improved before conducting the main study. The data collection was done upon a formal approval the link to the questionnaire was shared to specific departmental heads for further dissemination to staff.

The collected quantitative data was analyzed through descriptive statistics, using mean, percentages, frequency distributions and standard deviations.

The multiple linear regression model was as follows:

$$Y_0 = \beta_0 + \beta_1 X_1 + \varepsilon$$

Where;

Y_0 is organization performance

β_0 is constant

β_1 , coefficients or regressors

X_1 is Retirement benefits

ε is the error term

4.0 Findings and Discussion

The study achieved 75% response rate where 284 respondents duly filled and returned the questionnaire while the remaining 92 (25%) did not respond. The 75% response rate was sufficient for the analysis since Gordon (2002) stated that for social sciences, 60% response rate is acceptable but 70% is more desirable. The response rate of 75% was above the desirable rate.

4.1 Descriptive Analysis

Retirement Benefits and Organizational Performance

The study sought to measure the effects that the retirement benefits affected the performance of the County Government of Makueni and the results are as tabulated in Table 1.

Table 1: Descriptive Statistics on Retirement Benefits and Organizational Performance

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strong Agree
Pensions influence the behavior of employees. young people are encouraged to work and older people to retire	12.7%	7.4%	18.7%	15.5%	46.1%
Retirement benefits influence the rate of employee turnover	7.4%	5.6%	18.7%	18%	50.4%
Retirement benefits attracts better skilled employees	8.1%	6.3%	14.4%	16.5%	54.6%
Retirement benefits boosts employee motivation and encourages productivity	2.5%	3.2%	11.6%	13.4%	69.4%
Retirement benefits offered increase the loyalty of employees reducing shirking.	3.9%	4.9%	15.8%	19%	56.4%

Source: Research Data (2022)

Table 1 depicts that, 46.1% strongly agreed that pensions influence the behavior of employees. Young people are encouraged to work and older people to retire, 15.5% agreed, 18.7% were neutral, 7.4% disagreed and 12.7% strongly disagreed. On the issue of retirement benefits influencing the rate of employee turnover, 50.4% of the respondents strongly agreed, 18% agreed, 18.7% were neutral, 5.6% disagreed and 7.4% strongly disagreed. Fifty- four point six percent of the respondents strongly agreed that retirement benefits attract better skilled employees, 16.5% disagreed, 11.6% were neutral, 3.2% agreed and 2.5% strongly disagreed. On retirement benefits boosts employee motivation and encourages productivity, 69.1% of the respondents strongly agreed, 13.4% agreed, 11.4% were neutral, 3.2% disagreed and 3.9% strongly disagreed. On the Retirement benefits offered increase the loyalty of employees reducing shirking, 3.9% of the respondents strongly disagreed, 4.9% disagreed, 15.8% were neutral, 19% agreed and 56.4% strongly agreed. These findings concur with the study by Robles (2018) who indicated that retirement benefits increase the employee loyalty to the organization, reduce shirking and employee turnover and improves the performance of the employees since their retirement after life is guaranteed.

Sixty-nine percent of the respondents said that the availability of retirement benefits affect their productivity while 31% said that the availability of the retirement benefits does not affect their productivity. Fifty-seven percent if the respondents said that the retirement benefits affect their productivity to a large extend, 18% were neutral while 25% said that the retirement benefits affect their productivity to a low extend. Sixty-five percent of the respondents said they would leave the organization to another organization with better retirement benefits while 35% said they would not leave the organization to another with better package.

Table 2: Regression Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.591 ^a	.350	.456	.49176
a. Predictors: (Constant), X ₁				

Source: Research Data (2022)

The results from the regression shows that the coefficient of determination as indicated by the adjusted R squared to be 0.456. This implies that 45.6% of organizational performance is explained by retirement benefits. The respondents agreed that the retirement benefits encourage the retention of young employees and encourages the old to retire. This is in tandem with the study by Zirra (2019) who stated that the old retire since their financial security is guaranteed upon retirement if benefits are provided. The respondents indicated that the retirement benefits are not explained to them in a clear manner. The respondents indicated that the staff who are employed on contract terms indicated that their gratuity delays and at most of the instances there are no clear reasons as to why the gratuity delays. The respondents indicated that the availability of retirement benefits acts as a motivation for them to be productive which in turn contributes to the performance of the county government.

Table 3: ANOVA for Retirement Benefits (X₁) and Organizational Performance (Y)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.860	1	30.312	135.563	.000 ^b
	Residual	251.40	276	.242		
	Total	252.26	277			

a. Dependent Variable: Y, b. Predictors: (Constant), X₁

Source: Research Data (2022)

The ANOVA was used to show the significance of the model. The p-value is less than 0.05, then X₁ had a significant explanatory power on Y (F=135. 563 and p-value <0.05).

The study findings indicated that 61.6% of the respondents agreed that pensions encourage young people to work and older people to retire while 38.4% disagreed. The respondents (68.4%) agreed that retirement benefits influence the rate of employee turnover. Majority of the respondents (81.1%) agreed that retirement benefits attract better skilled employees. Majority of the respondents 81.8% agreed that Retirement benefits boosts employee motivation and encourages productivity. Majority of the respondents 75.4% agreed that retirement benefits offered increase the loyalty of employees reducing shirking. The study findings indicate that 45.6% of the organizational performance in Makueni County is influenced by availability of retirement benefits. The respondents indicated that the challenges faced in the retirement benefit component of staff welfare include; delays in the payment of gratuity for the contractual staff, non- responsiveness of the HR directorate on the issues facing staff on retirement benefits, inadequate capacity building on the available schemes, limited choice of the pension schemes and lack of retirement preparedness training to staff upon entry into the jobs.

5.0 Conclusion

The study concludes that the availability of retirement benefits gives older employees motivation to exit public service when their retirement age is attained. This is because their future is secured by the benefits they accrue upon exiting public service. This creates room for young employees who are energetic and able to offer maximum service delivery improving the organizational performance. The study concludes that the availability of retirement benefits helps retain the seasoned and experienced employees hence maximizing on their potential and institutional memory in service delivery which contributes positively to organizational performance.

6.0 Recommendations

The county government of Makueni should sensitize staff on the available retirement packages and undertake reviews of the existing retirement schemes to ensure they serve the interests of the staff. The county government should ensure that the gratuity and pension payments for the staff are processed in good time this will encourage the older staff to retire hence creating space for new entries.

The study recommends that a study be done to establish the effectiveness of the retirement benefits in enhancing employee satisfaction. The study also recommends further studies to be conducted to establish the effect of other employee welfare benefits on organizational performance.

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