

EFFECT OF REWARD POLICIES ON EMPLOYEE RETENTION IN COMMERCIAL BANKS IN NAIROBI COUNTY

Immaculate Katula Nzyimi¹, Mr. George Gachuru², Mr. Eric Siele³

Correspondence email:
katula1987@gmail.com

^{2,3}Lecturer School of Business and Leadership Studies
St. Paul's University
P.O. Box Private Bag-00217, Limuru Kenya

ABSTRACT

Employee retention in commercial banks remains a critical challenge, with high turnover rates negatively impacting organizational performance and increasing recruitment costs. Despite various reward systems in place, it is unclear to what extent these policies effectively influence retention in the competitive banking sector. The objective of this study was to determine the effect of reward policies on employee retention in commercial banks in Nairobi County. Grounded in High-Performance Work Systems (HPWS) Theory, the study employed a descriptive research design targeting Tier 1 banks, namely Equity Bank, KCB, ABSA, Cooperative Bank, and NCBA. Stratified sampling was employed to achieve a sample size of 595 employees, determined using Slovin's formula to ensure a high confidence level. Data collection involved a structured questionnaire distributed to managers within the banks. Reliability was evaluated using Cronbach's alpha coefficient. Data analysis was conducted using SPSS version 26, focusing on descriptive, correlation, and regression analysis. A significant positive correlation ($r = 0.547$) was found between employee retention and reward policies, indicating that as reward policies improve, employee retention tends to increase. This suggests that better reward systems, such as competitive salaries, bonuses, and recognition programs, are likely to enhance employee satisfaction and loyalty, leading to a lower turnover rate. The study recommends collaboration between policymakers and banks to develop comprehensive human resource policies that prioritize employee retention.

Keywords: *Employee retention, Reward policies, High-Performance Work Systems (HPWS), Commercial banks, Nairobi County.*

I. INTRODUCTION

Successful organizations understand the invaluable role of employee retention in maintaining a competitive advantage in the fast-paced corporate environment. Employee retention is critical for operational continuity and ensuring the availability of skilled and experienced workers (Sepahvand & Khodashahri, 2021). High turnover results in costly expenditures associated with identifying and training new hires, alongside diminished productivity and morale among existing staff (Al-Suraihi et al. 2021).

Research by Deloitte reveals that businesses in the United States incur an annual cost of \$100 billion due to employee turnover, underscoring the significance of implementing effective reward policies (Meister & Willyerd, 2010). Replacing an employee typically costs between six to nine months of their salary, factoring in productivity losses during transitions, recruitment, training, and onboarding expenses (O'Connell & Kung, 2007).

Moreover, retaining personnel enhances production, boosts employee morale, and increases customer satisfaction, aligning with sound performance management practices (Bashar et al. 2023)). Empirical evidence indicates that robust reward policies can enhance organizational efficiency and earnings, reaffirming the necessity of employee retention (Mbukwana & Ayandibu, 2023). As Sypniewska, Baran and Kłos (2023) note, contented employees are more likely to stay with their organizations when positive work atmospheres and growth opportunities are provided, reflecting

adherence to effective health and safety policies.

In the financial sector, staff retention has emerged as a significant concern due to fierce competition for top talent (Mazlan & Jambulingam, 2023). A Deloitte survey revealed that only 6% of financial institutions feel confident about retaining their key personnel, with 64% perceiving retention as a serious issue (Zainee & Puteh, 2020). High employee turnover in the financial services industry incurs substantial costs, including direct recruitment and training expenses, as well as indirect costs linked to decreased productivity and lower morale among remaining employees (Khan et al.2023).

Additionally, high turnover negatively impacts client satisfaction and confidence (Hurley, 2015). Frequent employee departures create instability and unreliability, prompting customers to question the business's credibility and leading to diminished client loyalty and declining sales (Al Kurdi, 2020). High turnover complicates the establishment of a strong corporate culture and consistency in business practices (Nneji & Asikhia, 2021), which are critical for attracting and retaining both customers and employees. Research indicates that organizations with higher employee retention rates are more productive and likely to be perceived as innovative (Modise, 2023).

To mitigate these concerns, human resource (HR) policies play a crucial role. They provide a framework for decision-making that ensures equitable treatment of employees while aligning with the organization's culture, values, aims, and objectives (Armstrong & Taylor, 2023). These policies encompass various aspects of the employee lifecycle, such as hiring, orientation, training, rewards, and development (Armstrong et al., 2023).

In the context of employee retention, HR policies focus on creating an environment that promotes satisfaction, commitment, and growth opportunities (Joel et al., 2022). Effective HR policies transcend monetary incentives and encompass actions aimed at enhancing employee engagement and well-being (Albrecht et al.2015). In implementing robust HR policies, organizations can cultivate a positive work climate where employees feel valued, leading to increased retention rates and reduced turnover costs (Joel et al., 2022).

In a dynamic business environment, HR policies are essential for maintaining a competitive edge. In concentrating on employee retention, organizations can address challenges posed by a fragmented labor market and shifting demographics, while recognizing the critical importance of talent retention for overall corporate performance (Hussain & Chauhan, 2024). These policies ensure fair treatment, foster a supportive work culture, and provide growth opportunities, ultimately contributing to organizational success (Hussain & Chauhan, 2024).

1.1 Objectives of the Study

(i) To determine the effect of reward policies on employee retention in commercial banks in Nairobi County.

II. LITERATURE REVIEW

2.1 Conceptual Framework

The conceptual framework serves as a guiding structure for understanding the relationships between key variables in this study, illustrating how High-Performance Work Systems (HPWS) and reward policies interact to influence employee retention in commercial banks in Nairobi, Kenya.

Independent Variables

Dependent Variable

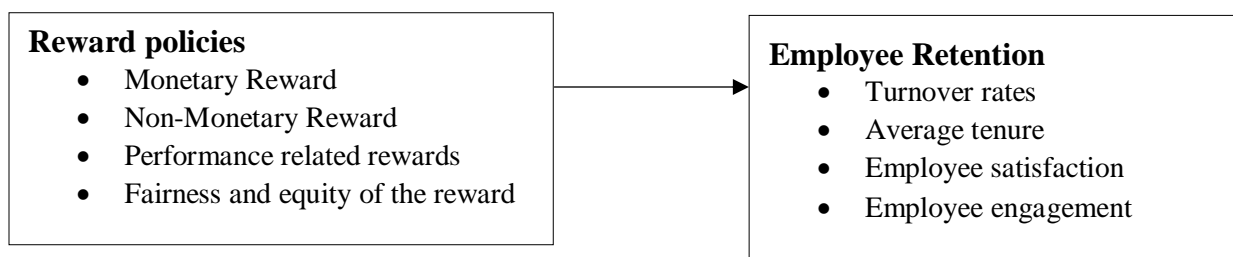


Figure 1 Conceptual framework

2.2 Empirical Review

Terera et al. (2021) investigated the influence of rewards on job satisfaction and retention rates among nurses. The study aimed to understand how incentives affect job contentment, the correlation between rewards and job satisfaction, and the connection between job satisfaction and employee retention. A total of 180 respondents were randomly selected to participate in this quantitative study, which utilized self-administered questionnaires. Data analysis was conducted using SPSS version 20.0, and hypotheses were formulated to explore the relationships between independent and dependent variables. The findings indicated that while recognition programs positively impact staff retention, they do not necessarily enhance job satisfaction. This suggests that the study could be expanded to examine additional factors influencing job satisfaction.

Njanja et al. (2021) focused on how awards, specifically cash rewards, impact employee retention at Kenya Power and Lighting Company (KPLC) in Kenya. The study gathered opinions from 68 board members through questionnaires, using descriptive statistics and chi-square inferential statistics for data presentation and analysis via SPSS. The results indicated that financial bonuses had no significant effect on employee retention ($p=0.8$). While the study's use of SPSS and chi-square analysis is notable, its small sample size and narrow focus on bonuses limit its applicability.

Mngomezulu and Chikandiwa (2019) examined the role of recognition in retaining top talent within organizations. The researchers distributed 70 questionnaires to employees across various functions, identified several strategies management could implement to retain talented workers. The study highlighted the need for management to recognize that different employees respond variably to retention strategies. The findings addressed urgent issues in the corporate world, such as the lack of recognition for outstanding achievements and the attrition of skilled labor. While the study underscored the importance of diverse retention strategies, it could have delved deeper into the specific impacts of various incentives.

III. METHODOLOGY

This study employed a descriptive research design, which establishes a framework for data collection and analysis to efficiently meet study objectives (Siedlecki, 2020). Kothari et al. (2011) described it as a roadmap that streamlines research operations, maximizing information yield with minimal effort and resources.

The research focuses on Tier 1 commercial banks in Nairobi, including Equity, KCB, ABSA, Cooperative Bank, and NCBA. According to the Central Bank of Kenya's 2022 report, Tier 1 banks dominate the market with a 75.14% share and account for 86.7% of pre-tax profits. Their significant size and interconnectedness impact the Kenyan economy, making them a crucial research focus.

Stratified sampling was employed to create a sample size that reflects the overall population proportionately, ensuring a representative depiction of branch managers, operations managers, and sales managers in the selected banks. This approach provides valuable insights into the impact of HR policies on employee retention.

IV. FINDINGS & DISCUSSIONS

4.1 Effect of Reward Policies on Employee Retention in Commercial Banks in Nairobi County

The study aimed to assess the influence of reward policies on employee retention in commercial banks in Nairobi County, Kenya. Table 1 presents the results of this analysis, indicating a significant positive relationship between reward policies and employee retention. Respondents generally agreed that effective reward policies play a crucial role in retaining employees, reflected in an average mean score of 3.96 and a standard deviation of 1.15, suggesting a consistent consensus among participants. Specifically, the provision of monetary rewards was viewed as impactful for employee retention, achieving a mean score of 4.32 and a standard deviation of 1.149. This suggests that financial incentives are perceived as a strong motivator for employees to remain with the organization. Furthermore, the statement regarding well-designed monetary reward systems, which include salary increments and bonuses, received a mean score of 4.06 and a

standard deviation of 1.148. This highlights that employee value structured financial recognition as a contributor to their loyalty and commitment. In terms of non-monetary rewards, respondents indicated that recognition and appreciation positively influence employee retention, with a mean score of 3.84 and a standard deviation of 1.43. This underscores the importance of non-financial incentives in fostering a supportive work environment. The view that non-monetary rewards enhance employee loyalty and commitment to the bank scored a mean of 3.96 with a standard deviation of 1.236, further emphasizing their significance in retention strategies. Performance-based rewards, which provide a clear link between individual effort and recognition, were also well-regarded, achieving a mean score of 3.85 and a standard deviation of 1.261. Participants indicated that these rewards contribute to overall job satisfaction and retention, as reflected by a mean score of 3.83 and a standard deviation of 1.418. Additionally, respondents perceived the existing reward system as fair and equitable, with a mean score of 3.82 and a standard deviation of 1.287. The perception of equal opportunities for all employees to receive recognition and rewards was rated higher, with a mean score of 4.01 and a standard deviation of 1.193. This reinforces the notion that fair and equitable reward practices are essential for fostering a committed workforce and reducing turnover rates in the banking sector.

Table 1:*Descriptive Statistics for Reward Policies*

	Statements	Mean Score	Std Deviation
1	Effectiveness of Reward Policies on Employee Retention	3.96	1.15
2	Monetary Rewards Impact on Employee Retention	4.32	1.149
3	Well-designed Monetary Reward Systems (Salary, Bonuses)	4.06	1.148
4	Non-Monetary Rewards (Recognition and Appreciation)	3.84	1.43
5	Non-Monetary Rewards Enhance Employee Loyalty	3.96	1.24
6	Performance-Based Rewards Contributing to Job Satisfaction	3.85	1.26
7	Perception of Fairness in the Reward System	3.82	1.29
8	Equal Opportunity for Rewards (Fairness in Recognition)	4.01	1.19

Source: Research Data (2024)

Table 2 presents the results of the correlation analysis between employee retention and reward policies, revealing a strong positive relationship with a correlation coefficient of $r = 0.547$ ($p = 0.01$). This indicates that as the effectiveness of reward policies increases, employee retention also improves significantly. The findings underscore the importance of well-structured reward systems in enhancing employee retention, suggesting that organizations that invest in effective reward policies are likely to see higher levels of employee commitment and loyalty.

Table 2:*Correlation Analysis of Reward Policies and Employee Retention in Commercial Banks in Nairobi County*

	Employee Retention	Reward Policies
Employee Retention		
Pearson Correlation	1	0.547**

Sig. (2-tailed)	-	0.01
N	595	595
Reward Policies		
Pearson Correlation	0.547**	1
Sig. (2-tailed)	0.01	-
N	595	595

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

4.2 Employee Retention in Commercial Banks in Nairobi County

Descriptive analysis of employee retention reveals a generally positive perception among respondents regarding the factors influencing retention within the bank. The statement emphasizing the need for the bank to prioritize policies and interventions that enhance the average tenure of employees received a mean score of 4.00 with a standard deviation of 1.181, indicating strong agreement on this aspect. Additionally, the importance of employee satisfaction in reducing turnover and retaining top talent was acknowledged, yielding a mean of 3.72 and a standard deviation of 1.325. Participants also expressed a favorable view of their job and work environment, as reflected in the mean score of 3.73 and a standard deviation of 1.457. The bank's commitment to providing opportunities for employees to actively participate in decision-making processes, which fosters higher employee engagement, was rated with a mean score of 3.83 and a standard deviation of 1.266. Furthermore, respondents indicated that employees are actively engaged in their work and demonstrate high levels of commitment, with a mean score of 3.73 and a standard deviation of 1.388. The average mean for these aspects is 3.802, underscoring the positive sentiment surrounding employee retention initiatives within the bank.

Table 3:

Descriptive Statistics for Employee Retention

Statements	N	Mean	Std. Deviation
The bank should prioritize policies and interventions that enhance the average tenure of employees	297	4.00	1.181
Employee satisfaction is an important factor in reducing turnover and retaining top talent.	297	3.72	1.325
Overall, the bank employees are highly satisfied with their job and work environment	297	3.73	1.457
The bank provides opportunities for employees to actively participate and contribute to decision-making processes, fostering higher employee engagement.	297	3.83	1.266
Employees are actively engaged in their work and demonstrate high levels of commitment.	297	3.73	1.388
Average Mean	297	3.802	

Source: Survey Data (2024)

4.2.1 Regression Analysis of Reward Policies on Employee Retention in Commercial Banks in Nairobi County

The researcher conducted a regression analysis to assess the influence of reward policies on employee retention within commercial banks in Nairobi County. The model summary presented in Table 4 indicates a strong correlation, with an R

value of 0.727, suggesting a robust relationship between the independent variable (reward policies) and the dependent variable (employee retention). The R Square value of 0.528 indicates that 52.8% of the variability in employee retention can be explained by the reward policies employed by the banks.

Model Summary

Table 4:

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.727a	0.528	0.522	0.959	2.307

a). Predictors: (Constant), Reward

b). Dependent Variable: Employee Retention

The researcher performed an Analysis of Variance (ANOVA) to evaluate the significance of the regression model concerning the factors influencing employee retention in commercial banks in Nairobi County. For the regression model to be considered significant, the F-significance value (p) must be less than 0.05, indicating a confidence level greater than 95%. As illustrated in Table 5, the ANOVA results demonstrate that reward policies significantly predict employee retention, with an F-value of 81.815 and a p-value of .000. The regression model explains a substantial portion of the variance in employee retention, with the regression sum of squares at 301.22 and a residual sum of squares of 268.767. The findings affirm that reward policies are a critical factor in enhancing employee retention strategies in the examined organizations.

Table 5:

ANOVA of Factors Influencing Employee Retention in Commercial Banks in Nairobi County

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	301.22	4	75.305	81.815	.000b
	Residual	268.767	292	0.92		
	Total	569.987	296			

a). Dependent Variable: Employee Retention

b) (Constant), Reward Policies

4.2.2 Regression Coefficients of Factors Influencing Employee Retention in Commercial Banks in Nairobi County

The regression analysis presented in Table 6 outlines the coefficients of elements influencing employee retention in commercial banks in Nairobi County. The results indicate that the constant term is 2.921, suggesting a baseline level of employee retention when reward policies are absent. Among the independent variables, reward policies exhibit a positive relationship with employee retention, represented by an unstandardized coefficient of 0.023 and a standardized beta coefficient of 0.02. This relationship is statistically significant, as evidenced by a t-value of 2.565 and a p-value of 0.013, indicating that reward policies play a meaningful role in enhancing employee retention. This finding emphasizes the importance of implementing effective reward strategies to improve retention rates within the banking sector, thereby reinforcing the significance of employee-centric policies in fostering a stable workforce.

Table 6:

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.921	0.224		13.069	0
	reward policies	0.023	0.009	0.02	2.565	0.013

a. Dependent Variable: employee retention

Source: Research Data (2024)

4.3 Discussion

The study revealed a significant positive relationship between reward policies and employee retention. Respondents generally agreed that effective reward policies play a crucial role in retaining employees. This finding indicates that implementing effective reward policies contributes positively to a committed workforce and reduces turnover rates in the banking sector. The results emphasize the importance of well-structured reward systems in enhancing employee retention, suggesting that organizations that invest in effective reward strategies are likely to see higher levels of employee commitment and loyalty. This conclusion aligns with previous research, such as the study by Terera et al. (2021), which found that competitive financial incentives are crucial for enhancing employee loyalty and commitment. Additionally, the positive impact of non-monetary rewards, such as recognition and appreciation, supports the findings of Mngomezulu and Chikandiwa (2019), which highlighted that employee feel valued when their contributions are acknowledged, leading to increased retention. The findings also resonate with Babatunde and Onoja (2023), who emphasize that policies designed to enhance employee tenure are vital for retaining experienced staff. Furthermore,

Reissová and Papay (2021) discuss the complex relationship between employee satisfaction and turnover, suggesting that participatory decision-making can further enhance engagement. Collectively, these insights underscore the critical role of reward policies in fostering a supportive work environment that not only retains talent but also cultivates a loyal and engaged workforce in the banking sector.

V. CONCLUSION & RECOMMENDATIONS

5.0. Conclusion and recommendations

This study aimed to investigate the relationship between reward policies and employee retention within the banking sector. The findings established a significant positive correlation, indicating that effective reward strategies, encompassing both monetary and non-monetary incentives, play a crucial role in fostering employee commitment and reducing turnover rates. By prioritizing the development of well-structured reward systems, banks can enhance job satisfaction, employee engagement, and overall organizational loyalty. The results align with existing literature, affirming that competitive financial incentives, along with recognition and appreciation, contribute substantially to employee retention. Furthermore, the study highlights the importance of policies that support employee tenure and satisfaction, reinforcing the need for organizations to adopt participatory decision-making processes to further engage their workforce.

6.0 Recommendations

Based on the findings of this study, the study recommends banks should develop and implement comprehensive reward systems that include both monetary and non-monetary incentives. These systems should be designed to recognize and reward employee contributions consistently, thereby fostering a sense of value and commitment among employees. Furthermore, banks should create programs that publicly acknowledge employees' achievements and contributions, fostering a culture of appreciation and enhancing overall job satisfaction.

7.0 Further Research

Future studies should explore several avenues to build upon the findings of this research and deepen the understanding of employee retention in the banking sector. Future research could investigate the long-term impact of various reward policies on employee retention. Additionally, conducting similar studies in other sectors, such as healthcare, education, or technology, could help determine whether the findings related to reward policies and employee retention are consistent across different industries. This would enhance the generalizability of the results.

REFERENCES

- Al Kurdi, B., Alshurideh, M., & Alnaser, A. (2020). The impact of employee satisfaction on customer satisfaction: Theoretical and empirical underpinning. *Management Science Letters*, 10, 3561–3570. <https://doi.org/10.5267/j.msl.2020.6.038>

- Albrecht, S., Gruman, J., Macey, W., & Saks, A. (2015). Employee engagement, human resource management practices, and competitive advantage: An integrated approach. *Journal of Organizational Effectiveness: People and Performance*, 2(1), 7-35. <https://doi.org/10.1108/JOEPP-08-2014-0042>
- Al-Suraihi, W., Siti, A., Al-Suraihi, A., Ibrahim, I., Samikon, S., Al-Suraihi, A.-H., Ibrahim, I., & Samikon, S. (2021). Employee turnover: Causes, importance, and retention strategies. *European Journal of Business Management and Research*, 6(3). <https://doi.org/10.24018/ejbmr.2021.6.3.893>
- Armstrong, M. (2014). *A handbook of human resource management*. Kogan Page Limited.
- Babatunde, F., & Onoja, E. (2023). The effectiveness of retention strategies on employee retention. *Journal of Business Management*, 13(5), 1-5. <https://doi.org/10.37421/2161-5833.2023.13.481>
- Bashar, S., Sakib, M. N., Rahman, M. M., Tabassum, F., & Sabah, S. (2023). The role of top management commitment, employee involvement, and training and development on employee performance: Evidence from the banking sector of an emerging economy. *Quality Management Journal*, 31(1), 1-17. <https://doi.org/10.1080/10686967.2023.2285041>
- Boxall, P& Macky, K. (2009). Research and Theory on High-Performance Work Systems: Progressing the High-Involvement Stream. *Human Resource Management Journal*. 19. 3 - 23. 10.1111/j.1748-8583.2008.00082.x.
- Hurley, R. (2015). An exploratory study of the effect of employee turnover on customer satisfaction. In *Exploring service excellence* (pp. 567-588). Springer. https://doi.org/10.1007/978-3-319-13141-2_109
- Joel, E., Igbadumhe, O., Peter, F., Joel, O., & Igbinoba, E. (2022). Employees' retention strategies and organizational performance. *Journal of Organizational Development*, 1-12.
- Khan, Z., Alam, N., Badar, A., & Ahmad, M. (2023). Impact of employee turnover on organizational profit with moderating role of recruitment. *Bulletin of Business and Economics (BBE)*, 12, 169-176. <https://doi.org/10.61506/01.00015>
- Kothari, A., Hovanec, N., Hastie, R., & Sibbald, R. (2011). Lessons from the business sector for successful knowledge management in health care: A systematic review. *BMC Health Services Research*, 11(1), 173. <https://doi.org/10.1186/1472-6963-11-173>
- Mazlan, M., & Jambulingam, M. (2023). Challenges of talent retention: A review of literature. *Journal of Business and Management Review*, 4(2), 78-91. <https://doi.org/10.47153/jbmr42.6302023>
- Mbukwana, V., & Ayandibu, A. (2023). Impact of performance incentives on employees' performance in a university in KwaZulu-Natal. *SA Journal of Human Resource Management*, 21, 1-5. <https://doi.org/10.4102/sajhrm.v21i0.2114>
- Meister, J. C., & Willyerd, K. (2010). *The 2020 workplace: How innovative companies attract, develop, and keep tomorrow's employees today*. HarperCollins e-books.
- Mngomezulu, N., Challenor, M., Munapo, E., Mashau, P., & Chikandiwa, C. T. (2019). The impact of recognition on retention of good talent in the workforce. *Journal of Governance and Regulation*, 4(4), 372-379.

- Modise, P. (2023). The impacts of employee workplace empowerment, effective commitment and performance: An organizational systematic review. *Journal of Organizational Performance*, 8(1), 25.
- Njanja, L. W., Maina, R. N., Kibet, L. K., & Njagi, K. (2021). Effect of reward on employee performance: A case of Kenya Power and Lighting Company Ltd., Nakuru, Kenya.
- Nneji, N., & Asikhia, P. (2021). Organizational culture and organizational performance: A review of literature. *Journal of Management Studies*, 3(1), 361-372. <https://doi.org/10.35629/5252-0301361372>
- O'Connell, M., & Kung, M. M.-C. (2007). The cost of employee turnover. *Industrial Management*, 49(1), 14-19.
- Reissová, A., & Papay, M. (2021). Relationship between employee engagement, job satisfaction, and potential turnover. *TEM Journal*, 10(2), 847-852. <https://doi.org/10.18421/TEM102-44>
- Sepahvand, R., & Bagherzadeh Khodashahri, R. (2021). Strategic human resource management practices and employee retention: A study of the moderating role of job engagement. *Iranian Journal of Management Studies*, 14(2), 437-468. <https://doi.org/10.22059/IJMS.2020.291391.673843>
- Siedlecki, S. (2020). Understanding descriptive research designs and methods. *Clinical Nurse Specialist*, 34(1), 8-12. <https://doi.org/10.1097/NUR.0000000000000493>
- Sypniewska, B. A., Baran, M., & Kłos, M. (2023). Work engagement and employee satisfaction in the practice of sustainable human resource management: Based on the study of Polish employees. *International Entrepreneurship and Management Journal*, 19(1), 1-32. <https://doi.org/10.1007/s11365-023-00834-9>
- Terera, S. R., & Ngirande, H. (2021). The impact of rewards on job satisfaction and employee retention. *Mediterranean Journal of Social Sciences*, 5(1), 481.
- Zainee, I., & Puteh, F. (2020). Corporate social responsibility impact on talent retention among Generation Y. *Revista de Gestão*. <https://doi.org/10.1108/REGE-06-2019-0070>