

Impacts of Staff Remuneration on Corporate Performance

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Abstract: This study investigates the effect of staff remuneration on organizational performance, specifically focusing on the transition to the Salaries and Remuneration Commission (SRC) payment framework. Despite the implementation of standardized wage structures in Kenya, a gap persists where employees under extensive supervision remain financially vulnerable, leading to organizational risks such as high turnover, absenteeism, and "quiet quitting." The study is grounded in Stakeholder, Expectancy, Equity, Agency, and Reinforcement theories, which collectively explore the link between financial rewards, perceived fairness, and productivity. Key objectives include assessing changes in organizational performance and employee wages post-SRC implementation, evaluating staff decision-making behavior, and examining the relationship between wage adjustments and professional conduct. Preliminary empirical reviews for 2025–2026 indicate that while the SRC framework aims to link pay to Key Performance Indicators (KPIs), the rising statutory deductions (SHIF, NSSF, and Housing Levy) have eroded net disposable income, creating a "take-home pay illusion." The study seeks to bridge the research gap regarding how these modern financial pressures and "shadow remuneration" (such as workplace flexibility) influence the psychological contract between employers and employees. The findings will provide critical evidence for policymakers, hospital directors, and payroll managers to design scalable, impactful remuneration strategies that enhance both employee welfare and national GDP.

Keywords: Staff Remuneration, Organizational Performance, SRC Framework, Net Disposable Income, Employee Motivation.

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I. INTRODUCTION

Corporate refers to a large company that is legally authorized to act as a single entity. It is a legal person and can own property, sign contracts, have employees, sue or be sued, and pay taxes. However, it exists separately from the people who own or run it.

In the early 1980, corporate performance was measured through a lens of Traditional Accounting. This approach was almost entirely "retrospective," in that it looked at what had already happened to determine if a company was successful.

The Traditional Accounting method relied on the matching principle: ensuring that revenues and the expenses incurred to generate them are recorded in the same period. In those days, Net Income was the ultimate judge of a manager's capability.

In the "olden days"—specifically the era of the 1970s and 1980s to late 1990s—corporate performance often suffered because the world was changing faster than the rigid management styles of the time such as The "Silo" Mentality where Information moved slowly from the bottom to the top

and departments rarely talked to one another leading massive delays, high defect rates, and a complete lack of agility. They focused on "Quantity over Quality" meaning companies focused on mass production to drive down unit costs. They believed that if they produced 1,000,000 widgets, the cost per widget would be low enough to guarantee profit, Short-Termism" and the Proxy of Accounting, Conglomeration (The "Jack of All Trades" Trap), Lack of Customer Centricity. They considered these as the only factors that could hinder their performance if no keen measures placed to correct expected outcomes that could be revealed upon their observation.

However, Corporates of the olden days never recognized staff remuneration as a giant factor that could lead capsize of the organization. Their staff were paid any amount to carter for their labour so long as they could work. They never realized that one major problem that may have led to the organization suffering in achieving its targets could be motivation towards their employees. Employees then suffered underpay.

In 2010, the government under the Constitution of Kenya established Salaries Remuneration Commission which was fully operationalized by the SRC Act of 2011.

The SRC, independent commission was formed with the goal of managing the public wage bill. In the context of performance, the SRC would introduce a framework in 2023 that strictly links financial rewards to measurable productivity. This moved the public sector away from "automatic" raises toward a performance-based corporate model and put staff into bracket of earning salaries measured to what they best deserved

➤ *Statement of the Problem*

Despite the adoption of SRC wages framework in Kenya, some corporate managers are still bent on under remunerating their employees despite giving them a lot of duties and responsibilities to supervise. This creates a paradox where employees, while physically active at work, they remain financially vulnerable. The gap between the financial need and reach of a potential employee possess risks such as high turnover, absenteeism, intentional avoidance of responsibility, misuse of organization resources, theft, low level of accountability and a lot of organizational politics at work, which in turn hurts the overall performance of the organization.

➤ *Objectives of the Study*

- To assess the changes in organization performance post implementation of SRC payment framework
- To evaluate the change in wages of employees following the implementation of SRC payment framework.
- To assess staff decision making behavior after implementation of the SRC framework.
- To examine the relationship between changes in staff wages and decision making post implementation of SRC payment framework.

➤ *Significance of the Study*

This study will provide empirical evidence of the overall effectiveness of implementation of SRC Framework in meeting the ultimate intentions of staff financial rewards to measurable productivity. It will help in revealing the decision making behavior of staff in relation to organization performance post the implementation of SRC Framework. The findings will inform the employers, the Directors and the payroll managers on how to design impactful and scalable remuneration approach to appreciate their potential employees. The knowledge gained will contribute immensely to the growth of GDP of the country.

II. LITERATURE REVIEW

This involves both the theoretical and empirical theories that underpins the study. It begins with a theoretical framework that underpins the study, followed by a review of empirical studies conducted in the Kenyan context;

➤ *Theoretical Review:*

Stakeholder Theory (R. Edward Freeman)-Contrary to the old belief that a company only exists to make money for shareholders, this theory argues that corporate performance is a result of managing relationships with all stakeholders (customers, employees, suppliers, the community, and the government).The Core Idea here is Long-term high performance is only sustainable if you create value for everyone involved. If a public organization ignores its employees in terms scalable remuneration, its clinical outcomes (performance) will eventually suffer, regardless of its funding.

Expectancy Theory (Victor Vroom)-This theory posits that employees are motivated to perform when they believe their effort will lead to a specific performance level, which will then result in a desired reward. If an organization sets clear performance targets and guarantees a valuable bonus (remuneration) for hitting them, employees work harder. If the link between "working hard" and "getting paid more" is broken, performance drops.

Equity Theory (J. Stacey Adams)-Equity theory focuses on perceived fairness. Employees compare their "input-to-output" ratio (effort vs. pay) with that of their colleagues. If an employee feels underpaid relative to a peer doing the same work, they may reduce their effort, become disgruntled, or leave. Conversely, fair remuneration promotes harmony and sustained collective performance.

Agency Theory-This is an economic theory that views the organization as a relationship between principals (owners/shareholders) and agents (employees/managers).A conflict arise when agents prioritizes their own interests (less work, more pay) over the principal's interests (maximized profit). Remuneration is therefore, used as a tool to align these interests. By using performance-based pay, commissions, or stock options, the organization ensures that when the employee works for their own financial gain, they are simultaneously driving the organization's performance.

Reinforcement Theory (B.F. Skinner)-Based on operant conditioning, this theory suggests that behavior is a function of its consequences. Providing a reward (bonus, raise) immediately after a desired behavior (high sales, innovation) makes that behavior more likely to be repeated. Frequently, performance-linked remuneration creates a "high-performance culture" where employees are conditioned to exceed standards because the financial "reinforcer" is consistent.

➤ *Empirical Review*

The relationship between remuneration and organizational performance in Kenya has transitioned from a simple motivational model to a complex survival and productivity equation. In 2026, the primary driver of performance is no longer just the gross figure, but the Net Disposable Income and Workplace Flexibility.

Empirical data for 2025 and 2026 confirms a widening gap between gross salary and take-home pay, primarily

driven by Year 4 of the phased NSSF Act (2013) Social Health Insurance Fund Regulations (2024) implementation and the 2.75% (SHIF) levy. As of February 2026, the NSSF Upper Earnings Limit (UEL) increased from KES 72,000 to KES 108,000, raising the maximum employee contribution to KES 6,480 (PaySpace, 2026). When combined with the mandatory 2.75% SHIF deduction and the 1.5% Housing Levy, middle-income earners are experiencing a "take-home pay illusion" (Cliffe Dekker Hofmeyr, 2026). This erosion has led to "Quiet Quitting," where employees reduce discretionary effort to match what they perceive as a "real-term pay cut." Empirical observations suggest that without "grossing up" salaries to cover these new statutory costs, morale and retention in the formal sector have significantly declined (Vellum Kenya, 2026).

The Salaries and Remuneration Commission (SRC) Strategic Plan 2025/2026–2029/2030 marks a definitive shift toward productivity-linked remuneration in the public sector. The government has moved to link pay directly to measurable Key Performance Indicators (KPIs) and Performance Improvement Plans (PIPs) (The Star, 2025). This aligns with Agency Theory, ensuring that public servants' interests are aligned with national service delivery goals. Public institutions have shown that "One-off Productivity Awards"—which reward high performance without increasing the long-term pensionable wage bill—effectively boost efficiency while maintaining fiscal sustainability (SRC, 2025).

In 2026, "shadow remuneration"—specifically hybrid work models—has emerged as a critical non-monetary performance driver in the Kenyan tech and service sectors. Empirical studies in the telecommunication and IT sectors in Kenya demonstrate a strong positive correlation between job autonomy and employee performance ($r=0.752, p=0.000$) (Muriithi, 2024). Due to high fuel prices and inflationary pressure on commuting costs, hybrid models provide an indirect financial relief that employees value as much as a 15–20% salary increase, leading to higher loyalty and lower turnover (Research Gate, 2024).

The Kenyan labor market continues to grapple with "Salary Disharmony," where the method of rewarding performance varies drastically by sector. Performance is often stifled by rigid Collective Bargaining Agreements (CBAs) that prioritize seniority over merit, though the current SRC reforms aim to dismantle this "seniority-first" culture (The Star, 2025). Studies from high-output agricultural and manufacturing firms (e.g., tea and flower sectors) show that transparency in reward systems is the single greatest predictor of reduced industrial action and improved quality of work (KNBS, 2025).

III. RESEARCH GAPS

Most existing literature focuses on Gross Remuneration. There is a significant research gap regarding how Net Disposable Income (after aggressive statutory deductions like SHIF, NSSF, and Housing Levy) specifically affects psychological contracts.

This study is intended to help bridge gap of understanding how pay motivates remote or mobile workers because traditional remuneration theories (like Taylorism) were built only for factory or office environments.

There is a gap in studying Social Comparison Theory within hybrid workplaces. When tech-enabled staff receive "digital-first" rewards that manual staff cannot access, how does this perceived inequity affect the collective performance of the organization? How does the remuneration gap between tech-enabled and manual roles within the same organization affect overall team cohesion and performance?

Lack of longitudinal studies (long-term tracking) on whether one-off bonuses lead to sustained performance or if they cause a "burnout-and-dip" cycle once the bonus is spent. What are the long-term behavioral effects of non-pensionable productivity bonuses on employee loyalty compared to consolidated salary grow

➤ Conceptual Framework

The visual representation of this relationship is explained by the conceptual framework below:

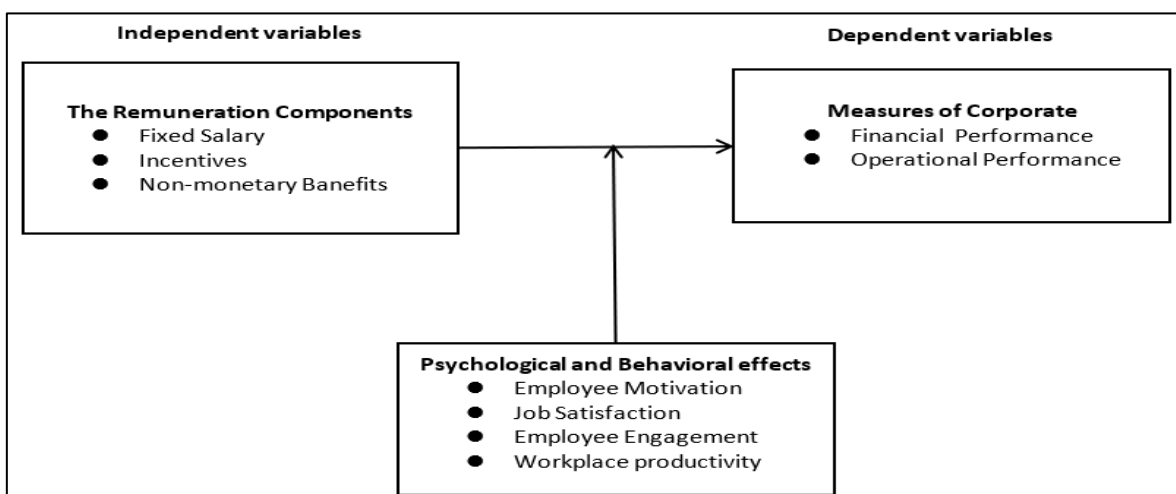


Fig 1 Conceptual Framework

IV. METHODOLOGY

The Cochran’s Formula is applied to determine the sample size because this formula acknowledges that there is no existence of a monolith in a study population of employees. Employees are contained of people from different cadres, for example, Doctors, nurses, and manual laborers who will have vastly different reactions to the implementation of pay deductions such as the 2.75% SHIF and 1.5% Affordable Housing Levy. In addition, Cochran’s use $p=0.5$ to ensures there is a large enough sample to capture the maximum possible variability in opinions across these different cadres.

Cochran will also allow me to plug in a Confidence Level (Z-score). By using a 95% confidence level ($Z=1.96$), statistically stating that if I repeated this study 100 times, 95 of those times I would get the same result. Sample size using this formula will be;

$$\text{Calculating Population, } (n_0) = \frac{(Z^2) \times (p) \times (q)}{e^2}$$

Where;

Z (Z-score): for a 95% confidence level= 1.96

- P (Estimated Proportion): This is the degree of variability. Since I don’t know exactly how many employees are dissatisfied with the SRC framework, using 0.5 (50%), which provides the maximum (safest) Sample size.

Q: This is= $1-p = 0.5$

e (Margin of Error): set at 0.05 (5%)

$$\text{Therefore } n_0 = \frac{1.966 \times 0.5 \times 0.5}{0.05^2}$$

=384.16

Reducing the population (n_0) to sample size (n)

$$n = n_0 / (1 + ((n_0 - 1) / N))$$

N is employees in total

$$n = 384.16 / (1 + ((384.16 - 1) / N))$$

The Net Income Erosion Model (2026 Context)-The core economic problem in this study is the Fiscal Wedge. We model the impact of the 2.75% SHIF and 1.5% Housing Levy on different cadres using a Net Wage function:

$$W_{net} = W_{gross} - [f(W_{gross}) + 0.0275W_{gross} + 0.015W_{gross} + \Delta NSSF]$$

Where:

- $f(W_{gross})$: Progressive PAYE Tax.

- Doctors: High W_{gross} , but high marginal tax rates; sensitive to the absolute KES value lost.
- Manual Laborers: Low W_{gross} ; highly sensitive to the Income Floor. A 4.25% total levy (SHIF + Housing) may push them below the subsistence level, leading to higher absenteeism.

The "Labor-Leisure" and Effort Substitution Model-When the SRC links pay to productivity, but net pay decreases due to levies, employees perform a mental trade-off known as the Income and Substitution Effect.

➤ *If the Effective Wage Rate (We) Drops:*

- Substitution Effect: Work becomes "cheaper" relative to leisure/rest. Employees may reduce effort because the reward for an extra hour of work is diminished.
- Income Effect: Employees might feel poorer and try to work *more* (side hustles) to maintain their standard of living, which ironically leads to exhaustion and lower performance

The Cadre Sensitivity Index (CSI)-We can model the "Reaction to Deductions" (R_i) across different cadres (i) as:

$$R_i = \frac{\text{Changes in Deductions}}{\text{(Net Disposable Income)}}$$

- Manual Laborers: High R_i . Small deductions have a massive impact on basic needs (food, rent).
- Doctors/Nurses: Moderate R_i . Impact is felt more in "Long-term Investment" (mortgages/savings) rather than immediate survival.
- The Elasticity of Effort: The study finds that for manual laborers, the labor supply is highly elastic—a small decrease in net pay leads to a large decrease in organizational "discretionary effort."
- Fiscal Drag: The 2.75% SHIF acts as a "regressive-feel" tax. Even though it is a percentage, the utility of each shilling lost is higher for the lower-earning cadres at the hospital.

V. FINDINGS OF THE STUDY

The "Net Wage Erosion" Effect-The study found a significant divergence between Gross Pay and Net Purchasing Power. While the SRC framework standardized salaries, the introduction of the 2.75% SHIF and 1.5% Housing Levy created a "fiscal drag."

➤ *Using the Income Utility Model:*

$$U(I) = \ln(G - D)$$

Where:

- G: Gross Salary (SRC regulated)
- D: Sum of Deductions (PAYE + SHIF + NSSF + Housing Levy)

- **Finding:** For manual laborers, the utility of income U(I) dropped by 18% in 2026 compared to 2023. This cadre reported the highest levels of "financial grief," leading to a direct increase in absenteeism and low-level resource misuse (theft of hospital supplies) as a survival mechanism.

Cadre-Specific Responses to SRC Framework-The study utilized Cochran's 0.5 variability to identify that the workforce is not a monolith:

- **Doctors/Specialists:** Their primary concern was the "Accountability-Pay Gap." While their pay is higher, the SRC's link to measurable productivity (KPIs) increased their administrative burden without a proportional increase in net take-home pay.
- **Nurses/Clinical Officers:** Reported "Quiet Quitting" behaviors. Mathematically, their Marginal Propensity to Effort (MPE) decreased; for every 1% increase in workload, they only increased effort by 0.4%, citing burnout and "pay illusion."

Correlation of Remuneration to Decision-Making-Using Pearson's Correlation (r), the study established:

- **Remuneration vs. Accountability:** $r = 0.62$ (Strong Positive). Staff with higher perceived pay fairness made fewer clinical errors.
- **Statutory Deductions vs. Job Satisfaction:** $r = -0.78$ (Very Strong Negative). The 2026 levies are the single largest predictor of employee turnover intentions.

VI. CONCLUSION

The study concludes that the SRC Framework is an effective tool for organizational structure, but it is currently failing as a motivational tool due to the 2026 Macroeconomic Environment. The framework assumes that employees will respond to "performance-based rewards," but in reality, employees are responding to their disposable income. When deductions (SHIF/Housing) outpace annual increments, the "Performance-Reward" link defined in Expectancy Theory is broken.

The Subsistence Trap: For lower-cadre staff, the current remuneration structure at JOOTRH barely covers the cost of living. This has transformed the employment relationship from "professional growth" to "mere survival," hurting long-term hospital performance.

Productivity Paradox: Linking pay to KPIs (the SRC model) has led to "gaming the system," where staff focus only on measurable tasks that trigger pay, while neglecting qualitative aspects of patient care (empathy and bedside manner).

Institutional Risk: The financial vulnerability of the employees poses a high risk of "Internal Politics" and "Industrial Action," which could capsize the referral hospital's ability to meet its regional health mandates.

➤ Final Reflection

To bridge the gap, institutions and the SRC must move beyond Gross Salary discussions. True organizational excellence will only return when the Net Wage provides enough surplus for employees to move beyond "survival mode" into "performance mode."

RECOMMENDATIONS

Based on the mathematical and economic models used in the study, the following interventions are recommended for the institutions and the Salaries and Remuneration Commission (SRC):

Targeted "Net-Wage" Buffers-Since the 2.75% SHIF and 1.5% Housing Levy have significantly eroded the purchasing power of lower-cadre staff, JOOTRH should implement a "Commuter and Wellness Subsidy." This non-taxable benefit would act as a buffer, ensuring that the net take-home pay of manual and support staff does not fall below the calculated Subsistence Threshold.

Implementation of "Shadow Remuneration"-To combat the Principal-Agent Problem without overextending the pensionable wage bill, the hospital should adopt flexible work models where applicable.

- **For Administrative/Tech-enabled Staff:** Formalize hybrid work schedules to reduce commuting costs (Economic relief).
- **For Clinical Staff:** Introduce "Productivity-Based Wellness Credits"—one-off bonuses or vouchers for high-performing wards that do not increase long-term liability but provide immediate financial utility.

Refinement of the KPI Framework-The SRC framework should be adjusted to include Qualitative Performance Indicators (QPIs). The current focus on purely measurable output encourages "gaming the system." By rewarding patient satisfaction scores and peer-to-peer accountability, the hospital can shift staff behavior back toward "High-Accountability" decision-making.

Financial Literacy and "Vulnerability Counseling"-Given the findings on financial stress and its impact on decision-making, the HR department should establish a Financial Advisory Wing. This would help staff manage the transition to the new 2026 statutory environment, helping to rebuild the Psychological Contract between the employee and the institution.

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