

**COMPENSATION, WORKING CONDITIONS AND EMPLOYEE
SATISFACTION IN KILIFI EXPORT PROCESSING ZONES, KENYA**

Gladys Thuita
Riara University

Yvonne Oiye
Riara University

Abstract

Employee satisfaction is crucial for job performance and employee productivity. A dissatisfied employee can be a liability with less or no organizational commitment. There are a number of factors identified by researchers to play a major role in influencing employee satisfaction but this study embarks on compensation and working conditions in Kilifi Export Processing Zones, Kenya. The independent variables are compensation and working conditions. The dependent variable is employee satisfaction. The study employed the descriptive research design to answer to the two objectives on whether or not there exist a relationship between compensation, working conditions and employee satisfaction. The primary data was collected through open and close ended questions administered to the employees of the firms categorized either as manufacturing, commercial and service. The study found that compensation has a higher correlation to employee satisfaction compared to working conditions. The study also revealed that compensation and working conditions vary across the different firms. In general compensation, employees' benefits and permanent employment is not only significantly associated with increased employee satisfaction but as well increased productivity. The study sheds light on the measures the policy makers need to address in relation to employees satisfaction, formulate solutions and implement them in order to brand the Export Processing Zones a competitive employer.

Keywords: compensation, working conditions, employee satisfaction, export processing zones

INTRODUCTION

In the current rapidly changing environment, organizations are forced to implement ways to be more competitive, flexible, and adaptive. To survive and compete in this globalized world, organizations are required to get maximum benefits from employee engagement. Employee satisfaction can be defined as the extent to which employees like their work and it can be positive or negative. Employees have different perceptions, thoughts and feelings about their jobs (Spector 1997). It is of essence to maintain high morale among the white collar workers to increase production and reduce absenteeism. Increased satisfaction levels result into increased returns for the firm. On the other hand a dissatisfied employee tends to be inefficient and ineffective. In general employees are more productive and loyal when satisfied as people are the source of ideas and innovation and their expertise, experience, knowledge and co-operation have to be harnessed to get these ideas implemented (Dale, 2008).

In the month of June every year, governments and workers organizations of member countries International Labour Organization (ILO) meet in Geneva to adopt and revise the labour standards. The standards have been a source of guidance and inspiration in the process of formulating labour and social policy for the workers in the member countries. The standards address all workers with special relevance to those in the export processing zones. These include; the right for the workers to join trade unions without prior authorization from the firm, protection against anti-union discrimination, protection from acts of reference from each other, measure to promote collective bargaining, conducive working conditions (e.g hours, safety), right to maternity leave for women without unfair termination of their contracts while on leave, vocational guidance and training programmes which address the needs of both the workers and the firm (United Nations Conference on Trade and Development (UNCTAD), 2015).

By the year 2016 there were over 4,500 zones worldwide and a workforce of over 66 million (United Nations Conference on Trade and Conference, 2015). The most active Export Processing Zones (EPZs) operators are in the United States and Mexico (ILO 1998). Related studies conclude that a large portion if not a significant majority of workers in the zones are women and single heads of the household. The high numbers have been recorded in the zones specializing in apparel/ garments. This has been attributed to the fact that women are largely under-represented in white collar jobs conferring them to low skill/low pay jobs (Dunn 1994; ILO, 1998; Madani, 1999).

In the year 2017 the gazetted zones stood at 64 and direct employment was 50,253 local workers. The zones in Kenya became operational in 1993 and they are still embraced to boost export, create employment and attract Foreign Direct Investments. Various studies shows that the rights of the workers in the zones are put in suspense without much concern by the host government (ILO, 1998; Madani, 1999; Vestveit, 2013). It is in response to this that there has been a gap to partly analyse the factors that influence employee satisfaction in Kilifi EPZs, Kenya. Therefore the specific objectives of the study are:

- (i) To analyse the relationship between compensation and employee satisfaction in the Kilifi Export Processing Zones, Kenya.
- (ii) To analyse the relationship between working conditions and employee satisfaction in Kilifi Export Processing Zones, Kenya.

LITERATURE REVIEW

Compensation

Employee compensation includes; wages, salaries, pay in relation to annual leave, study leave, maternity, paternity leave and health security. The compensation decision by the employer influences their cost of doing business, the firm's ability to maintain a competitive price for the product in the market and the capability of the employer to attract and retain employees in the labour market. On the other hand compensation influences the employee attitude and behaviour

towards the employer. (United State, Department of Labour, 2017). Compensation can be in form of cash or non- cash. Most of the employers prefer to pay their employees in form of cash (70%) and only 30% paid in form of non- cash and deferred cash benefit. Health care has been described as the fast growing benefit that costs firms and it is difficult to control whilst providing quality coverage poses a challenge to the human resource department (Gerhart *et al.*, 1994).

According to Madani (1999), the hiring and firing of workers in the zones has been attributed to cost reduction in a business framework highly prone to demand shocks. Most of the countries have relaxed the wage laws as an incentive to create a friendly business environment to the investors with most of the countries not putting into consideration the minimum wage law in wage setting patterns. Most of the FDIs are attracted by the low wages though on the contrary the wages within the zones are higher compared to the wages outside the zone (Romero, 1995; Jayathakumaran, 2003). The wage pay largely depends on the size of the firm, the nationality of the directors, type of the sector, the host country regulations and institutions and the labour market requirements (Romero 1995; OECD, 1996; Madani 1999).

According to Farole (2011), in countries such as Tanzania, Kenya and Madagascar the zones have low labour cost in comparison to Lesotho. With the high cost of living and high unemployment in Lesotho it has become difficult for the firms within the zones to reduce the wages for the workers. Studies shows that textile and apparel sector pay lower wages and mainly applies piecework which is insufficient to meet the basic needs. (Shakya, 2011; IFC, 2010, Vestveit, 2013). A similar study shows that absence rate and job satisfaction are closely related. The firm should enhance employees' job satisfaction through effective rewards such as wages and bonus to reduce employee absence and increase job performance (ILO, 1998).

Working conditions

Good working conditions motivate employees in terms of safety and comfort. On the other hand poor working conditions can result to bad health and discomfort among the employees. Employees exposed to a good working condition are likely to be more productive and highly motivated. Where the workers are provided with amenities such as health services, the living standards as well as improved productivity resulting to reduced absenteeism and labour turnover. The privately owned zones tends to provide a safer working environment compared to the publicly owned zones (Madani, 1999). The 1993 labour laws made it mandatory for all the EPZs observe safety and health measures. It has been observed that safety and health seems to largely depend on the firm, sector, zone management and the country of the investor. There is a positive correlation between safer working conditions and foreign firms especially those from developed countries The host country can use the domestic industries as an example that safe working condition will not only reduces cost of operations but also increase the firm's competitiveness. In addition to ensuring that the polluting firms are conferred to areas where health regulation are highly supervised (Brockerhoff *et al.*, 2012).

According to Dunn (1994), the host countries governments and especially the developing economies weak or no regulations in regard to the EPZs workers work environment, safety and health issues. The health hazards ranges from blocked emergency exits, refuse poor disposal and washroom capacities. In 1993 a factory in Thailand burnt down killing 240 workers because the exit passages were blocked. Half of the zones (50 zones) studied by UNCTAD had little or no mention to policies regarding environmental standards and regulations. Furthermore, more than half have policies on policy-related sustainability such as standards concerning land, air, and water pollution, waste, noise and the use of energy. Just over half of EPZs examined by UNCTAD set out an environmental policy, including statements surrounding climate change and pollution control. Half of the zones in Turkey, two of the three zones in South Africa, several in India, Morocco, United Arab Emirates, Argentina and China have well developed environmental reporting requirements under which companies are required to report their anticipated amounts of waste, pollutants, and the decibel level of noise that is expected to be produced. 'Majority of the zones do not agree to remove a company from the zone in the event that such a company fails to uphold standards set further by the host country; (UNCTAD, 2015).

Most developing countries have not taken much interest in implementing the laws that concerns environmental issues. Much concern has focused on the large production volumes from the EPZs firms and the high levels of pollution in comparison to the host country production levels (Madani, 1999). The EPZs workers have to endure environmental pollution and hazardous working conditions hampering thus performance (Action Aid, 2012).The Kenyan zones have been affected by the unrest of the workers therefore affecting general performance. The grievance pointed out by the workers include the poor working conditions and pro-longed working hours with minimum or no compensation (Republic of Kenya, 2015). Majority of zones across the world fail to promote of health and safety of workers with a minimum number of the zones mentioning the clinics available for the workers to visit whenever they have health issues (UNCTAD, 2015). In order to enable a friendly environment firms within EPZs have introduced new technology that transfer waste to designated dumping site, reducing the litter making the zone clean and environmentally conducive for any prospective investors (Kenya Export Processing Zones Authority, 2011).

KNOWLEDGE GAP

There is lack of knowledge on the relationship that exists between compensation and employee satisfaction in Kilifi zones. Most of the studies show that zones worldwide have no minimum compensation for the zone workers. Workers compensation largely depends on the investors (local or foreigner), the type of industry and the host government regulations and labour market requirement. From the numerous empirical studies, compensation can positively or negatively affect the employee satisfaction. In addition most investors prefer the zones as their investment destination due to the low wages paid to the zone workers which contributes to the low cost of doing business (Romera 1995; OECD, 1996; Madani 1999; Brockerhoff *et al.*, 2012; Cling, *et al.*, 2005; Vestveit, 2013; KEPZA, 2014). Lastly studies shows that the zones are less concerned

with providing good working conditions to the workers and there is little or no mention of the policies regarding working standards and regulations (UNCTAD, 2015). The study fills the knowledge gap through addressing whether there exists a relationship between compensation, working conditions and employee satisfaction in Kilifi EPZs, Kenya.

METHODOLOGY

The study adopted descriptive research design to transform the raw data and answer the research questions under investigation on the relationship between compensation, working conditions and employee satisfaction in Kilifi EPZs, Kenya. Kothari (2004) maintain that descriptive research design is an appropriate research design where there are research questions that seeks answers to an existing problem. The target population comprised of top management, middle level and subordinate employees of the operational firms within Kilifi EPZs. In the study 15 firms were targeted and each issued with three questionnaires totalling to 45 respondents. Both open and close ended questions were used to gather primary information from the employees of the sampled firms. The study achieved a response rate of 93%, considered sufficient for analysis and reporting as well as generalization of finding. Statistical analysis of data was done using SPSS (v23) for data coding and cleaning procedures.

RESULTS AND DISCUSSION

Analysis of Demographic data

Demographic analysis of data is presented in table 1 below. Respondents were asked to indicate their gender, age, current position, level of work experience and level of education as constructs to provide insights on employee satisfaction among the export processing companies.

Table 1: Demographic analysis findings

		Frequency	Percent	P-value
Gender	Male	29	64%	0.0083
	Female	16	36%	
Age	Below 30 years	25	56%	<0.0001
	31-40 years	10	22%	
	41-50 years	5	11%	
	Above 50 years	4	9%	
Current position	Top management	9	20%	0.015
	Middle level	12	27%	
	Subordinate	24	53%	
Level of experience	Up to 1 year	12	27%	0.007
	1-3 years	17	38%	
	3-6 years	8	18%	
	6-10 years	5	11%	
	Over 10 years	3	6%	

Education level	O-level	30	67%	0.0013
	College/ University education	15	33%	

Majority of respondents interviewed were of the male gender (64%) while slightly above a third of the respondents (36%) were females. It can be echoed that majority of these companies rely on males for heavy production tasks which were more common. The statistically significant difference as indicated by the p-value affirms disparity in gender among the employees employed by the various EPZ companies. Respondents were asked to indicate their age category and level of experience to understand the composition of the workforce among the companies. More than half of the employees interviewed (56%) were below 30 years of age, 22% were of ages 31-40 years while only one in every ten employees interviewed was aged 41-50 years. Moreover, 9% of the interviewed respondents were above 50 years. Further, research findings reveal a potential likelihood of high employee turnover given the presence of fewer employees with higher level of experience in the firm. About two-thirds of employees interviewed (65%) have less than three years level of experience while 35% have experience spanning over three years.

From the findings in table 1 above, more than two-thirds of the employees (67%) have O-level education and below while a third (33%) have at least college/university education and above. These findings are attributable to the fact these companies mainly rely on cheap labor in a bid to maximize production. Similarly, middle level and top management employees had higher educational qualifications. A statistically significant p-value of 0.0013 at 5% level of significance indicates a disparity in educational qualification among the employees.

Compensation and Employee satisfaction

Respondents were asked to indicate the degree to which they were content with compensation in relations to employee satisfaction. Findings are presented in table 2 below.

Table 2: Relationship between compensation and employee compensation

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
My gross salary is reflective of the work I do and is sufficient to meet my basic needs	44%	18%	16%	13%	9%
I am satisfied with my career progression at the company thus far	42%	22%	13%	11%	11%
As an employee, I am satisfied with the process used to determine annual salary raises	33%	24%	9%	27%	7%
The company provides a sufficient medical plan	49%	24%	9%	11%	7%

The company provides a good retirement plan that can comfortably support me and my dependents upon retirement	64%	7%	13%	7%	9%
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Study findings reveal 44% of the respondents indicated that their gross pay does not reflect of work done and insufficient to meet basic needs. Cumulatively, more than half of the respondents (62%) disagree with the fact that they have sufficient pay for the work done. Only two in every ten respondents interviewed acknowledge receipt of sufficient pay. There is relatively limited career progression in companies included in this study. Only 22% of respondents agree they are satisfied with career progression at their companies while 64% indicate dissatisfaction. This can be attributed to lower education levels among majority of employees, especially subordinates who comprise a bigger component of the employee workforce. When the study further sought to understand satisfaction relative to processes used to determine annual salary raises, about half (55%) indicate dissatisfaction while about a third (34%) are satisfied with the process used to determine annual salary raises. These findings can be associated to a variation in procedures across the various working categories. The low wages arise from the fact that most workers in the Kenyan zones are semi-skilled, or unskilled hired on causal basis, neutralizing their collective bargaining power. In a nutshell the average wage pay for local workers within the zones has been on steady increase over the years (KEPZA, 2014).

To establish if employees had medical plans, an overwhelming majority disagree (73%), indication of the absence of these medical cover plans. This could be associated with the absence of such plans or their presence among employees in higher working categories with more qualifications, and on permanent employment basis. Additionally, most employees in these companies are on contractual basis providing justification for the absence of these plans. Alongside absence of medical plans for most employees, there are fewer or none for a greater number, and in case present, insufficient to support beneficiary and dependents thereof. Only 15% of interviewed respondents agree to the presence of good retirement plans, a reflection of how these companies leverage on cheap labour with fewer terms of benefits. Studies show that wages paid to the zone workers mostly is dependent on the sector and that textile/garment pays higher wages compared to other sectors which is attributed to the African Growth and Opportunity Act market (Omolo & Odhong, 2014; KEPZA, 2016).

Table 3: Relationship between working condition and employee satisfaction

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
I have the tools and resources I need to do my job	13%	18%	9%	40%	20%
My workplace provides an undisturbed environment without any noise that gives me alone time to perform my duties	11%	18%	13%	38%	20%
The amount of work expected of me is reasonable	38%	22%	13%	11%	16%
A better work environment (spacious office, enough lighting etc.) will make me perform better at my job	0%	0%	4%	18%	78%
The morale in my department is high	13%	22%	13%	40%	11%

Majority of respondents (60%) acknowledge having tools and resources they need to do their job while 31% indicate disagreement, citing insufficiency of relevant resources to ensure optimal performance. These findings reveal most of the companies strive to provide relevant resources in a bid to maximize output. Similarly, 58% of respondents indicate the workplace provides an undisturbed environment without any noise that provide ample time to perform individual duties while 29% disagree, and a further 13% was unsure about the suitability of the working environment offered in relation to their productivity. However, an improvement in the working environment is a precursor to greater employee performance, 78% indicating that a positive change in the working environment would yield greater performance. A safe working environment translates to improved performance by the employee and the firm’s increased productivity (Mafini & Pooe, 2013; Aslam *et al.*, 2015).

While adequate resources and undisturbed environment may be available at the workplace, 60% express amount of output expected is unreasonable, 28% indicate their expected output is reasonable while 13% indicated moderateness. These findings point to a likelihood of longer working hours among majority of the employees or pay that is unmatched with expected output from their employer. Further, the study sought to understand the influence of morale as a predictor of performance and hence higher job satisfaction. Half of the respondents (51%) acknowledge presence of a high morale in the department, 35% disagree and 13% express neutrality. Companies should ensure a conducive work conditions for the workers as they spend much of their time in the work place (Khuong & Nguyen, 2016). Studies shows that the zones are less concerned with providing good working conditions to the workers and there is little or no mention of the policies regarding working standards and regulations (UNCTAD, 2015).

CONCLUSIONS AND RECOMMENDATIONS

Compensation is a significant predictor of employee satisfaction in Kilifi zones. Although the study found out that compensation and working conditions vary from one sector to the other but conclusively there exist a relationship between compensation, working conditions and employee satisfaction. The study also found out that when the two factors are positively addressed in the long run the firm achieves optimum productivity and reduced labour turnover. Therefore there is need for Export Processing Zones Authority to harmonize the compensation and working conditions within the zones.

FURTHER RESEARCH

The study focused on compensation, working conditions and their relations to employee satisfaction in Kilifi EPZs. Further research should be carried out on other factors related to employee's satisfaction in Kilifi Export Processing Zones. It is also advisable to conduct comparative study between zones to give better insights on the most attractive zones in terms of human resource capacity.

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