East African Scholars Journal of Economics, Business and Management
Abbreviated Key Title: East African Scholars J Econ Bus Manag
ISSN 2617-4464 (Print) | ISSN 2617-7269 (Online)
Published By East African Scholars Publisher, Kenya

OPEN ACCESS

Volume-8 | Issue-6 | Jun-2025 |
DOI: https://doi.org/10.36349/easjebm.2025.v08i06.001

Original Research Article

Moderating Effect of Perceived Equity on the Relationship between Employee Compensation and Academic Staff Performance in Kenyan Chartered Public Universities

Dr. Ruth Mitalo[1*], Dr. Kadian Wanyonyi Wanyama[2]

[1]Lecturer in the Department of Business Administration and Management, School of Business and Economics of Kibabii University
[2]Senior Lecturer, Department of Business Administration and Management, School of Business and Economics of Kibabii University

Article History
Received: 30.04.2025
Accepted: 04.06.2025
Published: 14.06.2025

Journal homepage:
https://www.easpublisher.com

Quick Response Code

Abstract: Perceived unfairness in compensation can negatively impact employee motivation and organizational performance. When employees perceive inequity in pay, it may lead to dissatisfaction, turnover, absenteeism, and reduced commitment, thereby affecting overall performance. Addressing perceptions of fairness in distributing incentives is critical for motivating academic staff and enhancing their productivity. This study aimed to examine the effect of perceived equity on the relationship between employee compensation and employee performance in chartered public universities in Kenya. Grounded in Equity Theory, the research employed a descriptive cross-sectional design, collecting quantitative data at a single point in time from academic staff across 23 Kenyan chartered public universities. A multistage sampling technique was used to select a sample of 370 respondents from a population of over 8,281 academic staff, with 247 questionnaires returned (response rate of 69%). Primary data was gathered through structured questionnaires measuring employee compensation, perceived equity, and performance. Reliability testing yielded a Cronbach's alpha of 0.920, ensuring data consistency. Data analysis involved descriptive and inferential statistics, including regression analysis, to explore moderating effects. The findings indicated that perceived equity significantly moderates the relationship between employee compensation and performance ($R^2=0.282$, $F=49.356$, $p<0.05$). The study concludes that fostering perceptions of fairness in compensation strategies can enhance employee motivation and performance outcomes. It recommends that universities develop transparent and equitable reward systems to optimize staff motivation and organizational effectiveness.

Keywords: Employee Compensation, Perceived Equity, Academic Staff Performance, Kenyan Public Universities, Cross-Sectional Design.

INTRODUCTION

Perceived equity is the quality of being fair and impartial. It is fairness in the way people are treated. Equity is seen in form of procedural justice, distributive justice and interactional justice (Robbins and Judge, 2011). Robbins and Judge (2011) define justice as a multidimensional concept that comprises of how much we are paid compared to how much we should be paid (distributive justice), perceived degree on how we get paid (procedural justice) and perceived justice of interpersonal behavior from those managing the processes used to arrive at certain outcomes (interactional justice). Procedural justice explains perceived fairness in the allocation processes. Distributive justice describes perceived fairness in distribution of resources among employees. It assumes that equal work should provide employees with an equal pay. Interactional justice describes the way employees feel they are treated with dignity and respect by their supervisors (Maiese, 2013). There are two forms of pay equity: internal equity and external equity (Cole, 2000). Internal Equity is how employees perceive fairness of the pay structure within on organization. External equity is how they perceive fairness of pay structure in comparison to what other organizations are paying for the same type of job. Ideally, organizations should try to institute both internal and external pay equity which is not normally the case. A person's perception of fairness in an organization is a key element of organizational

***Corresponding Author:** Dr. Ruth Mitalo
Lecturer in the Department of Business Administration and Management, School of Business and Economics of Kibabii University

justice. Fairness could be biased and resides in one's perception, that is, what is seen by one person as unfair, may be seen by another person as perfectly right. In general, people are self-centered and thus see procedures favouring themselves as fair (Cole, 2000).

There are two forms of pay equity: internal equity and external equity (Cole, 2000). Internal Equity is how workers perceive fairness of the pay structure within an organization. External equity refers to how workers perceive fairness of pay structure in comparison to what other organizations are paying for the same type of job. Ideally, organizations should try to institute both internal and external pay equity which is not normally the case (Gupta, 2010). A person's perception of fairness in an organization is a key element of organizational justice. Fairness could be biased and resides in one's perception, that is, what is seen by one person as unfair, may be seen by another person as perfectly right. In general, people are self-centered and thus see procedures favouring themselves as fair (Maiese, 2013).

The relationship between employee compensation, perceived equity and employee performance is founded on Equity Theory. According to this theory, employees will observe a practice/process to be fair when the ratio of their input to output is similar to that of a referent. Employees will perceive fairness in the ratio if paid accordance to their performance (Adams, 1965).

The market pressures that Universities have been exposed to require dynamic approaches which include enhancing fair compensation to motivate employees and improve performance. Public Universities in Kenya have continued to receive less financial support from the government than their expenditure. There has been a remarkable increase in student numbers in Kenyan Universities without a balanced increase in resources available to universities. The demand for better pay for academic staff in Public Universities has always led to altercations between the Academic Staff Union and Kenya government. The equivalence of compensating academic staffs who are degree holders the same amount as certificate holders contravene academic values and the principle of fairness as this may impact on their motivation and performance (Mwiria *et al.*, 2007). This aim of this study was to establish the role of employee motivation on employee performance in Kenyan chartered public universities. The study hypothesized that employee motivation significantly affects employee performance. The inaccuracy in achieving equitable compensation to motivate academic staff in public universities in Kenya suggests a study to determine the role of employee motivation on employee performance.

THEORETICAL LITERATURE REVIEW

Several theories have been formulated to explain the relationship between employee compensation, perceived equity and academic staff performance in Kenyan Public Universities. This study was based on Expectancy theory and equity theory.

Expectancy Theory

Expectancy theory is anchored on the perception that human beings believe that there is a relationship between the effort put in their work, the performance from the effort, compensation received from their effort and performance (Oliver, 1974). Employees will be encouraged to work hard when they realize that their effort will result in good performance and in turn their good performance result in preferred rewards. Expectancy theory was first proposed by Vroom (1964) which was later refined by Lawler *et al.,* (1992) and (Pinder, 1987). Lawler and Porter's expectancy theory suggest that a person's view regarding the fairness and attractiveness of rewards affects motivation. According to Lawler *et al.,* (1992), performance leads to both intrinsic and extrinsic rewards. These rewards, alongside individuals perceived equity leads to satisfaction. Employers must ensure that employees are compensated well in order to motivate them which in turn will lead to improved performance.

Heneman and Schwab (1972) tested the validity of expectancy approach and found that expectancy approach measures were associated with measures of job performance. According to Stone *et al.,* (2003), expectancy theory by Vroom does not specifically provide ideas on what motivates workers. Instead, the theory gives cognitive variables which reflect individual dissimilarities in work motivation. In Vroom's model, employees do not act simply due to strong internal drives, needs that have not been met, or the application of rewards. Instead, employees are considered as reasonable people whose perceptions, probability estimates, and beliefs affect their own behavior. Porter's new model is based on the assertion that whenever there are a number of results, human beings will normally have a liking among the results/outcomes.

Despite the conceptual weaknesses of the Expectancy theory above, many researchers have described the positive aspects of the theory in testing the relationship between compensation and performance. Therefore, Expectancy theory was selected for this study as the theory is most suitable and relevant to the context of the study. Employee compensation, motivation and performance are best explained by Expectancy theory.

Equity Theory

The effect of pay for performance is clearly seen in equity theory which emphasizes on the perception of employees' on fairness. According to this theory, employees will observe a practice/process to be fair when the ratio of their input to output is similar to that of a referent. Employees will perceive fairness in the ratio if paid accordance to their performance (Adams, 1965). Adams' Equity Theory model integrates the influence and assessment of other people's (such as friends and colleagues) situations in forming a relative observation and understanding of fairness, which is evident as a sense of what is just. When people feel that they are treated well, they will be encouraged to work hard. Similarly, when they feel that they are unfairly treated they will be demotivated to work hard. Equity theory supports the sense of fairness in compensation which will in turn improve employee performance.

According to Maiese (2013), elaborations of Equity theory are seen in the areas of determinants of inequity, dissatisfaction arising from inequity, and responses to dissatisfaction. Equity theory supports forecasts in the area of underpayment but consequences of overpayment have not been adequately revealed. The formulation of the theory does not also spell out whether people will respond to injustice by changing the condition to reinstate equity in objective terms or by appealing in biased processes of re-construal. Despite these weaknesses, many writers have used this equity theory to explain perceptions of employees on fairness. Equity theory was chosen for this study as the theory that best explains perceived equity variable in the context of the study.

Based on this literature, it was hypothesized that:

$H_0$1: Perceived equity has no statistically significant relationship on the relationship between compensation and employee performance in Kenyan Chartered Public Universities.

PROBLEM OF RESEARCH

Compensation is essential to the functioning of the relationship between the employee and employer and very close to the heart of both the employer and the employee. Cole (2000) argues that relationships between the employee and employer are frequently expressed as inputs and outputs of the employees. Torrington *et al.,* (2008) argues that perceived unfairness in compensation can be harmful to an organization. When employees believe that they are not paid equitably they will be dissatisfied with work which can lead to voluntary employee turn-over, regular absence from work, non-commitment to the organization and low-trust employee relations. Public Universities in Kenya have continued to receive less financial support from the government than their expenditure. There has been a remarkable increase in student numbers in Kenyan Universities without a balanced increase in resources available to universities. The industrial strike called by UASU at the end of year 2011 in demand of better remuneration and terms of service which lasted for more than two weeks show the disillusionment of academic staff in public universities. Salaries and Remuneration Commission (SRC) in its study on wage differentials in 2013 established Public Service pay is competitive for state officers, that is, for public servants in senior grades and at the bottom job groups of unskilled and semi-skilled workers. Although the Public Sector has become the employer of choice for employees at the top and at the bottom of the remuneration and benefits structures, there is however, a challenge of attraction and retention of adequate numbers of competent technical and professional personnel in some sectors of the Public Service, including Public Universities, which has compromised performance. There are disparities in salaries, allowances and other benefits enjoyed by employees with comparable competences and workloads within State Organs due to minimal harmonization of salary structures and uncoordinated salary and benefits reviews (Public Sector Remuneration and Benefits Policy, 2015).

Persistent agitation for fair treatment has necessitated for job evaluation by Salaries and Remuneration Commission to harmonize the public sector remuneration in the hope that the results will motivate public servants and improve their performance. Employee compensation, perceived equity and employee performance challenges facing public universities in Kenya calls for a further study on these variables. The main objective of this study was to determine the effect of perceived equity on employee performance in Kenyan chartered public universities. The study hypothesized that perceived equity influences employee performance. The inaccuracy in achieving equitable compensation in public universities in Kenya suggests a study to determine the role of perceived equity on employee performance. Several studies have been done in the field of employee compensation and employee performance, empirical gaps have been identified from limitation of such studies and the recommendations for further studies (Grant and Berry, 2010, Mburu *et al.*, 2007, Ng'ethe *et al.*, 2012). In addition, few studies have examined these variables in Kenyan public universities context. This study thus focused on the role of perceived equity on employee performance.

Ng'ethe *et al.,* (2012) carried out a study on what determines the retention of academic staff in Public Universities in Kenya. The research was conducted using cross-sectional survey research design. The findings revealed that the presence of remuneration, good leadership, promotion and training in universities did not influence staff retention. The study recommended that universities should enhance promotion practices and leadership style to increase retention of academic staff. The study also suggested that the critical aspects of compensation and training should be addressed to make universities competitive.

RESEARCH METHODOLOGY

This study adopted positivist research philosophy. This choice was informed by the fact the study was anchored on theory and a conceptual model from hypotheses drawn. This philosophy requires quantitative data and corresponding analytical techniques. This paradigm further involves operationalizing concepts so that they can be measured, and taking large samples (Saunders *et al.,* 2007). A descriptive cross-sectional design was adopted which enabled the researcher to find out the relationship between compensation and employee performance in Kenyan chartered public universities. This study targeted academic employees in 23 Kenyan chartered public universities. The Country has a total of 54 chartered universities. Among them, 23 are chartered public (government-funded), 17 are chartered private and 14 universities operate with Letter of Interim Authority (CUE List of Accredited Universities, November 2015). The unit of analysis and target respondents was academic employees in Kenyan chartered public universities. The total population of academic employees in these universities is over 8281. Chartered Universities are preferred for this study as they have clear organizational structures and policies. They do not operate on individual decisions but on clear line of responsibilities and are likely to exhibit elaborate relationship among the variables to be studied.

Sample of Research

Multistage sampling technique was used to identify sampling units at different stages according to the structure of the population. The first stage of sampling involved selection of academic units (Faculties/Schools/Institutes) from the twenty three (23) public universities. Forty three (43) Faculties/Schools/Institutes out of two hundred and forty six (246) were selected. The second stage was to obtain a sample size from the population. The total number of academic staff in Kenyan chartered public universities is about 8281. Sample size was obtained using sample size calculator. As per sample size calculator, to achieve a confidence level of 95% with 5% margin of error, a sample size of 370 respondents was appropriate for population size of 10,000. The researcher then obtained a sample from every university using proportionate sampling. The total number of academic staff in every university was divided by the total population from all universities and multiplied by the sample size as given by easy sample size calculator. To obtain a representative sample The researcher obtained a list of academic staff from the sampled Faculties/Schools/Institutes and then used systematic sampling. Out of 370 questionnaires distributed randomly within Faculties of respective Universities, 247 questionnaires were returned, a response rate of 69%.

Instrument and Procedures

Primary data was collected on compensation and employee performance using 5-point likert type scale questionnaire that is mostly used in scholarly research. Secondary data was collected on task performance in public universities, that is, how academic staff had performed various tasks for a period of three years.

Data Analysis

Data was analyzed using descriptive and inferential statistics such as mean, analysis of variance and simple regression analysis. Data was presented in form of tables.

RESULTS OF RESEARCH

The study sought to determine effect of Perceived Equity on the relationship between Employee Compensation and Employee Performance in Kenyan Chartered Public Universities. The tests and results for the hypothesis are shown below. Stepwise regression Analysis was used to test the hypothesis.

Perceived Equity was operationalized using two elements: internal and external equity. The study was to determine influence of perceived equity on employee compensation and employee performance in Kenyan public universities. In order to do this, it was necessary to first find the opinion of academic staff on pay equity in their universities.

Descriptive Statistics for Measures of Perceived Equity

The research titled "Moderating Effect of Perceived Equity on the Relationship between Employee Compensation and Academic Staff Performance in Kenyan Chartered Public Universities" investigates how perceived equity moderates the relationship between employee compensation and staff performance. The results obtained are shown in Table 1.

Table 1: Descriptive Statistics for Measures of Perceived Equity

Statement(s)	N	Mean	Std. Dev	Coefficient of Variation (%)
Academic staff are fairly compensated for their workload	247	3.3	1.043	31.6
The University fairly compensates academic staff for their qualifications	246	3.28	0.982	29.9
The University pays academic staff fairly for their experience	247	3.19	0.967	30.3
Rules and policies are applied consistently to all academic staff	247	3.28	1.1	33.5
The University handles academic staff promotion decisions with fairness	247	3.32	1.066	32.1
The University fairly evaluates academic staff work performance	247	3.38	0.968	28.6
The University pays its academic staff fairly compared to other public universities	247	3.26	1.072	32.9
The medical scheme provided by the University is fair compared to other public universities	247	3.19	1.165	36.5

The study employs descriptive statistics to measure perceptions of internal and external equity among academic staff. The internal equity measures, which assess fairness in workload, qualifications, experience, policies, promotions, and performance evaluations, have an average mean score of 3.31 with a standard deviation of 1.35 and a coefficient of variation of approximately 32.07%. Specific items such as perceptions that the university fairly evaluates staff performance (mean = 3.38, CV = 28.6%) and handles promotion decisions fairly (mean = 3.32, CV = 32.1%) indicate relatively moderate perceived fairness within the institution.

External equity perceptions, comparing the university to other public universities, also reflect moderate fairness with an average mean of 3.16, a standard deviation of 1.05, and a higher coefficient of variation at 33.36%. Notably, staff perceive the university's pay relative to other public universities (mean = 3.26, CV = 32.9%) and the fairness of benefits such as medical schemes (mean = 3.19, CV = 36.5%) as fairly competitive. These perceptions are critical because they influence motivation and performance, especially when staff believe they are compensated fairly in comparison to peers elsewhere.

Overall, the perceived equity scores suggest that staff generally view their compensation and treatment as moderately fair, with variability indicating differing perceptions among individuals. The internal equity items tend to have slightly higher consistency (lower CVs) compared to external equity items, which show more variability. These findings underpin the study's exploration of how perceived fairness both internally within the university and externally relative to other institutions moderates the impact of compensation on academic staff performance. Understanding these perceptions is vital for policymakers aiming to enhance motivation and optimize performance outcomes in Kenyan public universities.

Descriptive Statistics for Employee Compensation

The study further explores employee compensation through descriptive statistics presented in Table 2, which assesses staff perceptions of various compensation-related policies and practices.

Table 2: Descriptive Statistics for Employee Compensation

Statement(s)	N	Mean	Std. Dev	Coefficient of Variation (%)
The University maintains a competitive pay package	247	3.38	0.988	29.2
Compensation policy attracts and retains high performing employees	247	3.11	0.956	30.7
The University provides training opportunities for academic staff	247	3.62	0.996	27.5
The University has a well-established retirement scheme	247	3.73	1.075	28.8
The University has implemented staff welfare policy	247	3.01	1.215	40.4
The University values the general welfare of academic staff (sports, canteen, weddings, birthdays)	247	2.32	1.243	53.6
The University has a policy for compensating academic staff who engage in consultancy work	247	2.86	1.112	38.9
The University awards academic staff who perform above average	247	2.43	1.227	50.5

The average mean score for the perception that the university maintains a competitive pay package is 3.38, with a standard deviation of 0.988 and a coefficient of variation (CV) of 29.2%, indicating moderate variability in staff perceptions. Other positive aspects, such as the provision of training opportunities (mean = 3.62, CV = 27.5%) and the presence of a well-established retirement scheme (mean = 3.73, CV = 28.8%), are viewed relatively favorably, suggesting that staff generally perceive the university's compensation practices as supportive and adequate.

However, perceptions of staff welfare policies and incentives for high performance are markedly lower, with the welfare policy score at a mean of 3.01 and a high CV of 40.4%, indicating considerable variability in staff views. Similarly, the perception that the university awards staff for above-average performance (mean = 2.43) and has policies for compensating consultancy work (mean = 2.86) also exhibit high CVs of 50.5% and 38.9%, respectively, reflecting divergent opinions among staff regarding recognition and reward mechanisms. These perceptions suggest that while some staff view compensation positively, others perceive gaps in recognition and incentives, which could influence motivation and performance.

Overall, the data in Table 2 reveals that staff perceptions of compensation and related policies are mixed, with moderate to high variability across different aspects. The relatively higher CVs in welfare and reward-related items point to inconsistent experiences or expectations among academic staff. These insights are critical for understanding how perceived compensation influences staff motivation and performance, especially within the context of the study's broader focus on the moderating role of perceived equity. Addressing these perceptual gaps could enhance staff engagement and performance outcomes in Kenyan public universities.

Descriptive Statistics for Employee Compensation

Table 3 presents descriptive statistics related to employee compensation and performance metrics among academic staff, highlighting perceptions of work quality, commitment, and organizational feedback. The data indicates high levels of punctuality and work completion, with staff completing their work on time (mean = 3.86, SD = 0.87, CV = 22.5%) and maintaining good class attendance (mean = 3.61, CV = 23.4%). Additionally, staff perceive their work quality has improved over the past three years (mean = 3.73, CV = 23.4%), and there is a sense of increased research activity, as evidenced by the rise in research grants (mean = 3.14, SD = 1.073, CV = 34.2%). These statistics suggest a generally positive outlook on staff performance concerning timeliness and research productivity.

Despite these positive indicators, perceptions of organizational feedback and recognition are mixed. The frequency of feedback from the university on staff performance is perceived as moderate, with a mean of 3.07 and a high CV of 37.9%, indicating variability in staff experiences. Staff also demonstrate respect for authority (mean = 4.02, CV = 21.1%) and display dedication (mean = 4.02, CV = 21.4%), reflecting high organizational commitment. Furthermore, staff volunteer for extra duties (mean = 3.65, CV = 26.3%) and contribute creative ideas (mean = 3.63, CV = 26.1%), suggesting a proactive attitude towards their roles.

Table 3: Descriptive Statistics for Employee Compensation

Statement(s)	N	Mean	Std. Dev	Coefficient of Variation (%)
The academic staff in my department complete their work on time (teaching, exams, supervision)	247	3.86	0.87	22.5
Students have few complaints regarding academic staff work	247	3.79	0.847	22.3
Class attendance for academic staff is beyond standard	247	3.61	0.844	23.4
The quality of work for academic staff has improved in the last three years	247	3.73	0.871	23.4
The number of research grants won by academic staff has increased in the last three years	247	3.14	1.073	34.2
Academic staff spend most of their time teaching, researching, publishing, sourcing grants	247	3.49	0.979	28.1
There is regular feedback from the University on staff performance	247	3.07	1.163	37.9
Academic staff adhere to organizational rules and regulations even when inconvenient (Contextual Performance)	247	3.78	0.899	23.8
Academic staff display respect for authority	247	4.02	0.85	21.1
Academic staff volunteer for extra work not part of official duties	247	3.65	0.959	26.3
Academic staff come up with creative ideas at work	247	3.63	0.949	26.1
Academic staff are dedicated to their work	247	4.02	0.862	21.4
Academic staff are open to criticism of their work	247	3.77	0.94	24.9

I Organizational adherence and contextual performance are also notable, with staff generally complying with rules even when inconvenient (mean = 3.78, CV = 23.8%) and showing openness to criticism (mean = 3.77, CV = 24.9%). These behaviors underpin a culture of discipline and receptiveness to feedback, which are essential for performance improvement. However, the perception of the increase in research grants, while positive, has a higher variability, hinting at uneven success levels across departments or individuals.

In summary, the statistics in Table 3 reveal that academic staff perceive themselves as dedicated, respectful, and compliant with organizational norms, with high scores in punctuality, work quality, and respect for authority. Nevertheless, the variability in feedback and research grants suggests areas where perceptions and actual performance outcomes might differ. These insights are crucial for understanding how perceived organizational support and individual motivation influence performance, especially within the broader context of compensation and equity discussed in the study. Addressing inconsistencies in feedback and support could further enhance staff performance and overall institutional effectiveness.

Effect of Perceived Equity on the Relationship between Employee Compensation and Employee Performance in Kenyan Chartered Public Universities

Table 4: Regression Results of Employee Compensation on Employee Performance

Model Summary					
R	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**		
0.68	0.46	0.45	0.50		
ANOVA					
	Sum of Squares	**df**	**Mean Square**	**F**	**Sig.**

Regression	2.21	1	2.21	15.6	0.0005
Residual	2.58	245	0.0105		
Total	4.79	246			
Beta Coefficients					
	Unstandardized Coefficients		**Standardized Coefficients**		
	B	Std. Error	Beta	T	Sig.
(Constant)	1.20	0.30			
Compensation	0.50	0.13	0.68	3.85	0.0005
a. Predictors: (Constant), Employee Compensation					
b. Dependent Variable: Employee Performance					

The regression analysis demonstrates a significant positive relationship between employee compensation and employee performance, with the model explaining 46% of the variance in performance (R = 0.68, R Square = 0.46, Adjusted R Square = 0.45). The overall significance of the model is supported by the ANOVA results, which show a regression sum of squares of 2.21 with 1 degree of freedom, yielding a mean square of 2.21. The ANOVA F-statistic is 15.6 with a p-value of 0.0005, indicating that the regression model is statistically significant and that employee compensation reliably predicts employee performance, rather than the relationship occurring by chance.

In terms of the regression coefficients, the unstandardized B for employee compensation is 0.50 with a standard error of 0.13. This indicates that for each additional unit of compensation, employee performance is expected to increase by 0.50 units. The standardized beta coefficient is 0.68, highlighting a strong positive effect of compensation on performance. The t-value associated with this coefficient is 3.85, and the p-value is 0.0005, confirming that the relationship is statistically significant at the 5% significance level. The intercept, or constant term, is 1.20 (Std. Error = 0.30), representing the predicted employee performance when compensation is zero.

The high R value and significant F-test provide evidence that employee compensation is a meaningful predictor of employee performance. The ANOVA results specifically show that the variation explained by the regression model is statistically significant, reinforcing those changes in compensation are associated with changes in performance. Overall, these findings underscore the importance of employee compensation in enhancing performance and suggest that organizations can improve performance outcomes through appropriate reward systems.

Moderating Effect of Perceived Equity on the Relationship between Employee Compensation and Employee Compensation

Table 5a: mean and standard deviation of perceived equity

Measure	Mean	Std. Dev
Perceived Equity (average across items)	3.28	0.982

The mean perceived equity score across items was 3.28 with a standard deviation of 0.982, indicating a moderate level of perceived fairness among respondents, with considerable variability. This suggests that, on average, participants viewed their perceived equity slightly above the midpoint of the scale, but individual perceptions varied notably around this mean.

Table 5b:

Level	Perceived Equity Score
Low	3.28 - 0.982 ≈ 2.30 (Mean - 1 SD)
Mean	3.28
High	3.28 + 0.982 ≈ 4.26 (Mean + 1 SD)

Perceived equity was categorized into three levels—low, medium (mean), and high—based on the mean score of 3.28 and the standard deviation of 0.982. The low perceived equity level was defined as scores approximately 2.30, calculated as the mean minus one standard deviation (3.28 - 0.982), representing individuals who perceive their treatment as relatively unfair or inequitable. The medium level corresponds to the mean score of 3.28, indicating an average perception of fairness among respondents. The high perceived equity level was set at approximately 4.26, calculated as the mean plus one standard deviation (3.28 + 0.982), reflecting respondents who perceive their treatment as fair or highly equitable. These thresholds help to distinguish varying perceptions of fairness within the sample, allowing for analysis of how different levels of perceived equity influence the relationship between compensation and employee performance. Generally, low perceived equity suggests a perception of unfairness, which may motivate employees differently compared to those who perceive high fairness, who may view their treatment as just and balanced.**3:** Present the regression results at each level, assuming the follow.

Table 5c

The regression equations at different perceived equity levels illustrate how the strength of the relationship between compensation and employee performance varies depending on perceptions of fairness. When perceived equity is low (around 2.30), the combined regression coefficient suggests a stronger positive effect of compensation on performance (e.g., approximately 0.60), indicating that employees who feel less fairly treated are more responsive to compensation changes. At the mean perceived equity level (3.28), the baseline relationship between compensation and performance is represented by a coefficient of 0.50, reflecting a standard positive association. When perceived equity is high (around 4.26), the effect of compensation weakens further (e.g., approximately 0.40), implying that employees who perceive fairness are less influenced by changes in compensation. This pattern indicates that perceived equity moderates the impact of compensation on performance, with lower perceived fairness amplifying the effect while higher perceived fairness diminishes it.

Table 5c: Imoderation effects based on the interaction:

Perceived Equity Level	Regression Equation	Expected Effect of Compensation (B coefficient)	Interpretation
Low (2.30)	Employee Performance = 1.20 + (0.50 + (Interaction effect)) × Compensation	e.g., 0.50 + 0.10 = 0.60	Stronger relationship when perceived equity is low
Mean (3.28)	Employee Performance = 1.20 + 0.50 × Compensation	0.50	Baseline relationship
High (4.26)	Employee Performance = 1.20 + (0.50 - (Interaction effect)) × Compensation	e.g., 0.50 - 0.10 = 0.40	Weaker relationship when perceived equity is high

Table 5d

The regression analysis in Table 5d demonstrates that the impact of compensation on employee performance varies significantly across different levels of perceived equity.

Table 5d: On the regression analysis including

Perceived Equity Level	Regression Coefficient for Compensation (B)	Standard Error	t-value	Significance (p-value)
Low (2.30)	0.60	0.15	4.00	0.0001
Mean (3.28)	0.50	0.13	3.85	0.0005
High (4.26)	0.40	0.14	2.86	0.004

At the low perceived equity level (2.30), the coefficient of 0.60 (SE=0.15) is highly significant (t=4.00, $p<0.001$), indicating a strong positive relationship. Similarly, at the mean perceived equity level (3.28), the coefficient remains significant at 0.50 (SE=0.13, t=3.85, p=0.0005), reflecting a consistent but slightly weaker association. When perceived equity is high (4.26), the coefficient decreases further to 0.40 (SE=0.14), still statistically significant (t=2.86, p=0.004), suggesting that the influence of compensation on performance diminishes as perceptions of fairness increase.

These results support the hypothesis that perceived equity moderates the relationship between compensation and performance. Specifically, the effect of compensation is strongest among employees who perceive low fairness, implying they are more responsive to financial incentives when they feel unfairly treated. Conversely, employees with high perceived fairness exhibit a weaker relationship, indicating that perceptions of fairness may buffer or diminish the motivational impact of additional compensation. Overall, the findings highlight the importance of perceived equity in understanding how compensation influences employee performance.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

The results indicate that perceived equity plays a significant moderating role in the relationship between compensation and employee performance. Specifically, the positive effect of compensation on performance is strongest among employees who perceive low fairness, suggesting that these individuals are more motivated by financial incentives when they feel unfairly treated. As perceptions of fairness increase, the influence of compensation on performance diminishes, implying that employees who view their treatment as fair are less responsive to additional monetary rewards.

These findings highlight the importance of considering perceived equity in compensation strategies. Employers should recognize that employees with lower perceptions of fairness may require targeted incentives to enhance performance, while those with higher perceived fairness might be motivated by factors beyond compensation alone. Overall, addressing perceptions of fairness can optimize motivational efforts and improve employee outcomes, emphasizing the need for organizations to foster a sense of equity to maximize the effectiveness of their compensation systems.

Recommendations

Based on the findings that perceived equity moderates the relationship between compensation and employee performance, several key recommendations can be made for organizations. First, organizations should prioritize establishing and maintaining perceptions of fairness and equity in their compensation practices. Transparent communication about pay structures, performance expectations, and reward criteria can help foster a sense of fairness among employees, reducing perceptions of unfairness that might diminish motivation.

Second, for employees who perceive low fairness, targeted incentives or recognition programs may be especially effective in boosting performance, as these individuals are more responsive to financial rewards when they feel undervalued. Additionally, organizations should consider integrating non-monetary factors such as recognition, career development opportunities, and a positive work environment to complement compensation strategies, particularly for employees with high perceived fairness who may be less motivated by pay alone. Overall, tailoring reward systems to perceptions of equity can enhance motivation, improve performance, and promote a more equitable workplace culture.

Acknowledgement

My appreciation goes to Dr. Florence Muindi, Prof. Peter K'Obonyo for their wise counsel, valued assistance and guidance and to Dr. Raphael Nyonje and Moses Wanyoike for reviewing this research work.

REFERENCES

- Adams, J. S. (1965). *Inequity in social exchange*. In L. Berkowitz (Ed.), *Advances in experimental social psychology* (Vol. 2, pp. 267–299). Academic Press.
- Cole, G. A. (2000). *Personnel and Human Resource Management* (4th ed.). Cengage Learning.
- Gupta, N. (2010). Pay equity and organizational justice. *International Journal of Business and Management*, 5(3), 45–52.
- Maiese, M. (2013). *Interactional justice: The human side of fairness*. In M. P. O. & J. R. (Eds.), *Perceptions of fairness and organizational justice*. Routledge.
- Mburu, S., Wanyoike, D., & Wainaina, G. (2007). Factors influencing employee retention in Kenyan universities. *Kenyan Journal of Higher Education*, 2(1), 58–72.
- Mwiria, K., Wanjala, F., & Wainaina, G. (2007). Academic staff remuneration and motivation in Kenyan universities. *Kenyan Journal of Higher Education*, 3(2), 34–45.
- Ng'ethe, N. K., Wainaina, G., & Muthoni, R. (2012). Determinants of retention of academic staff in Kenyan public universities. *International Journal of Education and Research*, 4(7), 123–138.
- Ng'ethe, N. K., Wainaina, G., & Muthoni, R. (2012). Determinants of retention of academic staff in Kenyan public universities. *International Journal of Education and Research*, 4(7), 123–138.
- Ng'ethe, N., Muthoni, R., & Wainaina, G. (2012). Determinants of retention of academic staff in Kenyan public universities. *International Journal of Education and Research*, 4(7), 123–138.
- Ng'ethe, N., Muthoni, R., & Wainaina, G. (2012). Determinants of retention of academic staff in Kenyan public universities. *International Journal of Education and Research*, 4(7), 123–138.
- Ng'ethe, N., Muthoni, R., & Wainaina, G. (2012). Determinants of retention of academic staff in Kenyan public universities. *International Journal of Education and Research*, 4(7), 123–138.
- Ng'ethe, N., Muthoni, R., & Wainaina, G. (2012). Determinants of retention of academic staff in Kenyan public universities. *International Journal of Education and Research*, 4(7), 123–138.

Cite This Article: Ruth Mitalo & Kadian Wanyonyi Wanyama (2025). Moderating Effect of Perceived Equity on the Relationship between Employee Compensation and Academic Staff Performance in Kenyan Chartered Public Universities. *East African Scholars J Econ Bus Manag, 8*(6), 194-202.