

**FACTORS AFFECTING IMPLEMENTATION OF PERFORMANCE RELATED PAY:
A CASE OF KENYA REVENUE AUTHORITY**

Winnie Kwamanga

*Department of Entrepreneurship and Procurement Development, School of Human Resource
Development, Jomo Kenyatta University of Agriculture and Technology, KENYA*
E-mail: (Corresponding author)

Elijah O. Achoch

*Department of Entrepreneurship and Procurement Development, School of Human Resource
Development, Jomo Kenyatta University of Agriculture and Technology, KENYA*

ABSTRACT: *The study examined factors constraining the implementation of performance related pay in government agencies in Kenya. It investigated the influence of management commitment, employee participation and setting of performance targets on the factors influencing implementation of performance related pay in Kenya Revenue Authority. Findings from various studies have indicated that many organizations have embrace Performance Related Pay but the implementation process remains a challenge. Literature was reviewed in line with the study objectives and the research questions. The study employed the use of a case study as a research design. A self administered questionnaire was used as the primary data collection instrument. To achieve the main objective, a description survey of 232 respondents was conducted from a population frame of 2322 from employees Kenya Revenue Authority in Times Tower Nairobi headquarters. Statistical inferences indicated that high reliability was achieved by the data collection instrument with Cronbach's Alpha coefficients ranging from 0.764 to 1.000. The findings of the study were that at least three of the elements under study contributed to the constraints faced in the implementation of the performance related pay. The study therefore, recommends that further study on performance related pay be done in relation to the strategic planning of KRA and other public organizations in Kenya, in order to enhance service delivery and employee performance.*

KEYWORDS: Performance Related Pay, Management Commitment, Employee Performance, Cronbach's Alpha, and Performance Targets

INTRODUCTION

Performance related pay is used by some organizations to reward employees on an individual and/or team basis. It has been used in both the public sector and parts of the private sector, where it is perceived to be a way of giving an incentive to those at the top of their pay band or as a means

of progressing through the pay system. Pay increases are linked to individual or team performance measured against targets or objective criteria.

According to Marsden (2009), organizations that undertake Performance Related Pay stand to benefit in more ways than one; through optimum utilization of their human resources; they are able to match and align personnel activities to organizational strategic objectives; making fairly accurate predictions on the labour market and how these would affect the organization; better coordination of different personnel management programs.

In Kenya studies like Kiragu (2002), Obong'o (2009) and Kim (2005) had indicated that there are factors that created differences in how public sector organizations coped with change. The main factor was that the performance aims of most public sector organizations differed from firms in the private sector whose strategic transformation were to produce profit. Public organizations were normally limited in terms of flexibility and autonomy as there was political interference, broad accountability and performance expectations continuously shift. In the early years of the 1990s decade, many individuals believed that the services provided by public sector organizations had become unresponsive to clients.

LITERATURE REVIEW

The landscape on Human Resource Management the world over has seen tremendous changes in the last three decades. In the survey the countries that have adopted performance related pay; whereas the private sector had adopted to these changes with less resistance the public sector had faced several hurdles. Empirical studies have recommended a vast array of methods for managing of performance in organizations. They include performance appraisal, balanced score cards, performance for pay, incentive schemes, bonuses, monetary rewards, setting performance targets and goals, contingent pay etc (Marsden 2004; Armstrong & Baron, 2009; Kessler & Purcell, 1992; Chiu et al, 2002; Osauke, 2004). Despite the plethora of alternatives, the performance management in parastatals still seems to be elusive (Kiragu & Mukandala, 2003).

Empirical evidence shows that in a study on performance related pay in Australia, employees tended to believe that the assessment of work performance against managerially determined rating scales was a subjective process (O'Donnell 1998). Studies in various countries vindicate the effectiveness of performance related pay in maximizing employee productivity (Marsden et al, 1992).

Osauke (2004) in his survey of 20 Swedish companies found that only eight applied PRP to all its employees. He found out that there was a growing recognition of the role PRP played in motivating employees in the sector. However PRP implementation in the public sector lacked sophistication. Performance reviews and incentive payout were also infrequent. Performance measures used for non-managers were often outside their control. Employees were hardly consulted during the design and implementation of incentives. All of these reduce the effectiveness of PRP in bringing about the intended higher levels of performance. It was observed that the correction of these flaws would lead to greater efficiency of PRP as a human resource tool in the sector.

There are many reasons for the introduction of PRP schemes, whether in the public or private sector. Kessler (1992) suggests that PRP can be used to assist organizational change. It might also help to achieve cultural change by letting employees know what the values and expectations of the organization are. Changing the culture may help to change the relationship between management and employees. In this connection, Kessler (1992) and Porter et al. (1994) note that the individualization of pay can be used to circumvent the collective bargaining process, thus reducing the influence of trade unions and re-establishing managerial control.

The complexity surrounding performance management is one of the difficulties face by human resource management (Fitzpatrick, 2007). The distinction between soft and hard HRM was that soft HRM was strategic interventions designed to elicit commitment and to develop resourceful human whereas hard HRM involved strategic interventions designed to achieve pull utilization of resources. It seems that many of the public sector pay schemes currently in operation try to do both, with little evidence of success in either front. There was evidence that the benefit of performance related pay was not the level of employee effort but the purposes to which that effort is directed (Marsden,2004). Regardless of the agenda pursued, however, prior research suggested that an elaboration and extension of studies assessing the efficacy and dynamics of pay for performance systems was timely important and long overdue.

Performance related pay has all the advantages and disadvantages listed for contingent pay. Many people feel the latter outweigh the former. It had attracted a lot of adverse comments, primarily because of the difficulties organizations have met in managing it. Contribution related pay schemes are becoming much more popular (Armstrong, 2006). Another argument against performance related pay is that it has proved difficult to manage. Organizations including the civil service, rushed into performance related pay in the 1980s without really understanding how to make it work. Inevitably problems of implementation arose (Kessler and Purcell 1992) and (Marsden and Richardson 1994). Failures are usually noted in implementation and operating processes, especially those concerned with performance management, the need for effective communication and involvement and line management capability.

In another study, there was evidence that the benefit of performance-related pay was not the level of employee effort but the purposes to which that effort is directed (Marsden 2004). Research needed to be conducted on a range of outcomes to help sort out the trade-off s associated with performance-related pay. Regardless of the agenda pursued, however, prior research suggested that an elaboration and extension of studies assessing the efficacy and dynamics of pay for-performance systems was timely, important, and long overdue.

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The conceptualised relationship between the independent and dependent variables is shown in Figure 1.

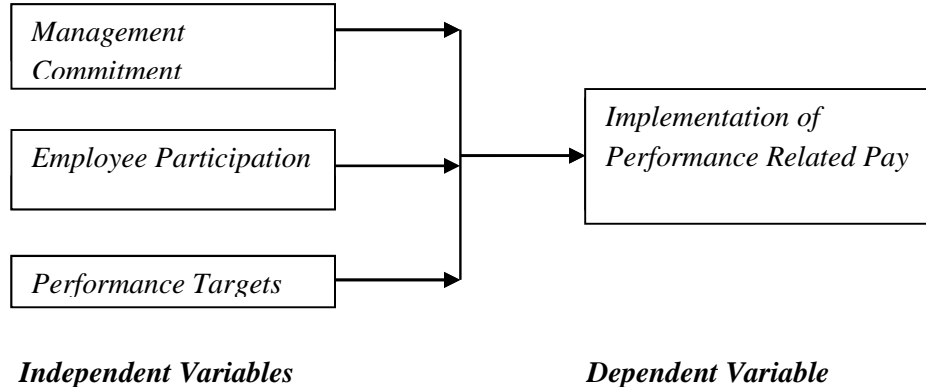


Fig. 1 Conceptual Framework

METHODOLOGY

The study used a survey research design. The sampling frame was the population consisted of 2,322 staff of Kenya Revenue Authority based in Times Tower Nairobi central business district which is also the headquarters of the authority who have been introduced to the performance related pay. The study utilized a self-administered structured questionnaire, which was refined after a pilot study. A content validity index of 0.78 was obtained; this was judged to be acceptable, as it is more than the 0.70 value recommended minimum (Mitchelle 1996). The Cronbach's alpha reliability index was 0.73, also deemed acceptable in comparison with the 0.70 recommended minimum (Mugenda and Mugenda, 2003). In conducting the Reliability Measurement, the researcher first pre-tested the questionnaire on 10% of the sample of 232 to ensure its reliability. The pilot testing was done using twenty four (24) respondents four from each department. The study used descriptive statistics and simple linear multiple regression to show the relationship between the dependent and the independent variables.

RESULTS

232 questionnaires were distributed to the respondents. Out of this, 207 were received back while 19 questionnaires were never returned. However, 6 returned questionnaires were excluded from further analysis by the researcher for administrative reasons. The respondents were drawn from five major departments: Human Resources 60%, Finance 61.54%, Revenue Departments 81.58%, Board, Corporate Services 96.77%, Information Technology 53.33% and the Commissioner General's office at 54.55% response rate.

The findings indicate that (65.5%) of respondents disagreed that top management commitment influenced implementation of performance related pay. This was further evidenced by a mean of

3.85 (measured on a scale of 1.00 to 5.00), with a standard deviation of .916. Similarly, majority (73%) agreed that employee participation has an influence on implementation of performance related pay, with a mean of 3.99 and a standard deviation of 1.184. Likewise, (57%) agreed that performance targets influence implementation of performance related pay; its corresponding mean was 2.87 and standard deviation .958. The direction of influence of each of the independent variables on the dependent variable was positive except one.

When respondents rated five different ways management commitment constrain implementation of performance related pay, they rated top management commitment at 65% disagreeing, meaning that they perceived top management commitment as being minimal. This is supported by the findings of Milgrom and Roberts (1992) who argued that in order to undertake successful implementation of performance related pay, top management had to be committed. The respondents rated the usage of PRP as a motivational tool at 68% disagreeing, meaning that top management was not committed to the usage of PRP as a motivational tool. Thirdly it was sought to find out if the level of management committed constrained implementation of PRP. 65% agreed that the level of management commitment influenced implementation of PRP. The fourth question sought to find out if management had created a culture of team work in the organization. 73% of the respondents agreed that management had created a culture of team work in the organization.

The respondents rated five different ways employee participation constrained implementation of performance related pay, they rated employee participation in designing and implementing PRP at 68% disagreeing, meaning that they perceived employee participation as being minimal. This is supported by the findings of Armstrong and Baron (2009) who argued that in order to undertake successful implementation of performance related pay, employee participation was a must. The respondents rated employee involvement in the implementation at 73% agreeing, meaning that employee involvement was sought in the PRP implementation. Thirdly it was sought to find out if employees underwent sensitization programmes before being involved in the implementation of PRP. 57% disagreed that sensitization was conducted prior to the implementation of PRP. The fourth question sought to find out if employees were involved when the organization was making any changes regarding the PRP. 68% of the respondents agreed that they were involved whenever changes in the implementation of the PRP arose. 69% of respondents agreed that they were aware of the usage of PRP and its impact as a motivational tool.

When respondents rated five different ways setting of performance targets constrain implementation of performance related pay, they rated influence of setting performance targets on PRP at 78% agreeing, and meaning that they perceived that setting of performance targets influenced PRP. This is supported by the findings of Gomez and Lewis (1998) who argued that in order to undertake successful implementation of performance related pay; top management had to be committed. The respondents rated the achieving of set targets to earn PRP at 63% agreeing; meaning that to earn PRP employees must achieve set targets. Thirdly it was sought to find out whether there was equity in setting performance targets in relation to implementation of PRP. 53% had no opinion to give regarding this question. This can be inferred that the respondents had mixed reactions and that equity had no direct influence on the implementation of PRP. The fourth

question sought to determine if performance appraisal in the organization was undertaken consistently in order to enhance the implementation of PRP. 73% of the respondents agreed indicating that performance appraisal was consistently undertaken in the organization. 47% agreed that the organization communicated performance targets to all employees in a timely manner.

A regression model was run to show the relationship between the dependent variable and the independent variables.

$$Y = 1.431 + .929(MC) + .936(EP) + .920(PT)$$

Where Y=Implementation of Performance Related Pay

MC=Management Commitment

EP=Employee Participation

PT=Performance Targets

The model shows that setting of performance targets had the most influence on implementation of performance related pay, followed by management commitment and finally employee participation.

DISCUSSION

The study set out to determine factors constraining implementation of performance related pay in parastatals in Kenya. The variables suspected to bear on the implementation were management's commitment, employee participation and setting of performance targets. A review of related literature and empirical studies informed the formulation of questions used to obtain the research data. The results indicate that there is a strong positive relationship between management commitment and implementation of performance related pay. These findings are in agreement with those by Milgrom and Roberts (1992), which found if top management is not committed to the implementation of performance related pay there will be a failure in the venture.

The findings showed a negative relationship between employee participation and implementation of performance related pay, this is consistent with other empirical studies (Zobal, 1999; Greenberg 1996; Marsden *et al*, 1994, Perry 1995), which found that for any project to succeed there must be buy in from the employees. The study also found that performance related pay would only succeed where performance targets were set and agreed upon by the supervisor and employee. The study also established a strong positive relationship between setting performance targets and programme implementation; this corroborated previous studies (Armstrong and Baron 2009; Gomez-Mejja 1989; Fitzpatrick, 2007), which belabored the importance of setting targets for performance related pay to be seen to be objective. The outcome of an incomprehensive programme is disgruntled employee with no motivation to meet their performance targets.

IMPLICATION TO RESEARCH AND PRACTICE

Previous studies in Kenya have focused on the results oriented approach to pay in both public and private sectors and was based on performance (Kiragu and Mukandala 2003); hardly any have addressed the process of implementing performance related pay successfully. This research

provides new insight to guide performance management practice, by making a foray into the performance related pay model in Kenya. The envisaged empowered employee is a product of the human resource function of managing performance.

CONCLUSION

The study set out to examine factors which constrain implementation of performance related pay in Kenya Revenue Authority. The variables investigated were management commitment, employee participation and setting of performance targets. The findings show that implementation of PRP is dependent on management commitment and setting of performance targets. However, it was found that employee participation although important did not influence implementation of PRP.

The results of this research invite the attention of other parastatals looking to employ effective strategies for systematic performance management. Kenya Revenue Authority should abandon imposing new ventures on employees and instead embrace employee involvement. For any project to succeed in an organization there has to be employee buy in that way resistance is minimal during implementation. A policy framework is needed to ensure availability of sufficient resources for the programme. This study was conducted in KRA in Nairobi County. However, the situation obtaining in other parastatals outside the scope of this study is believed to be comparable. Therefore these findings may have application in their contexts.

FUTURE RESEARCH

There is a glaring need to conduct more studies are highly recommended to establish how each of these factors influence implementation of performance related pay in public sector organizations and how organizations should effectively manage current and future organizational performance challenges in Kenya and the wider African context. Further studies could also focus on the extent of integration of PRP to organizational strategic planning in public sector organizations since at present there seems to be an inherent gap between employee participation and implementing performance related pay in organizations. This research should be replicated elsewhere outside Kenya to establish if these findings hold true in similar institutions.

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