

**ASSESSMENT OF USE OF COMPETENCY BASED PAY SYSTEM IN
ENHANCING EMPLOYEES PRODUCTIVITY IN STATE CORPORATIONS
IN NAKURU TOWN, KENYA**

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DECLARATION

This project is my original work and has not been presented for a degree or any other award in any institution of higher learning.

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DEDICATION

This project is dedicated to my loving Parents and my lovely wife whose support is unmeasured, God bless you abundantly and to all my aunts and uncle whom I am proud of for the encouragement they have given me and to my lovely daughter Tracy.

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My deepest and sincere appreciation goes to my supervisor, Dr Kwasira whose guidance and positive criticisms has shaped this work. Your support is magnificent and without it, I will not achieve this vital academic step. I thank all lecturers for their intellectual input. I give thanks to the most High God for His grace to enable me reach this far, my success and achievements come from Him. I will extend my gratitude to all those persons whose support, criticisms, suggestions, encouragement and wisely advice will lead to the accomplishment of this work. To my family members, I say a big thank you; my parents and wife. As for my dear parents, your moral, spiritual and financial support was over whelming and I appreciate you for being behind this great milestone. My course mates I thank and celebrate you all, we started together and we celebrate together despite all the challenges that we have encountered through encouragement. Special thanks go to James Muiruri, Twidi, Kinyanjui, Phionah, Grace, Lydia, to mention but a few.

ABSTRACT

Competency based pay system is very crucial to all organizations and institutions; public and private. Competency-based pay system being offered in the public, which aims to produce capable workers who are responsive to customers' demands by providing quality services, one would expect that there would be improvement on productivity. Thus, this research assessed the use of competency based pay system in enhancing employee productivity in state corporations in Nakuru town. This is against the backdrop of a cry from members of the public regarding underperformance and wastage of tax in the county governments. In spite of exorbitant taxes that are being levied on Kenyans by their respective county governments, there is a deeply-seated feeling that the services rendered to them are below their expectations. The independent variables for the study were skill based pay, performance based pay and the level of employees training on employees productivity which is the dependent variable. It was guided by three theories which include resource based theory, agency theory, reinforcement theory. The study was conducted on 17 state corporations within Nakuru town. The study employed descriptive research design. The target population comprised of the 91 employees attached to human resource department and other heads of other departments of state corporations in Nakuru town. A structured questionnaire was used to collect primary data from the respondents. A pilot test was used to assess both reliability and validity of the research instrument. The collected data was analyzed by use of descriptive and inferential statistics, and with the aid of the statistical package for social sciences (SPSS) software. The study established that skill based pay, performance based pay and training all has significant influence on employee productivity.

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LIST OF ABBREVIATIONS AND ACRONYMS

CBP: Competence Based Pay

HRM: Human Resource Management

PBP: Performance Based Pay

PCB: Public Complaints Bureau

RBV: Resource Based View

SBP: Skill Based Pay

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DEFINITION OF TERMS

Competency based pay: is a continuous and flexible process that involves managers and those whom they manage acting as partners within a framework that sets out how they can best work together to achieve the required results (Armstrong, 2006).

Employee productivity: means the company pays for the employee's skills and knowledge, rather than for the title he or she holds (Richard, et al., 2009).

Performance Based Pay: Performance based pay is a method of compensation designed to reward employee performance. Performance based compensation may be based on individual and team performance (Gomez, 2007).

State corporations: State corporations otherwise referred to as parastatals are established under State Corporations Act, Chapter 446 of the Laws of Kenya. Each of these corporations is headed by a board of directors, chief executive officer and an advisory committee.

Skill-based pay (SBP): is a compensation system that rewards employees with additional pay in exchange for formal certification of the employee's mastery of skills, knowledge, and/or competencies. Skill is acquired and observable expertise in performing tasks (Boyett & Boyett , 2004).

Training: This is the art of increasing the knowledge and skills of an employee for doing a particular job. It is concerned with imparting particular skills for particular purposes. Training is the systematic modification of behavior through learning, which occurs as a result of education, instruction, and development and planned experience Armstrong (2000).

CHAPTER ONE

INTRODUCTION

This chapter presents the background of the study, statement of the problem, general objectives, specific objectives, and research hypothesis, significance of the study and scope of the study.

1.1 Background of the study

From 1999 to 2006, the Public Complaints Bureau (PCB) registered a high number of complaints filed by the public regarding delays in the actions taken and services provided by the employees of public organizations. Notably, three ministries – the Ministry of Home Affairs, the Ministry of Finance, and the Prime Minister's Department – and three states in Malaysia – Selangor, Johor and Perak – received the most complaints (PCB, 2006). Newspaper headlines also highlighted complaints from the public regarding their dissatisfaction with the services provided suggesting that productivity was low and does not match customer expectations. This is a matter of dire concern for the public, who as taxpayers expect good services to be provided (Abdullah, 2004).

In Malaysia, competency based pay systems are being implemented in the public sector under the Malaysian remuneration system (system saran Malaysia, SSM) Putra and Hizatul, 2004). The SSM aims to produce capable workers who are responsive to environmental changes and customer demands by providing quality services (PSDM, 2002). As the public sector is labour intensive, with the new reform or human resource management practices and especially the introduction of competency based pay, we expect that this new practice will enhance the productivity and service delivered by public sector as the public servants are paid based on their competencies and this surely

ensure that quality public service are delivered. However, even bearing in mind that all public organizations are practicing this method with no exception, it remains true that the extent to which the practice has been adopted still differs across different public organizations. Thus we expect that there is a positive and significant relationship between competency based pay system and employees productivity in Malaysian public organizations (Ilihaamic, *et al* 2009).

1.1.1 Competency Based Pay

Compensations is referred to as money and other benefits received by an employee for providing services to his employer. Compensation includes direct cash payment, indirect payments in the form of employee's benefits and incentives to motivate employees to strive for higher level of productivity (Williams, 2001). Competency based pay means the company pays for the employee's skills and knowledge, rather than for the title he or she holds.

Experts variously call this competence, knowledge or skill based pay. In practice competence based pay usually come down to pay for knowledge or skill based pay. Pay for knowledge pay plan rewards employee for learning organizationally relevant knowledge. For instance Microsoft pays new programmers' more as they learn the intricacies of windows. Skill based pay tend to be used more for works with manual jobs, thus carpenters earn more as they become more proficient at finishing cabinets (Dessler , 2013).

According to a journal by Elsevier (2011), He states that compensation system that emphasizes individual competency is arguably most significant human resource management scheme an organization can implement to encourage employees creativity. Competence can be defined as a skill, knowledge and behaviour that need to be applied for effective performance (Armstrong, 2006).these components of competence are important for enhancing personal contribution and for helping the organizations to succeed. Competency-based pay is essential to compensating a highly skilled, competent and professional workforce.

It aims to provide an incentive for employees to grow and enhance their capabilities (Risher, 2000). In other words, personal competence is demonstrated when an individual has the necessary knowledge and skills to perform a task and an individual skill and knowledge to perform such a task are demonstrated by pattern behaviour. Given that competence represents productivity in the work place, it can be seen as a behavioral outcome that excellent performers exhibit more consistently and effectively than average performers (Eisenberger & Rhoades, 2001).

1.1.2 Employee Productivity

According to Richard *et al.* (2009) defined employee productivity as comprising the actual output or results of an employee as measured against its intended outputs (or goals and objectives). He mentioned that it is the ability of an organization to fulfill its mission through sound management, strong governance and a persistent rededication to achieving results. Don Hee (2011) on the other hand defined employee productivity as the analysis of a company's success compared to its profitability. He added that within corporate

organizations, there are three primary dimensions analyzed: financial productivity, market productivity and shareholder value productivity.

In some cases, production capacity performance may be analyzed. Employee Productivity is a continuous and flexible process that involves managers and those whom they manage acting as partners within a framework that sets out how they can best work together to achieve the required results (Armstrong, 2006). The differences in views were mostly upon variations in the criteria and standards adopted in studying the productivity, but in spite of these variations, most of the researchers express the productivity through the extent of success in which the organization reaches its aims.

1.1.3 State Corporations

State corporations otherwise referred to as parastatals are established under State Corporations Act, Chapter 446 of the Laws of Kenya. Each of these corporations is headed by a board of directors, chief executive officer and an advisory committee. The State corporations are established by the order of the President. These entities are mandated to carry out specific functions stipulated by the Act. Corporations fall under various categories which include public universities, public tertiary colleges, and parastatals, amongst others.

1.1.4 Nakuru Town

Nakuru town is the headquarters for Nakuru County and the former Rift Valley province. It is the fourth largest town in Kenya after the cities of Nairobi, Mombasa and Kisumu. Nakuru County in line with the current constitution dispensation, county governments were created in Kenya after year 2013 general elections. It is a cosmopolitan town located on the floor of the Great Rift Valley. In Nakuru town, there are a couple of State

corporations whose representation is in form of branches. These include the Geothermal Development Company (GDC), Kenya Pipeline Ltd, Kenya Power, Agricultural Finance Corporation (AFC), Kenya Railways authority, National Social and Security fund, Kenya Daily Board, Kenya Power, Rift valley water and services board, National Hospital and Insurance Fund, Kenya National Highway Authority, Pyrethrum Board of Kenya, Kenya Bureau of Standards, Kenya Bureau of Statistics, Kenya Revenue Authority, and Postal Corporation of Kenya.

1.2 Statement of the Problem

In line with the current constitutional dispensation, county Governments were created in Kenya after 2013 General Elections. These governments inherited the devolved function employees. Despite receiving considerable financing from the national treasury and alleged exorbitant taxes from the local citizens, there have been claims of underperformance. The foregoing has been blamed on incompetence and inefficiency of workers. For instance National Social and Security fund which is one of state corporations has been in newspapers on how poorly it is performing to an extend of making loses above five hundred million shillings. Kenya airways also is another state corporation which has been making losses despite the finances provided to it and this has also been blamed on several factors such as competition from competitors, incompetence of its workers which has led to low productivity and this is according to financial report. The state corporations use the traditional pay systems to remunerate their worker which seems not to motivate the workers to work hard to realize the organization goals. Hence it necessities the assessment of use of competency based pay system in enhancing

employee productivity in state corporations in Nakuru town, Kenya so as to reduce the loss incurred by these state corporations.

1.3.1 General Objective

The study set to establish the assessment of use of competency based pay system in enhancing employee productivity in state corporations in Nakuru town, Kenya.

1.3.2 Specific objectives

- i. To determine the influence of skill based pay system on employee productivity at state corporations in Nakuru town.
- ii. To evaluate performance based pay system on employee productivity at state corporations in Nakuru town.
- iii. To assess the level of training on employees productivity at state corporations in Nakuru town.

1.4 Research Hypotheses

H_{.01}: there exists no significant influence between skill based pay system and employees productivity at state corporations in Nakuru town.

H_{.02}: there exists no relationship between performance based pay and employee productivity at state corporations in Nakuru town.

H_{.03}: there is no relationship between Employees level of training and employee productivity of at state corporations in Nakuru town.

1.5 Significance of the study

The results of this study is timely as it would provide invaluable insight to the top management officers especially the Human resource executive at the state corporations Nakuru town as the officers are able to understand the best competencies in determining the pay as well as establish the critical factors affecting effectiveness of competency

based pay. This study can help future researchers by providing base literature advancement of studies in the area of competency based pay as well as provide insights to improve support future researchers regarding strategic guidance for employees to adopt in competency based pay systems. The study can also bridge the gap that exists between competency based pay conventional and traditional ways of payment. Finally it would help the researcher to identify the efficiency and equitability of employees, which is often closely related to equity because the two concepts are not well stated. And also attain academic qualifications.

1.6 Scope of the study

The study was carried out in state corporations within Nakuru Town. The study was set to establish the assessment of use of competency based pay in enhancing employee productivity in state corporations in Nakuru town, Kenya. The study was limited to employee attached to human resource department and other heads of departments. The study was conducted between June to September 2016. The study was facilitated by a budget of KShs 82,500.

1.7 Limitations of the Study

This study was faced with two limitations.

The first limitation was that the time allowed for the data collection analysis and report development was only one month which was quite limited. Secondly the study faced the challenges of some respondents fearing to provide research data on ground that some data would be sensitive.

The above limitations were tackled as follows; the researcher arranged with one of the respondents to follow up on filling of the questionnaires to ensure data was obtained on time. Secondly, respondents were assured that the collected data was only for academic purposes and that they would not be disclosed elsewhere.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presented theoretical review, empirical review, conceptual framework, summary of reviewed literature and research gap identified. It also aimed at identifying and presenting all relevant sources of information and these are from books, journals magazines and the internet.

2.2 Theoretical Review

This section reviews and discusses theories related to competency based pay system on employee productivity as well as the concept of competency based pay system and employee productivity. In that respect resource based theory, Agency Theory, Reinforcement theory.

2.2.1 Resource Based View

Resource-based theory argues that human assets can be a source of sustainable advantage because tacit knowledge and social complexity are hard to imitate. However, these desirable attributes cause dilemmas that may prevent firms from generating an advantage (Collins & Clark, 2003). The resource based theory covers four major aspects of strategic alliances: rationale, formation, structural preferences, and productivity. The resource-based view suggests that the rationale for alliances is the value-creation potential of firm resources that are pooled together. We note that certain resource characteristics, such as imperfect mobility, imitability, and substitutability, promise accentuated value-creation, and thus facilitate alliance formation.

This project develops a framework for analyzing and coping with these challenges. Although the problem arises from the strategy literature, the solutions are drawn from the organizational behavior, human resource management, human capital, and professions literatures and examine implications for how insights from these diverse literatures can be integrated to guide future strategy research (Collins & Clark, 2003).

The theory that underpins the concept of the relationship between competency-based pay and employee productivity is the resource-based view (RBV) of a firm, which asserts that the competencies of firm employees are the intangible resources of an organization and that competency-based HRM practices, especially competency-based pay, are responsible for leveraging and managing these competencies and ensuring that the organization can obtain competitive advantage, especially in terms of their productivity.

Different public organizations emphasize different competencies; hence, employees who are competent and at the same time possess the competencies needed by each organization are the valuable and rare resources. Thus, they cannot be imitated and substituted for, and this promises that sustainable competitive advantage is achievable (Barney, 1991). On the other hand, traditional resources that are linked to markets, financial capital and economies of scales have been weakened by globalization and environmental changes (Youndt, *et-al* 1996).

Furthermore, they are easy to imitate as compared to an employment system with a complex social structure. In the context of competency based pay system, organizations that possess competent workers are the organizations that have complex social structures,

which are difficult for competitors to understand and imitate. Hence resource based theory can be employed by the county government of Nakuru for sustainable competitive advantage developed and especially in term of productivity, as the promise of these intangible assets.

2.2.2 Agency Theory

The principal and agent theory emerged in the 1970s from the combined disciplines of economics and institutional theory. There is some contention as to who originated the theory, with theorists Stephen Ross and Barry Mitnick claiming its authorship. Ross is said to have originally described the dilemma in terms of a person choosing a flavor of ice-cream for someone whose tastes he does not know. The most cited reference to the theory however comes from (Waal, 2004).

The theory has come to extend well beyond economics or institutional studies to all contexts of information asymmetry, uncertainty and risk (Mitnick, 2006). In terms of game theory, it involves changing the rules of the game so that the self-interested rational choices of the agent coincide with what the principal desires. Even in the limited arena of employment contracts, the difficulty of doing this in practice is reflected in a multitude of compensation mechanisms and supervisory schemes, as well as in critique of such mechanisms as for example Pink. E, (2009), various mechanisms may be used to align the interests of the agent with those of the principal.

In employment, employers (principal) may use piece rates/commissions, profit sharing, efficiency wages, performance measurement (including financial statements), the agent posting a bond, or the threat of termination of employment. Agency Theory explains how to best organization relationships in which one party determines the work while another

party does the work. In this relationship, the principal hires an agent to do the work, or to perform a task the principal is unable or unwilling to do. For example, in corporations, the principals are the shareholders of a company, delegating to the agent i.e. the management of the company, to perform tasks on their behalf.

Agency theory assumes both the principal and the agent are motivated by self-interest. This assumption of self-interest dooms agency theory to inevitable inherent conflicts. Thus, if both parties are motivated by self-interest, agents are likely to pursue self-interested objectives that deviate and even conflict with the goals of the principal. Yet, agents are supposed to act in the sole interest of their principals (Paul *et al* 2013). One objection to agency theory is that it “relies on an assumption of self-interested agents who seek to maximize personal economic wealth” (Cleveland & Murphy, 1989).

The challenge is therefore, to get agents to either set aside their self-interest, or work in a way in which they may maximize their personal wealth while still maximizing the wealth of the principal. Thus, a standard of agency duty and action is necessary, not because agents are universally selfish, but because the potential for differences between the principal’s and the agent’s interests exists. In agency relationships the agent has a moral responsibility for her actions, which she cannot dismiss simply because she acts as an agent for another (Waal, 2004).

This theory is very useful to Nakuru county governments since an agent acts consistently with the principal’s interests, and agency loss is zero. The more an agent’s acts deviate from the principal’s interests, the more agency loss increases. When an agent acts entirely in her own self-interest, against the interest of the principal, then agency loss becomes

high. Agency theory shows that that Nakuru county government agency loss is minimized when two particular statements are true.

2.2.3 Reinforcement Theory

As experience is gained in taking action to satisfy needs; people perceive that certain actions help to achieve their goals while others are less successful. Some actions bring rewards; others result in failure or even punishment. Reinforcement theory as developed by Hull (1951) suggests that successes in achieving goals and rewards act as positive incentives and reinforce the successful behaviour, which is repeated the next time a similar need emerges.

The more powerful, obvious and frequent the reinforcement, the more likely it is that the behaviour will be repeated until, eventually, it can become a more or less unconscious reaction to an event. Conversely, failures or punishments provide negative reinforcement, suggesting that it is necessary to seek alternative means of achieving goals. This process has been called 'the law of effect' (Armstrong, 2009).

The degree to which experience shapes future behaviour does, of course, depend, first, on the extent to which individuals correctly perceive the connection between the behaviour and its outcome and, second, on the extent to which they are able to recognize the resemblance between the previous situation and the one that now confronts them. Perceptive ability varies between people as does the ability to identify correlations between events.

For these reasons, some people are better at learning from experience than others, just as some people are more easily motivated than others (Armstrong, 2009). This theory signifies that Nakuru county government can use this theory as a way making employees to put more effort in achieving the set standards since they are aware of reward or punishment set for their failure.

2.3 Empirical review

This section is organized in line with the study variables

2.3.1 Skills Based Pay system and employee's productivity

Job analyses provide the basis for evaluating and structuring a total human resource development and productivity improvement system with sufficient flexibility to allow all employees the opportunity to develop those skills and abilities necessary for their position in the organization. Such a system permits an organization to optimize promotions for qualified personnel and to structure succession plans (Champathes, 2006).

Skill-based pay (SBP) is a compensation system that rewards employees with additional pay in exchange for formal certification of the employee's mastery of skills, knowledge, and/or competencies. Skill is acquired and observable expertise in performing tasks. Knowledge is acquired information used in performing tasks. Competencies are more general skills or traits needed to perform tasks, often in multiple jobs or roles. In SBP systems, employees receive additional pay only after they demonstrate the skills, knowledge, and/or competencies that the system rewards.

Thus, SBP is a person-based system, because it is based on the characteristics of the person rather than the job. In more common job-based pay systems, pay is based on the

job, which employees are entitled to receive even if they are not proficient in their position (Boyett & Boyett, 2004). A related but historically distinct tradition has been the use of competency based pay for managers and professionals, originally an outgrowth of work on competencies by psychologist David McClelland. In many cases, competency pay plans are a natural extension of the efforts of companies to build distinctive competencies that meet organizational needs.

Different plans may emphasize breadth, depth, or a combination of both, but these typically go beyond the technical skills orientation of the dual career ladder. For example, a food processing company created a competency pay plan for all managers that based pay increases on two traditional managerial competencies (leading for results and leveraging technical and business systems) and two competencies that reinforced major corporate talent management and quality initiatives (building workforce effectiveness and meeting customer needs). One area in which competency systems have become very widespread is education (Ledford et al, 2008).

The limited data on SBP usage indicates greater use than many observers realize. A survey of Fortune 1000 firms by the Center for Effective Organizations in 2002 found that 56% used SBP (broadly defined), and that the percentage of firms using it had been relatively unchanged since 1993. However, the vast majority of users covered less than half their workforce with SBP. A study by the International Public Management Associations for Human Resources found that 22% of public sector organizations used SBP in 2007.

A 2007 Towers Perrin study of over 600 managers in 21 countries found that 27% of cases base salary increases on competencies (defined as proficiency in core knowledge or behavior) for executives, 36% of cases for managers and professionals, and 28% of cases for non-management. In addition, increases were skill-based (defined as acquisition of new skills) in 9% of cases for executives, 15% for managers and professionals, and 18% for non-managers. Finally, the prevailing Japanese salary system incorporates a high degree of SBP.

Typically, one pay grade schedule covers all employees, including executives, and job grade is based on all the jobs and responsibilities the employee is able to do, not what the worker is actually doing. A study by American and Japanese researchers found that “knowledge and skill” is one of three roughly co-equal factors (along with effort and cooperation with supervisors) in determining pay. This reflects the Japanese emphasis on job rotation, cross-training and gaining identification with and understanding the needs of the company as a whole (Milkovich *et al*, 2010).

According to Academic research Gupta *et al*, (2005) on SBP is limited and much of it is not current, but the available studies focus on what we have called Type B systems. The available data are quite positive in indicating that there is a payoff from adopting such plans. For example, a study of 97 skill-based pay plans sponsored by the American Compensation Association found that two-thirds to three-quarters of these plans were rated as successful on a wide range of outcomes, including reduced staffing, increased

flexibility, increased productivity, higher quality, and lower turnover, despite higher average wages.

That is, SBP users had fewer, more highly paid, and more productive employees. A follow-up study several years later found that the plans had a high survival rate and generally enjoyed continued success. Finally, a rigorous case study in an auto component plant found that the plant had 58% greater productivity, 16% lower labour cost per part despite paying higher wages, and 82% reduction in scrap versus a comparison plant. An individual's skill level may also help to facilitate organizational productivity. If an employee is competent at work, he or she is more likely to perform assigned tasks (Berman, 1997).

Employee learning explains the process of acquiring knowledge through curiosity to learn. It is a mind-set who has anxiety to get information. Employee learning will increase the abilities and competency of the employee (Dixon 1999). The abilities and competencies are helpful in employee performance and productivity. The skill growth is possible through training and coaching. The skill level will affect on the employee productivity. Employee productivity will affect the organizational effectiveness (Elena, 2000).

2.3.2 Performance Based Pay system and employee's productivity

According to Globler *et-al* (2006) emphasized that many organizations today are considering changing from a time based pay system to a performance based pay system. The key drive of any performance based system is to relate employees' salaries directly to their productivity. Globler *et al* (2006) further stressed that employees are likely to be

highly encouraged and increase their efficiency if they notice that there is a straight relationship between the rewards received and level of productivity. Utmost performance based pay systems provide employees with a basic income and the opportunity to earn additional reward if their productivity surpasses a certain standard.

Performance based pay system is a method of compensation designed to reward employee productivity. Performance based pay may be based on individual and team productivity (Gomez, 2007). Gomez-Mejia & Balkin (2007) specify favorable conditions under which performance related compensation is deemed to be favorable and they include; where individual performance can be objectively and meaningfully measured, where individuals are in a position to control the outcomes of their work, where close team working or cooperation with others is not central to successful job performance and where there is individualistic organizational culture.

In addition, Brown & Armstrong (2000) rightly point to the importance of careful implementation and lengthy preparation prior to the installation of a performance based pay compensation scheme. Performance based compensation often combine a fixed base salary with a variable pay component such as bonuses or stock options that vary with the individual's productivity (Mackenzie, 1996). The performance based compensation offered by an organization can be individual, group or organizational incentives.

According to Mathis *et.al* (2000) he identifies individual compensation as those given to individual employees relative to their effort to pay and can be suitable to use when individual performance can be identified and isolated by the nature of job performed,

where a substantial amount of work is done independently allowing individual contributions to be identified, where there is competition among employees and where the organization culture emphasizes individual's achievement and reward.

Recent years have witnessed extensive innovations in compensation systems and, in particular, a variety of attempts to link compensation to a measure of productivity. Such innovations have often been related to broader initiatives to improve the productivity of organizations and especially efforts to increase employee involvement in decision-making (Appelbaum *et al.* 1998). Two main variables proxying the use of performance based compensation schemes are used. The first is based on whether employees at the establishment receive payments from any type of performance based compensation schemes.

The second is based on whether the establishment has individual or group performance compensation schemes. Performance based compensation schemes are part of a continuum of compensation systems aimed at encouraging greater inputs by workers into the production process (Kleiner *et al.* 2001). Performance based compensation ties pay directly to an individual's productivity in meeting specific business goals or objectives. Managers and employees design performance targets to which the employee will be held accountable. The targets have accompanying metrics that enable employees and managers to track performance.

The metrics can be financial indicators or they can be indirect indicators such as customer satisfaction or speed of development (Cole, 1998). Performance based compensation practices refer to how the performance based pay is implemented (Schuler, 2008).

Organizations must align their compensation and reward systems with performance, for when they do, they will increase productivity and achieve sustainable growth.

Performance based compensation practices help organizations develop effective strategies that reflect an employee's productivity and contributions, improve employee and customer engagement, increase productivity, focus employees on clear, objective, and measurable outcomes, link to the organization's strategic direction and business goals and reward employees who achieve results (Torrington, 2008).

An alternative is to design compensation practices to reward individual or group output. Such performance compensation practices have the advantage to the firm in that they not only induce greater effort from the employees but they may also encourage the commitment of employees and reinforce existing cultures and values where these foster high levels of performance, innovation and team-work. Linking compensation to performance also potentially introduces equity and consistency in the compensation structure and enables the firm to attract more able employees (Lazear *et al.* 2000).

2.3.3 Level of Training and employee's productivity

In the development of organizations, training plays a vital role, improving performance as well as increasing productivity, and eventually putting companies in the best position to face competition and stay at the top. This means that there is a significant difference between the organizations that train their employees and organizations that do not. Training is a type of activity which is planned, systematic and it results in enhanced level of skill, knowledge and competency that are necessary to perform work effectively (Gordon, 2010).

According to Flippo, (2005), there exists a positive association between training and employee productivity. Training generates benefits for the employee as well as for the organization by positively influencing employee productivity through the development of employee knowledge, skills, ability, competencies and behavior. Organizations that are dedicated to generating profits for its owners (shareholders), providing quality service to its customers and beneficiaries, invest in the training of its employees (Hasselbladh & Kallinikos 2000).

The more highly motivated a trainee, the more quickly and systematically a new skill or knowledge is acquired. That is why training should be related to money, job promotion, and recognition etc, i.e. something which the trainee desires. Training programs helps in making acquaintance of employees with more advance technology and attaining robust competencies and skills in order to handle the functions and basics of newly introduced technical equipment's.

More rarely it happens that employees are not fully trained regarding new working and technical techniques and they are unable to deliver to their assignments according to the desire of the organization. Effective training can bring down these flaws, (Robert, 2006). Along with training, worth of response from employees regarding working situations is of highly importance and it can help in drawing the attention of the managers and executives to the factors that are of mammoth importance,

Feedback not only adds to knowledge of employee and employer but also improves the process of evaluation of employees Corretz, *et al* (2008). Firms can develop and enhance the quality of the current employees by providing comprehensive training and development. Research indicates that investments in training employees in problem-solving, decision-making, teamwork, and interpersonal relations result in beneficial firm level outcomes (Harel, 2009).

According to Human Capital Theory on the Job Training has positive effect on salary increment because training has the potential to enhance labor productivity (Becker, 1962). Organization's compensation system has foremost impact on transfer of training. When organization analyze the importance of training and reward their newly trained employees, then the workforce will be motivated towards passing on those skills and hence improve on employee's productivity.

Training is categorized into different types: for example, on the job training which is known as specific training as well and off the job training, which is also termed as informal training. On the job training works as a catalyst in the increment of salary. Off the Job Training does not have worthwhile effect on salary (Veum, 1995). The increase in income from on the job training is approximately 12% to 15 % whereas it is 2 % to 8% increase in case of off the job training (Mincer, 2006).

In case of informal training, the increment in salary is about 2 % (Bowers and Swaim, 2004). In manufacturing sector there is 0.9% enhancement in earnings due to on the job

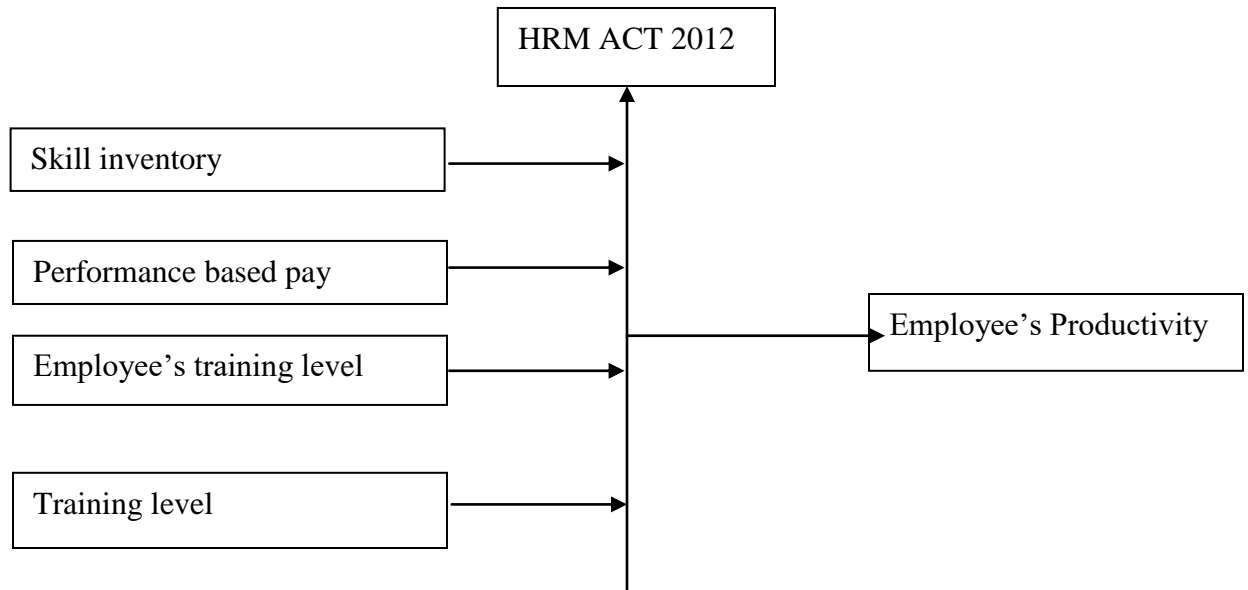
training. Productivity tends to increase as a result of on the job training when the employee remains with the present employer. In case of change of employer, the previous on the job training will have no positive change on productivity.

According to Pedler *et al.*, (2004), argue that training and development assists workers to be acquainted with the existing as well as acquire fresh capabilities that will allow them to get promotion at higher positions, either inside or outside the organizations. In addition, enhancement of talents and capabilities refers to developing human capital by selecting employees with greater ability and enhancing knowledge and skills through the provision of learning and training opportunities.

Furthermore, organizations which train their employees rigorously generate higher turnover mainly because trained employees leave the organization for better paid jobs where they can use skills they have acquired. Indeed, training and development activities increase the value of the employees and enhance their career growth, and this increases the probability of their being “poached” by competitor organizations.

2.4 Conceptual Framework

Conceptual framework was illustrated with the aid of the figure 2.1. In the diagram the independent variable is competency based pay systems (CBP) and the dependent variable is the employee productivity.



Independent Variables

Intervening Variable

Dependent Variable

Figure 2.1 Conceptual framework

As illustrated in figure 2.1, it is hypothesized that there exists a relationship between each of the independent variables (skills based pay, performance based pay, employee's training level) and the dependent variable (employee's productivity) and human resource act 2012 is the intervening variable.

2.5 Summary of Reviewed literature

The literature is organized in categories including theoretical review, conceptual review, empirical review and knowledge gap. The theoretical review looks at resource based View, Agency theory and reinforcement theory. The concept of competency based pay is also looked at where competency has been defined in literature from two different points of view. One is referring to employee productivity, and the other definition is referring to individuals' underlying attributes.

According to Armstrong (2003), good practice requires employers to keep pace with inflation by rewarding employees with salaries that are market related to avoid strikes and poor performance by workers. Organizations are under financial strain with salaries continually rising and becoming a major fixed expense. According to Livingstone (2009), regardless of basic pay inefficiencies, it remains a rule that employees should be paid at, or above market rates as negotiated by labour unions who are concerned with the welfare of employees. In a competitive market, higher basic pay is used for attracting and retaining employees.

Lynch (2000) agrees that basic salary or basic wage is the vital payment made by the employer to the employee for work done. Pay indicates the value that the employer puts on the work performed by its employees. Employees are paid depending on the skills and competencies that they possess, and not what the job is worth. It is employees who have market value, and not jobs (Shields, 2007). Skills based pay is a payment method in which pay progression is linked to the number and depth of skills that individuals develop and use.

It is paying for horizontal acquisition of skills and the vertical development of skills needed to operate at a higher level by undertaking a wider range of tasks. The emphasis on skills development is necessitated by rapid developments in technology and changing manufacturing methods that require flexibility (Stuart, 2011). The organization must set goals, and educate employees to understand that proper alignment of the goals of the organization with the goals of the individual can be beneficial to both parties.

An organization must constantly reassess its needs, and help the employees reassess their needs to constantly motivate them. Compensation packages should be well thought out before implementation, because a bad or unclear package is perhaps better than no package at all. The purpose of the compensation is to drive growth within the organization and make it more competitive, a bad compensation plan may have the exact opposite effect, transforming a once healthy organization to one in financial woes. Regular review of salary and other incentives should be carried out Cameron (2006).

2.5 Research Gap

It is quite evident that, against the backdrop of the numerous studies on the subject competency base pay system on employees productivity, there are glaring gaps that have not been addressed, especially in the context of the county governments in Kenya .there is emphasis by the institute of economic affairs (IEA, 2010) report that, most organization in Kenya are currently facing conspicuous challenges of attracting and retaining qualified personnel.

Indeed, kavoo-Linge & Kiruri (2013) noted that well done induction process could improve employee's confidence and performance and also provide a competitive advantage in attracting and keeping good staff. However, their study was limited to the firms in the It sector. This implies that, there exists a gap in the context of county governments in Kenya. Study conducted on the effects of competency based pay on creative performance in a hotel industry (Elsevier, 2011).

The findings support that employee creativity is predicted by both CBP (reward for knowledge and reward for skill) and individual characteristics (need for achievement, need for power). In addition, need for power moderates the relationship between CBP

(reward for knowledge and reward for skill) and employee creativity. However the author failed to address the implication of competency based pay system on employee's productivity.

Among the local studies reviewed, none addressed the effect of Remuneration on Employees Performance of Kisii County. The findings were that an effective remuneration, especially the compensation package will result in attracting, retaining and motivating the employees who understand the details of the organization. This allows the organization to compete at a much higher level than it currently does. Therefore, the foregoing research gaps this to be conducted.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter focused on the research design, target population, sample size and sampling procedures, Research instruments, Pilot test, data collection procedures, data analysis and presentation.

3.2 Research Design

This study adopted a descriptive research design. Descriptive research attempts to describe such things as behaviour, attitudes, values and characteristics. It determines and reports the way things are (Mugenda & Mugenda, 2003). Descriptive research seeks to obtain pertinent and precise information concerning the status of phenomenon and whatever possible to draw valid general conclusions from the facts discovered (Burn & Grove 2001). In addition, quantitative and qualitative approach will be employed. This is due to the fact that, the data collected will be on a 5- point Likert scale. The study was therefore describe the assessment of use Competitive based pay system in enhancing employee productivity in State Corporation in Nakuru town.

3.3 Target Population

This is the population in which the researcher wants to generalize the results of the study (Mugenda & Mugenda, 2003). The target population therefore constituted of all state corporations within Nakuru town. There are a total of 17 state corporations within Nakuru town.

Table 3:1 Target Population

State Corporations	Number of Employees
i. Kenya National Highway Authority – South Rift	29
ii. Kenya Bureau of Standards	18
iii. National Social and Security Fund	42
iv. Rift Valley Water and Services Board	35
v. Betting Control and Licensing Board	17
vi. National Hospital Insurance Fund	24
vii. Kenya Railways Authority	9
viii. Kenya Power	207
ix. Kenya Revenue Authority	53
x. Kenya Postal Corporation	153
xi. Pyrethrum Board of Kenya	47
xii. Kenya Dairy Board	16
xiii. Kenya Pipeline Corporation	143
xiv. Kenya Cooperative Creameries	28
xv. Kenya Rural Roads Authority	32
xvi. Kenya Urban Roads Authority	15
xvii. National Cereals and Produce Board	51
Total	919

3.4 Sample Size

A valid sample according to Kitchenham and Pfleeger (2002) is a representative subset of the target population. Nassiuma's (2009) formula was used to calculate the sample size as illustrated hereafter.

$$n = \frac{NC^2}{C^2 + (N-1)e^2} \quad \text{Where}$$

n = sample size

N = target population size

C = coefficient of variation (0.5)

e = margin of error (0.05)

Interpretatively:

$$n = \frac{919 \times 0.5^2}{0.5^2 + (919 - 1) 0.05^2}$$

$$n = 90.28$$

$$n = 91 \text{ employees}$$

This implies that the sample size was 91 employees of State corporations in Nakuru town.

3.5 Sampling Technique

The study adopted stratified random sampling technique to draw the sample of employees from the State corporations in Nakuru town. Stratified random sampling method will be occasioned by the fact that the various State corporations (strata) in the aforesaid town have different numbers of employees. Therefore, to minimize sampling bias, the sampled respondents were distributed across the 17 State corporations subject to their sizes.

3.6 Research Instruments

The study utilized one kind of research instrument to gather the necessary primary data; questionnaires were appropriate instrument used and the questionnaire were for human

resource department and also other departments. According to (KIM, 2009) a questionnaire is a set of carefully selected and ordered questions used in survey studies. Mugenda & Mugenda (2003) argue that questionnaires are commonly used to obtain important information about the population. Questionnaire was used because it has wide ranging, simple, clear, and self-administering. The questions in the questionnaire was close-ended and on a 5-point likert scale.

3.7 Pilot Testing

The structured questionnaire was pilot tested by administering it on the respondents drawn randomly from the target population. The rationale of this exercise detected potential weaknesses in the questionnaire and correct them prior to administering the instruments to respondents in the study. The pretested questionnaires were then be subjected to a reliability analysis where the researcher tested all the items of the questionnaire. The aforementioned weaknesses were be identified by determining both reliability and validity of the instrument.

3.7.1 Reliability of the Research Instrument

Reliability is a measure of the degree to which a research instrument yields consistent results after repeated trials (Mugenda & Mugenda, 2003).According to KIM (2009) explains reliability as whether a research instrument can be relied upon to produce the same results when used by someone else or when used again on the same respondents. The reliability threshold was Cronbach alpha ≥ 0.7 .only those factors that meet the aforesaid were considered for inclusion in the research instrument.

The findings were as presented in table 3.2

Table 3.2: Reliability Test

Variable	N of Items	Cronbach's Alpha
Skill Based Pay	6	.907
Performance Based Pay	5	.832
Training Level	9	.799
Employee productivity	6	.822

The Cronbach's Alpha values of; 0.907, 0.832, 0.799 and 0.822, all > 0.7 indicated that the questionnaires were reliable for data collection.

3.7.2 Validity of the Research Instrument

According to Mugenda & Mugenda (2003) validity refers to the degree to which results obtained from the analysis of the data actually represent the phenomenon under study and it deals with how accurately the data obtained in the study represents the variables of the study. The instruments for the study were developed to specify the domain of indicators that will be relevant to the concept being measured; in this case content validity was applied. This was made possible by the assistance of the supervisor.

3.8 Data Collection Procedures

The study used questionnaires to obtain key primary data from the respondents. The Permission to conduct research was first obtained from JKUATs school of Human resource Development to collect the requisite data, and management of State Corporations from where the respondents were drawn. The questionnaires were then issued to the respondents who were allowed approximately 5 working days to fill in the question. After which the researcher collected the filled questionnaire for subsequent processing analysis.

3.9 Data Analysis and Presentation

The study used both qualitative and quantitative analysis. The study incorporated both because of the need to understand the relationships, activities and numeric measures to evaluate an aspect of a particular situation. The objectives of the study were analyzed using Descriptive and inferential methods. The data collected was edited, coded, classified and tabulated. Descriptive statistics was used to provide information on how data obtained in respect to variables of interest relate to each other. Here a measure of central tendency was used. Inferential statistics was used to enable generalization of the results from samples to population. Inferential statistics deal with inferences about population based on results obtained from samples (Mugenda & Mugenda, 2003). Pearson Correlation statistics and regression analysis was used to analyze the degree of relationship between variables.

CHAPTER FOUR

RESEARCH FINDINGS & DATA ANALYSIS

4.1 Introduction

Chapter four presents data analysis and research findings. The chapter is broken down into response rate, bio data, descriptive analysis and inferential analysis.

4.2 Response Rate

A total of 91 questionnaires were distributed for the purpose of data collection. 83 questionnaires were successfully recollected from the respondents. This was 91.2% response rate. However, 2 questionnaires were erroneously filled and were equally rejected. The study therefore analyzed 81 questionnaires. The data is presented in table 4.1

Table 4. 1 Response Rate

Sample Size	Returned Questionnaires	Response Rate (%)	Rejected Questionnaires	Analyzed Questionnaires
91	83	91.2%	2	81

4.3 Bio Data

The study sought some bio data from the respondents. This was done to establish the credibility of data provided. The findings were as presented in table 4.2.

Table 4. 2: Bio Data

Dimension	Aspects	Frequency	Percent
Department Served	IT	9	11.1
	Finance	8	9.9
	Marketing	5	6.2
	Production/Operations	55	67.9
	Human Resource	4	4.9
Gender	Male	47	58.0
	Female	34	42.0
Years Served	Less than 1 years	8	9.9
	1-3 years	23	28.4
	3-4 years	14	17.3
	4 years and above	36	44.4
Level of Education	Certificate	3	3.7
	Diploma	34	42.0
	Degree	28	34.6
	Masters and above	16	19.8
Terms of Employment	Permanent and pensionable	43	53.1
	Contract	35	43.2
	Casual	3	3.7
	Total	81	100.0

From table 4.2, it is evident that majority (67.9%) of the respondents were in production/operations department. This is explained by the fact that most state corporations are formed to offer products/services to customers and therefore employees a majorly employed in such areas. Majority of the respondents (58%) were males and at least 30% were female. This could be explained by the third gender rule in public employments. Majority of the respondents (61.7%) had served in the public corporations for at least 3 years. Similarly, majority of the respondents (96.3%) had at least diploma as minimum education. The respondents therefore had adequate experience to handle the research questions. Lastly, majority of the respondents (96.3%) had long term and formal employment contract with the corporations.

4.4 Descriptive Findings

Descriptive findings on the research variables were as presented in this section

4.4.1 Skill Based Pay System

The respondents were requested to indicate the level of agreement with the statements under each variable on a 5-point scale; Strongly agree-5, Agree - 4, Not sure - 3 Disagree - 2 strongly Disagree – 1. The findings were as presented in tables 4.3 and 4.4.

Table 4. 3: Frequency Distribution on Skill Based Pay System in (%)

No	Statements	5	4	3	2	1
	Skill based pay is vital in decision making.	30.9	12.3	14.8	0.0	40.2
	Skill based pay improves on employees productivity.	21.0	34.6	0.0	13.6	30.9
	All stakeholders are involved in implementation of skill based pay.	19.8	27.2	2.5	2.5	48.1
	State corporations usually consider skill based pay when remunerating its employees.	39.5	19.8	22.2	11.1	7.4
	Encouraging multi-skilling increases flexibility and improves on employee's productivity.	12.3	23.5	18.5	21.0	24.7
	Skills based pay increase efficiency at work place.	23.5	23.5	37.0	9.9	6.2

The findings in table 4.3 indicate that the response on skill based pay as vital in decision making was diverse as indicated by the spread of the percentages. This implies that generally, skill based pay is not vital in decision making. Average number of the respondents; 21.0% and 34.6% concurred that skill based pay improves on employees' productivity. An average number of respondents 19.8% and 27.2% indicated that stakeholders are involved in implementation of skill based pay. This implies that the level of involvement is just average. A good number of respondents 39.5% and 19.8% indicated that state corporations usually consider skill based pay when remunerating its employees. 35.8% of the respondents indicated that encouraging multi-skilling increases

flexibility and improves on employee's productivity disputing the assumption. Lastly, it was evident that skills based pay increase efficiency at work place as 47% agreed with the research items.

Table 4. 4: Descriptive Analysis on Skill Based Pay System

Statements	Std.		
	N	Mean	Dev
Skill based pay is vital in decision making.	81	2.90	1.751
Skill based pay improves on employees productivity.	81	3.01	1.609
All stakeholders are involved in implementation of skill based pay.	81	2.68	1.716
State corporations usually consider skill based pay when remunerating its employees.	81	3.73	1.294
Encouraging multi-skilling increases flexibility and improves on employee's productivity.	81	2.78	1.378
Skills based pay increase efficiency at work place.	81	3.48	1.141
Valid N (listwise)	81		

From table 4.4, skills based pay is not vital in decision making. This is evidenced by $M=2.90$ and $SD=1.751$. Skill based pay improves on employees productivity to an average extent as indicated by $M=3.01$ and $SD=1.609$. The state corporations rarely involve stakeholders in implementation of skill based pay as indicated by $M=2.68$ and $SD=1.716$. State corporations usually consider skill based pay when remunerating its employees as indicated by $M=3.73$ and $SD=1.294$. On the other hand, encouraging multi-skilling was established not to increase flexibility and improves on employee's productivity as indicated by $M=2.78$ and $SD=1.378$. Lastly, skills based pay was establish to averagely increase efficiency at work place as was indicated by $M=3.48$ and $SD=1.141$.

4.4.2 Performance Based Pay

Respondents were requested to express their opinion on research items based on the scale; strongly agree-5, Agree - 4, Not sure - 3 Disagree - 2 strongly Disagree –

1. The results were as presented in tables 4.5 and 4.6

Table 4. 5: Frequency Distribution on Performance Based Pay in (%)

Statements	5	4	3	2	1
Performance based pay improves on employees productivity	14.8	29.6	25.9	27.2	2.5
Performance based pay improves innovation and creativity	48.1	23.5	21.0	7.4	0.0
Performance based pay scheme can be used to induce workers to exert the right amount of effort.	16.0	14.8	13.6	4.9	50.6
All employees are entitled to performance based pay in state corporations	21.0	18.5	24.7	23.5	12.3
There is a relationship between performance based pay and employees productivity	42.0	18.5	0.0	4.9	34.6

The diversity in response on whether performance based pay improves on employees productivity as presented in table 4.5 indicates that indeed the reverse is true. High percentages; 48.1% and 23.5% indicate that performance based pay improves innovation and creativity. However, the diverse response on whether performance based pay scheme can be used to induce workers to exert the right amount of effort and whether employees are entitled to performance based pay indicate that performance based pay neither induce workers to exert the right amount of effort nor are employees are entitled to performance based pay in state corporations. High percentages; 42.0% and 18.5% indicates general acceptance that there is a relationship between performance based pay and employees productivity

Table 4. 6: Descriptive Analysis on Performance Based Pay

Statements	Std.		
	N	Mean	Dev
Performance based pay improves on employees productivity	81	3.27	1.096
Performance based pay improves innovation and creativity	81	4.12	.992
Performance based pay scheme can be used to induce workers to exert the right amount of effort.	81	2.41	1.595
All employees are entitled to performance based pay in state corporations	81	3.12	1.326
There is a relationship between performance based pay and employees productivity	81	3.28	1.804
Valid N (listwise)	81		

Performance based pay does not significantly improve employees productivity as indicated by $M=3.27$ and $SD=1.096$. On the other hand, performance based pay greatly improves innovation and creativity as indicated by $M=4.12$ and $SD=.992$. Performance based pay scheme cannot be used to induce workers to exert the right amount of effort as revealed by low mean of 2.14. Lastly, employees are generally entitled to performance based pay in state corporations and performance based pay generally has a relationship with employees productivity. This is indicated by; $SD=3.12$ and $SD; 1.326$ and $M=3.28$ and $SD=1.804$.

4.4.3 Training Level

Respondents were requested to express their opinion based on the scale; Strongly agree- 5, Agree - 4, Not sure - 3 Disagree - 2 strongly Disagree – 1. The findings were as presented in table 4.7 and 4.8.

Table 4. 7: Frequency Distribution on Training in (%)

Statements	5	4	3	3	1
Training enables acquisition of skills and knowledge.	46.9	22.2	7.4	23.5	0.0
Training enhances efficiency and productivity.	25.9	30.9	30.9	4.9	7.4
Employees in our firms are members of workers unions.	21	17.3	39.5	4.9	17.3
Training makes employees to increase their commitment at work place.	23.5	45.7	7.4	13.6	9.9
Training in state corporations is adequate.	27.2	35.8	29.6	4.9	2.5
All new employees are taken through competency based pay system training.	38.3	30.9	16.0	14.8	0.0
Training in state corporations enhances creativity.	43.2	14.8	16.0	4.9	21.0
There exists a relationship between the level of training and employees productivity.	30.9	38.3	11.1	4.9	14.8
Training of employees at state corporations promotes teamwork.	44.4	17.3	22.2	11.1	4.9

The high frequencies; 46.9% and 22.2% on whether training enables acquisition of skills and knowledge and 25.9% and 30.9% for enhanced efficiency and productivity indicates agreement that training enables acquisition of skills and knowledge and enhances efficiency and productivity. In general, employees of the corporations are members of state corporations and they receive adequate training. This is evidenced by high percentages of 23.5% and 45.7%; 27.2% and 35.8% for strong agreement and agreement with research items respectively. Similarly, all new employees are taken through competency based pay system training to enhance creativity as evidenced by high frequencies; 38.3% and 30.9%; 43.2% and 14.8%. Similarly, high frequencies of 30.9% and 38.3% and 44.4% and 17.3% that there exists a relationship between the level of training and employees productivity and that training of employees at state corporations promotes teamwork

Table 4. 8: Descriptive Findings on Training

Statements	Std.		
	N	Mean	Dev
Training enables acquisition of skills and knowledge.	81	3.93	1.222
Training enhances efficiency and productivity.	81	3.63	1.145
Employees in our firms are members of workers unions.	81	3.40	1.317
Training makes employees to increase their commitment at work place.	81	3.59	1.263
Training in state corporations is adequate.	81	3.80	.980
All new employees are taken through competency based pay system training.	81	3.93	1.070
Training in state corporations enhances creativity.	81	3.54	1.582
There exists a relationship between the level of training and employees productivity.	81	3.01	1.512
Training of employees at state corporations promotes teamwork.	81	3.85	1.246
Valid N (listwise)	81		

The findings in table 4.8; M=3.93; SD=1.222 and M=3.63; SD=1.145 indicate that training enables acquisition of skills and knowledge and enhances efficiency and productivity. The mean of 3.40 and SD=1.317 indicates that employees in state corporations generally belong to trade unions. Training is revealed to enhance commitment to work, creativity and team work as revealed by means of 3.59, 3.54 and 3.85 and standard deviations of 1.263, 1.582 and 1.246. lastly, the findings reveal that relationship exists between the level of training and employees productivity

4.4.4 Employees Productivity

Respondents were requested to show their level of agreement with the research items using scale; Strongly agree-5, Agree - 4, Not sure - 3 Disagree - 2 strongly Disagree – 1. The findings were as presented in tables 4.9 and 4.10

Table 4. 9: Frequency Distribution on Employees Productivity in (%)

Statements about	5	4	3	2	1
Most employees commitment to work has improved greatly	30.9	12.3	14.8	0.0	42.0
The production of employees is determined by the input	21.0	36.4	0.0	13.6	30.9
There is a lot of improvement on service delivery in state corporations.	19.8	27.2	2.5	2.5	48.1
Employee's productivity plays an important in the implementation of competency based pay system.	39.5	19.8	22.2	11.1	7.4
There is high team work among the staff at the state corporation and this has improved employee's productivity	44.4	17.3	22.2	11.1	4.9
Most employees lack imitativeness and ability to start new things at work.	23.5	23.5	37.0	9.9	6.2

Findings in table 4.9 indicates that employees commitment to work is high with employees' production is determined by the input. This is indicated by high percentages; 30.9%, 12.3%, 21.0% and 36.4% for respondents who agreed with the research items. However, improvement on service delivery was just average as indicated by percentages of 19.8 % and 27.2% for respondents who admitted that there is improvement in service delivery. Team work among employees was evident and indicated by 44.4% and 17.3% who strongly agreed and agreed with the research item. Lastly, it was not clear whether most employees lack imitativeness and ability to start new things at work as indicated by spread in responses.

Table 4. 10: Descriptive Analysis on Employees Productivity

Statements	Std.		
	N	Mean	Dev
Most employees commitment to work has improved greatly	81	3.90	1.751
The production of employees is determined by the input	81	3.01	1.609
There is a lot of improvement on service delivery in state corporations.	81	2.68	1.716
Employee's productivity plays an important in the implementation of competency based pay system.	81	3.85	1.246
There is high team work among the staff at the state corporation and this has improved employee's productivity	81	3.73	1.294
Most employees lack imitativeness and ability to start new things at work.	81	2.78	1.378
Valid N (likewise)	81		

The findings of the study as presented in table 4.10 indicate that most employees are committed to work. This is evidenced by high mean of 3.90 and standard deviation of 1.751. Not much improvement is seen in service delivery as evidenced by M=2.68 and SD=1.716. Similarly, high team work among the staff at the state corporation was evident with mean 3.73 and standard deviation 1.294. Lastly, it was not clear whether employees lack imitativeness and ability to start new things at work.

4.5 Correlation Analysis

Correlation analysis, at 0.05 significance level was conducted to determine the relationship between Skill Based Pay, Performance Based Pay, Training Level and Employee Productivity. Significance values greater than 0.05 indicates non-significant relationship. The findings were as presented in table 4.11

Table 4. 11: Correlation Analysis Findings

		Employee Productivity
Skill Based Pay	Pearson Correlation (r)	.900**
	Sig. (p) (1-tailed)	.000
	N	81
Performance Based Pay	Pearson Correlation (r)	.472**
	Sig. (p) (1-tailed)	.000
	N	81
Training Level	Pearson Correlation (r)	.587**
	Sig. (p) (1-tailed)	.000
	N	81
Employee Productivity	Pearson Correlation (r)	1
	Sig. (p) (1-tailed)	
	N	81

The results of correlation analysis presented in table 4.11, $r=0.900$; $p=0.000$ (<0.05) implies that there is strong positive significant relationship between skill based pay and employee productivity. The values; $r=0.472$; $p=0.000$ (<0.05) indicates that there is a moderate positive significant relationship between performance based pay and employee productivity. Lastly, $r=0.587$; $p=0.000$ (<0.05) implies that training level has statistically significant positive relationship with employee productivity.

4.6 Hypothesis Testing

One way ANOVA test was conducted to test the research hypotheses. F-statistic was used with 0.05 significance level. Significant values obtained in the test we compared with the 0.05 where values less than 0.05 indicated statistically significant relationship. That condition formed the basis of rejecting the null hypothesis. The findings were as presented in Tables; 4.12 to 4.14.

Table 4. 12: ANOVA on Skill Based Pay and Productivity

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	10.471	1	10.471	14.215	.000 ^a
	Residual	58.189	79	.737		
	Total	68.659	80			

a. Predictors: (Constant), Skill Based Pay

b. Dependent Variable: Employee Productivity

The first hypothesis was; **H₀₁**: there exists no significant influence between skill based pay system and employees productivity at state corporations in Nakuru town. From table 4.12, $F(1, 79) = 14.215$ and $p=0.000$ which is less than 0.05 indicates that skill based pay has significant influence on employee productivity. The first hypothesis was therefore rejected and conclusion made that skill based pay significantly influences employee productivity in state corporations in Nakuru town. The findings were similar to the findings of Berman (1997) that highly paid are the more productive employees. Employee learning will increase the abilities and competency of the employee and pay should be commensurate to skills possessed (Dixon 1999). Similarly, skill level will affect on the employee productivity. Employee productivity will affect the organizational effectiveness (Elena, 2000).

Table 4. 13: ANOVA on Performance Based Pay and Productivity

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	15.301	1	15.301	22.654	.000 ^a
	Residual	53.358	79	.675		
	Total	68.659	80			

a. Predictors: (Constant), Performance Based Pay

b. Dependent Variable: Employee Productivity

The second hypothesis was; **H₀₂**: there exists no relationship between performance based pay and employee productivity at state corporations in Nakuru town. Findings in table 4.13; $F(1, 79) = 22.654$ and $p=0.000$ which is less than 0.05 indicates that performance based pay has significant influence on employee productivity. The second hypothesis was therefore rejected and conclusion made that performance n=based pay significantly influences employee productivity in state corporations in Nakuru town.

Table 4. 14: ANOVA on Training Level and Employee Productivity

		Sum of				
Model		Squares	Df	Mean Square	F	Sig.
1	Regression	23.662	1	23.662	41.542	.000 ^a
	Residual	44.997	79	.570		
	Total	68.659	80			

a. Predictors: (Constant), Training Level

b. Dependent Variable: Employee Productivity

The third hypothesis was; **H₀₃**: there is no relationship between Employees level of training and employee productivity of at state corporations in Nakuru town. The results in table 4.14; $F(1, 79)= 41.542$ indicates that training level significantly influences employee productivity. The third hypothesis was equally rejected and conclusion made that training level significantly influences employee productivity in state corporations in Nakuru town

4.7 Multiple Regression Analysis

Multiple regression analysis was conducted to establish the overall influence of the three independent variables on employee productivity. The findings were as presented in Table 4.15.

Table 4. 15: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.711 ^a	.506	.487	.66358

a. Predictors: (Constant), Training Level, Performance Based Pay, Skill Based Pay
 From table 4.15, R-square=0.506 implies that Training Level, Performance Based Pay and Skill Based Pay collectively explain 50.6 % of changes in employee productivity. It is therefore clear that Training Level, Performance Based Pay and Skill Based Pay are major determinants of employee productivity. The findings of this study concur with findings of Kleiner et al. (2001) that performance based compensation ties pay directly to an individual's productivity in meeting specific business goals or objectives. Similar study by Torrington (2008) revealed that performance based compensation practices help organizations develop effective strategies that reflect an employee's productivity and contributions, improve employee and customer engagement, increase productivity.

Anova test was used to test the significance of the relationship between Training Level, Performance Based Pay and Skill Based Pay and employee productivity.

Table 4. 16: ANOVA Table

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	34.753	3	11.584	26.308	.000 ^a
	Residual	33.906	77	.440		
	Total	68.659	80			

a. Predictors: (Constant), Training Level, Performance Based Pay, Skill Based Pay

b. Dependent Variable: Employee Productivity

Significance value of 0.000 in table 4.16 above which is less than 0.05 implies that the three factors have significant influence on employee productivity.

Table 4. 17: Table of Coefficients

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	.226	.501		.451	.654
	Skill Based Pay	.516	.124	.546	4.174	.000
	Performance Based Pay	.306	.164	.173	1.872	.000
	Training Level	.101	.166	.080	.611	.000

a. Dependent Variable: Employee Productivity

From table 4.17 above, the following regression model was developed;

$$Y = .226 + .516X_1 + .306X_2 + .101X_3 + e$$

Where; Y – Employee Productivity

X_1 - Skill Based Pay

X_2 – Performance Based Pay

X_3 – Training Level

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of findings of the study, conclusions and recommendations that were arrived at from the research findings.

5.2 Research Summary

The study findings revealed that skill based pay is not vital in decision making. Skill based pay was however revealed to improve employees' productivity. The findings revealed that stakeholders are involved in implementation of skill based pay and that state corporations usually consider skill based pay when remunerating its employees. Lastly, it was evident that skills based pay increase efficiency at work place.

The findings revealed that performance based pay does not significantly improve employees productivity as indicated. On the other hand, performance based pay greatly improves innovation and creativity. It was evident that performance based pay scheme cannot be used to induce workers to exert the right amount of work. Lastly, the results revealed that employees are generally entitled to performance based pay in state corporations and performance based pay generally has a relationship with employees' productivity.

On training, findings revealed that training enables acquisition of skills and knowledge and enhances efficiency and productivity. Employees in state corporations generally belong to trade unions. It was evident that relationship exists between the level of training and employees productivity with most employees showing commitment to work. Not much improvement is seen in service delivery while team work among the staff at the

state corporation was evident. Lastly, it was not clear whether employees lack imitativeness and ability to start new things at work.

On the relationship objectives, the findings revealed that skill based pay significantly influences employee productivity in state corporations in Nakuru town. it was also evident that performance based pay has significant influence on employee productivity lastly, the results indicated that training level significantly influences employee productivity.

5.3 Conclusions of the Study

The first objective of this study was to determine the influence of skill based pay system on employee productivity at state corporations in Nakuru town. From findings, was conclusion made that skill based pay significantly influences employee productivity in state corporations in Nakuru town

The second objective was to evaluate performance based pay system on employee productivity at state corporations in Nakuru town. Findings indicates that performance based pay has significant influence on employee productivity. Conclusion was made that performance based pay significantly influences employee productivity in state corporations in Nakuru town.

The third objective was to assess the level of training on employees' productivity at state corporations in Nakuru town. The results indicated that training level significantly influences employee productivity. It was concluded that training level significantly influences employee productivity in state corporations in Nakuru town

5.4 Recommendations of the Study

From findings obtained in this study, the study recommends the following

Management of public organizations should consider skill based pay, performance based pay and employee training as strategies in ensuring employee productivity. Decisions that relate to adoption of such strategies should be aligned with the long term strategies of the organization and must be backed with management support.

Secondly, the study recommends that the management of state corporations should involve employees in decisions and strategies that aim at improving their operations as such activities directly affect employees.

5.5 Suggestion for Further Studies

Further studies are suggested to investigate whether the influence of skill based pay, performance based pay and employee training on employee productivity is the same in different industries and among individuals.

A similar study should be conducted to establish the intervening or moderating role of management and organizational culture in the relationship between skill based pay, performance based pay and employee training and employee productivity

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APPENDIX 1

INTRODUCTORY LETTER

Dear respondent,

I am an Msc (HRM option) student at Jomo Kenyatta University of Agriculture and Technology, currently conducting a research study to establish the assessment of use of competency based pay system in enhancing employee productivity in state corporations in County Government in Kenya.

I kindly request you to provide the required information to the best of your knowledge; the information provided will be treated in a confidential manner and will only be used for academic purposes. Kindly fill the questionnaire that is accompanied by this letter.

The questionnaire is intended to collect data for academic purposes only. Confidentiality of the information collected will be adhered to. Thank you in advance.

Yours faithfully,

Zachary Gachuru Njeri

DR. Josphat Kwasira

Student

University Supervisor

APPENDIX 11

RESEARCH QUESTIONNAIRE FOR EMPLOYEES IN THE HUMAN RESOURCE DEPARTMENT

This questionnaire is intended for collecting data for a study titled: “**The assessment of use of competency based pay system in enhancing employees productivity in state corporations in County Government of Nakuru, Kenya**”. The Information is intended for academic purposes only and will not be divulged to any other person. Please complete all sections of this document. All questions are interrelated and are very important for the study.

PART A: BIO DATA

1. Departments

- a) Information Technology ☐
- b) Finance ☐
- c) Marketing ☐
- d) Production/Service Operations ☐
- e) Human resource ☐

2. Gender:

- a) Male ☐
- b) Female ☐

3. How long have you worked with state corporations?

- a) Less than 1 year ☐
- b) 1 year -3 years ☐
- c) 3 years - 4 years ☐
- d) 4 years and above ☐

4. What is your highest educational qualification?

- a) Certificate ☐
- b) Diploma ☐
- c) Degree level ☐
- d) Master and above ☐

5. Terms of employment

- a) Permanent and pensionable ☐
- b) Contract ☐
- c) Casual ☐

SECTION B: SKILL BASED PAY SYSTEM

In this section kindly indicate your agreement with the statements under each variable. The level of agreement is on a 5-point scale as illustrate hereunder. **Strongly agree-5, Agree - 4, Not sure - 3 Disagree - 2 strongly Disagree - 1**

No	Statements about pay and benefits	5	4	3	2	1
6.	Skill based pay is vital in decision making.					
7.	Skill based pay improves on employees productivity.					
8.	All stakeholders are involved in implementation of skill based pay.					
9.	State corporations usually consider skill based pay when remunerating its employees.					
10	Encouraging multi-skilling increases flexibility and improves on employee's productivity.					
11	Skills based pay increase efficiency at work place.					

SECTION C: PERFORMANCE BASED PAY

Strongly agree-5, Agree - 4, Not sure - 3 Disagree - 2 strongly Disagree – 1

No	Statements about	5	4	3	2	1
12	Performance based pay improves on employees productivity					
13	Performance based pay improves innovation and creativity					
14	Performance based pay scheme can be used to induce workers to exert the right amount of effort.					
15	All employees are entitled to performance					

	based pay in state corporations					
16	There is a relationship between performance based pay and employees productivity					

SECTION D: TRAINING LEVEL AND EMPLOYEES PRODUCTIVITY

Strongly agree-5, Agree - 4, Not sure - 3 Disagree - 2 strongly Disagree – 1

No	Statements	5	4	3	3	1
17.	Training enables acquisition of skills and knowledge.					
18.	Training enhances efficiency and productivity.					
19.	Employees in our firms are members of workers unions.					
20.	Training makes employees to increase their commitment at work place.					
21.	Training in state corporations is adequate.					
22.	All new employees are taken through competency based pay system training.					
23.	Training in state corporations enhances creativity.					
24.	There exists a relationship between the level of training and employees productivity.					
25.	Training of employees at state corporations promotes teamwork.					

SECTION E: EMPLOYEES PRODUCTIVITY**Strongly agree-5, Agree - 4, Not sure - 3 Disagree - 2 strongly Disagree – 1**

No	Statements about	5	4	3	2	1
26	Most employees commitment to work has improved greatly					
27	The production of employees is determined by the input					
28	There is a lot of improvement on service delivery in state corporations.					
29	Employee's productivity plays an important in the implementation of competency based pay system.					
30	There is high team work among the staff at the state corporation and this has improved employee's productivity					
31	Most employees lack imitativeness and ability to start new things at work.					

Thanks for your time and cooperation