
Assessment of Use of Competency Based Pay System in Enhancing Employees Productivity in State Corporations in Nakuru Town, Kenya

Zachary Gachuru, Josphat Kwasira

College of Human Resource Development, Jomo Kenyatta University of Agriculture and Technology, Nakuru, Kenya

Email address:

zcgachuru@gmail.com (Z. Gachuru), jkwasira7@gmail.com (J. Kwasira)

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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.

Keywords: Competency Based Pay System, Employees Productivity, State Corporations

1. Introduction

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 competencies based pay system and employees productivity in Malaysian public organizations (Iihaamic, et al 2009).

1.1. 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.

1.2. Study 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.

1.3. Research Hypotheses

H01: there exists no significant influence between skill based pay system and employees productivity at state corporations in Nakuru town.

H02: there exists no relationship between performance based pay and employee productivity at state corporations in Nakuru town.

H03: there is no relationship between Employees level of training and employee productivity of at state corporations in Nakuru town.

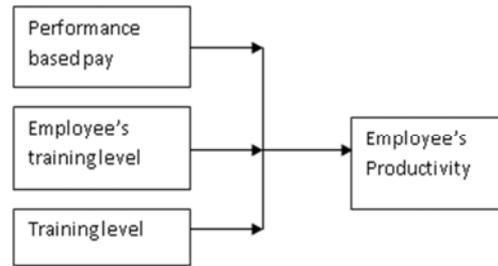


Figure 1. Conceptual Framework.

2. Literature Review

2.1. Theoretical Review

2.1.1. 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.

2.1.2. 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.

2.1.3. 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 or reward or punishment set for their failure.

2.2. Empirical Review

2.2.1. Skills Based Pay System and Employee's Productivity

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.

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 employee productivity. Employee productivity will affect the organizational effectiveness (Elena, 2000).

2.2.2. 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.

2.2.3. 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.

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.

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.

3. Research Methodology

This study adopted a descriptive research design. Descriptive research attempts to describe such things as behavior, attitudes, values and characteristics. The target population constituted of all state corporations within Nakuru town. Nassiuma's (2009) formula was used to calculate the sample size as illustrated hereafter.

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

Where

n = sample size

N = target population size

C = coefficient of variation (0.5)

e = margin of error (0.05)

Interpretatively:

$$n = 919 \times 0.5^2$$

$$0.5^2 + (919 - 1) 0.05^2$$

$$n = 90.28$$

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

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

The study used self-administered questionnaires to gather the necessary primary data. Cronbach's Alpha was computed to test reliability and values of; 0.907, 0.832, 0.799 and 0.822 obtained, all > 0.7 indicated that the questionnaires were reliable for data collection. 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.

4. Findings and Recommendations

4.1. 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 1.

Table 1. 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 1, 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.

4.2. 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 2-4.

Table 2. ANOVA on Skill Based Pay and Productivity.

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

a. Predictors: (Constant), Skill Based Pay

b. Dependent Variable: Employee Productivity

The first hypothesis was; H_{01} : there exists no significant influence between skill based pay system and employees productivity at state corporations in Nakuru town. From table 2, $F(1, 79) = 14.215$ 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 employee productivity. Employee productivity will affect the organizational effectiveness (Elena, 2000).

Table 3. ANOVA on Performance Based Pay and Productivity.

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

a. Predictors: (Constant), Performance Based Pay

b. Dependent Variable: Employee Productivity

The second hypothesis was; H_{02} : there exists no relationship between performance based pay and employee productivity at state corporations in Nakuru town. Findings in table 3; $F(1, 79) = 22.654$ 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. ANOVA on Training Level and Employee Productivity.

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

a. Predictors: (Constant), Training Level

b. Dependent Variable: Employee Productivity

The third hypothesis was; H_{03} : there is no relationship between Employees level of training and employee productivity of at state corporations in Nakuru town. The results in table 4; $F(1, 79)= 41.542$ 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

4.3. 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 5.

Table 5. 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 5, 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 6. ANOVA Table.

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	34.753	3	11.584	26.308	.000 ^a
1 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 6 above which is less than 0.05 implies that the three factors have significant influence on employee productivity.

Since resource availability determines the quality of health care, the study recommends that resource plans should be integrated in the annual budgets in order to ensure adequate allocation of funds in attempt to improve health care quality at

the RVPGH.

The study also recommends application of MRP systems to synchronize ordering timelines especially where a number of items are to be utilized together in a particular process of service delivery to enhance the provision of quality health care.

The study revealed that competent workforce is key to a sound procurement system which calls for professionally qualified individuals to undertake procurement functions at RVPGH. This will improve procurement performance and consequently improved health care quality at the facility.

The study also recommends that besides other efforts to improve health care quality, availability of appropriate skills regarding technical specifications and competent health care personal are essential in promoting quality health care standards.

4.4. Conclusions and Recommendations

From findings, conclusion made that skill based pay significantly influences employee productivity in state corporations in Nakuru town. Findings indicated 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 results also indicated that training level significantly influences employee productivity. It was concluded that training level significantly influences employee productivity in state corporations in Nakuru town

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.

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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