

**EFFECT OF ORGANIZATIONAL COMPENSATION AND REWARD
SYSTEM ON EMPLOYEE PERFORMANCE AT KENYA REVENUE
AUTHORITY**

**BY
JEMIMA ANDEYO OKUTU**

**A RESEARCH THESIS SUBMITTED TO THE SCHOOL OF BUSINESS AND
ECONOMICS IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR
THE AWARD OF MASTER OF SCIENCE DEGREE IN
HUMAN RESOURCE DEVELOPMENT**

MOI UNIVERSITY

2021

DECLARATION

Declaration by the Candidate

This thesis is my original work and has not been presented for the award of any degree in this or any other University. No part of this proposal may be reproduced or transmitted in any form without the prior written permission of the author and/ or Moi University.

Sign: _____ Date: _____

Jemimah Andeyo Okutu

SHRD/PGD/032/16

Declaration by the Supervisors

This Research Thesis was submitted with our approval as university supervisors.

Sign: _____ Date: _____

Dr. Razia Mbaraka,

Department of Management Science and Entrepreneurship

School of Business and Economics,

Moi University.

Sign: _____ Date: _____

Prof. Richard Musebe,

Department of Management Science and Entrepreneurship,

School of Business and Economics,

Moi University.

DEDICATION

This Research Thesis is dedicated to my children Rosemary and Alphah and my sister

Hildah Makubo for her financial support towards my study.

ACKNOWLEDGEMENT

“Firstly, I thank the Almighty God who blessed me with a sound mind and good health and made every moment possible for me to achieve this. Secondly, special thanks go to my supervisors Dr. Razia Mbaraka and Prof. Richard Musebe for the tireless efforts and guidance they gave me during the research process. Thirdly, I wish to express my heartfelt gratitude to the entire School of Business and Economics of Moi University for giving me the opportunity to study this course in the University. Finally, I thank my parents the late Rosemary and Samuel Okutu who believed that education was a great treasure to their children for future prospect although themselves never attended school, but worked harder for their children to gain the knowledge on their behalf especially myself.”

ABSTRACT

“Employee performance is critical to any organization’s success. A successful organization is driven by effective Human Resource Management practices that meet the goals of employees and at the same time attain the organizational objectives. The main purpose of this study was to investigate the effect of compensation and reward system on employee performance at Kenya Revenue Authority. The specific objectives were; to establish the effects of salary, promotion, recognition, fringe benefits and the extent to which the four elements of compensation had affected employee performance at Kenya Revenue Authority. A number of theories informed the study. These were expectancy-reinforcement theory, equity theory and agency theory. The study adopted a descriptive survey research design, which sought to describe the prevailing state of affairs. Stratified random sampling technique was employed to select a sample of 120 respondents from a target population of 1200 employees of Kenya Revenue Authority Headquarters. A mixed method of quantitative/qualitative approach was used. The study used both primary and secondary data. Primary data was collected using questionnaires and observation of the behavior of employees with respect to the phenomenon under investigation. Documentary review of the Kenya Revenue Authority Corporate Plans, Human Resource Policy Manual, Performance Reports and Library journals assisted in obtaining secondary data. The data was analyzed using descriptive and inferential statistics. A multiple linear regression model was used to test the significance of the influence of each independent variable on the dependent variable. Pearson’s bivariate correlation analysis revealed the extent to which the various elements of compensation (salary, promotion, fringe benefits and recognition) influenced the performance of employees at Kenya Revenue Authority. Descriptive statistics revealed that KRA has not met its revenue targets as indicated by 79% of the respondents. Additionally, 90% of the respondents indicated that motivation is a critical determinant of employee performance at KRA. The mean of the responses for the various independent variables was 3.71 for salary, 3.66 for promotion, 3.43 for recognition and 3.55 for fringe benefits. The findings reveal a positive connection between the four aspects of compensation and reward system, and employee performance at KRA. On the other hand, inferential statistics confirmed that salary ($p=0.000<0.05$), promotion ($p=0.019<0.05$) and fringe benefits ($p=0.037<0.05$) had a positive and statistically significant effect on employee performance. Recognition had a positive effect but it was not statistically significant ($p=.511>0.05$). The findings lead to the conclusion that Kenya Revenue Authority has put in place a fair compensation and reward system although the system has not inspired high employee performance to the fullest. Consequently, it is recommended that Kenya Revenue Authority should give due consideration to employees compensation and reward package to enhance high performance. Kenya Revenue Authority should also establish a remuneration system that covers all employees. It is necessary to harmonize salaries in all job cadres and sensitize employees on criterion used for promotion. Additionally, Kenya Revenue Authority should streamline its fringe benefits scheme for fairness and recognize employees regularly whenever they have high performance.”

TABLE OF CONTENTS

DECLARATION	ii
DEDICATION	iii
ACKNOWLEDGEMENT	iv
ABSTRACT.....	v
TABLE OF CONTENTS.....	vi
LIST OF TABLES	x
LIST OF FIGURES	xi
OPERATIONAL DEFINITION OF TERMS	xii
ABBREVIATIONS AND ACRONYMS	xiv
CHAPTER ONE	1
INTRODUCTION.....	1
1.0 Overview.....	1
1.1 Background of the Study	1
1.2 Statement of the Problem.....	5
1.3 General Objective of the Study.....	7
1.4 Specific objectives	7
1.5 Hypotheses	7
1.6 Significance of the study.....	8
1.6.1 KRA Management.....	8
1.6.2 Regulatory Bodies	8
1.6.3 Academicians	8
1.7 Scope of the Study	9
1.8 Assumption of the study	9
1.9 Limitations of the Study.....	9
CHAPTER TWO	11
LITERATURE REVIEW	11
2.0 Overview	11
2.1 Concept of Employee Performance	11
2.2 Concept of Compensation and Reward.....	12
2.3 Concept of Motivation	14
2.4 Theoretical Perspective.....	15
2.4.1 Expectancy-reinforcement Theory	15

2.4.2 Equity theory	17
2.4.3 Agency theory	19
2.5 The Role of Compensation System on Employee Motivation.....	21
2.6 The Role of Compensation on Employee Performance.....	22
2.6.1 Effect of Salary and wages on Employee Performance	22
2.6.2 Effect of Promotion on Employee Performance	26
2.6.3 Effect of Recognition on Employee Performance.....	28
2.6.4 Effect of Fringe Benefits on Employee Performance	29
2.7 Dimensions of Employee Performance at KRA	33
2.7.1 Revenue Collection	35
2.7.2 Uptake of <i>i</i> -Tax by Taxpayers.....	36
2.8 Motivation and Employee Performance	37
2.9 Research Gap	38
2.10 Conceptual Framework.....	41
CHAPTER THREE	43
RESEARCH METHODOLOGY	43
3.0 Overview.....	43
3.1 Research Design.....	43
3.2 Target Population.....	43
3.3 Sampling Technique and Sample Size.....	44
3.4 Data Collection	45
3.4.1 Primary Data	45
3.4.2 Secondary Data	46
3.5 Reliability and Validity of Research Instruments.....	46
3.5.1 Validity.....	46
3.5.2 Reliability.....	47
3.5.3 Measurement of Variables	47
3.5.3.1 Dependent Variable (Employee Performance).....	47
3.5.3.2 Intervening/mediating variable (Motivation)	48
3.5.3.3 Independent Variable (Compensation and Reward).....	48
3.6 Data Analysis and Presentation	48
3.7 Regression Analysis Model	49
3.7.1 Assumptions of Regression Model	49
3.7.2 Assumptions of the model.....	49

3.8 Ethical Considerations	50
3.8.1 Confidentiality.....	50
3.8.2 Respect	50
3.8.3 Equitable Treatment	51
3.8.4 Objectivity	51
CHAPTER FOUR.....	52
DATA ANALYSIS, PRESENTATION AND INTERPRETATION	52
4.0 Overview.....	52
4.1 Response Rate.....	52
4.2 Descriptive Analysis	52
4.3 Characteristics of Respondents	52
4.3.1 Gender	52
4.3.2 Level of Education `.....	53
4.3.3 Length of Service	54
4.3.4 Job Grade.....	55
4.4 Descriptive Results	55
4.4.1 Employee Performance at KRA	56
4.4.2 Intervening Variable – Motivation.....	56
4.4.3 Salary and Employee Performance	57
4.4.4 Promotion and Employee Performance.....	59
4.4.5 Recognition and Employee Performance	60
4.4.6 Fringe Benefits and Employee Performance.....	61
4.4.7 Compensation and Reward System at KRA	62
4.5 Inferential Results	64
4.5.1 Analysis of Variance (ANOVA).....	65
4.5.2 Regression Output and hypotheses testing.....	65
4.6 Objective Test and Analysis	66
4.6.1 Pearson’s Bivariate Correlation Analysis.....	66
4.7 Discussion of Findings.....	67
CHAPTER FIVE	70
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS	70
5.1 Overview.....	70
5.2 Summary of Findings.....	70
5.2.1 Research Objective 1: Salary and Employee Performance.....	70

5.2.2 Research Objective 2: Promotion and Employee Performance	70
5.2.3 Research Objective 3: Recognition and Employee Performance.....	71
5.2.4 Research Objective 4: Fringe Benefits and Employee Performance	71
5.3 Conclusion	72
5.3.1 Managerial Implication	72
5.3.2 Theoretical Contribution	73
5.4 Recommendations.....	76
5.4.1 HRM Policy and Practice	76
5.4.2 Areas for further study	77
REFERENCES	78
APPENDICES	84
Appendix I: Introduction Letter	84
Appendix II: Questionnaire	85
Appendix III: Observation Check-List.....	90
Appendix IV: Budget	91
Appendix V: Research Authorization Letter.....	92
Appendix VI: Research Permit Clearance.....	93

LIST OF TABLES

Table 2.1: Summary Research Gap	40
Table 3.1: Sample Size Distribution	44
Table 3.2: Results of Reliability Test	47
Table 4.1: Distribution of Respondents by Gender	53
Table 4.2: Respondents' Highest Academic	54
Table 4.3: Summary of Respondents according to work experience.....	54
Table 4.4: Respondents' Job Grade.....	55
Table 4.5: Employee Performance at KRA	56
Table 4.6: Motivation.....	57
Table 4.7: Salary and Employee Performance.....	58
Table 4.8: Promotion and Employee Performance	59
Table 4.9: Recognition and Employee Performance	60
Table 4.10: Fringe Benefits and Employee Performance	62
Table 4.11: Employee Perception on Compensation and Reward System at KRA.....	64
Table 4.12: Model Fitness.....	64
Table 4.13: Analysis of Variance, ANOVA	65
Table 4.14: Regression Output	66
Table 4.15: Bivariate Correlation Analysis	67

LIST OF FIGURES

Figure 2.1: Conceptual Framework42

OPERATIONAL DEFINITION OF TERMS

- Compensation:** Refers all the benefits, monetary or otherwise, that an employee receives from the employer in exchange for labour. Compensation also refers to quantifiable rewards an employee receives for his or her labour as stated by (Gomez *et.al.*, 2012).
- Fringe Benefits:** These are forms of indirect pay given to a worker or gathering of employees as a piece of hierarchical participation (Mathis & Jackson, 2003).
- iTax:** An electronic tax system for computing, assessing, collecting and accounting for state revenues
- Motivation:** Refers to getting people move in the direction you want to go to achieve your results (Armstrong, 2008). It also means a feeling of enthusiasm or interest that makes you determine to do something in an organization (Macmillan English Dictionary for Advanced learners 2007:295).
- Promotion:** Promotion is a change or assignment to a job at a higher level in an organization. The new job normally provides an increase in pay, status more, more skills and responsibility.
- Performance:** The result of the employee effort in achieving the organizational objective in other words employee's performance is in the aggregate result of the effort in achieving the goals of the organization.”

- Rewards:** These are specific benefits that an employee receives from an employer as a result of a good performance.
- Revenue:** An income that business has from its normal business activities.
- Recognition:** The acknowledgement of an employee's contribution to the organization
- Salary:** This refers to monthly payments that employers pay employees for services rendered based on contractual agreements (Kenya Revenue Authority, 2015).
- Wages:** Money related remuneration paid to a representative by business in return for work done. The installment is typically determined on hourly, day by day or week after week premise.”

ABBREVIATIONS AND ACRONYMS

C&BCD	- Customs and Border Control Department
DTD	- Domestic Taxes Department
I & ED	- Investigation and Enforcement Department
CSSD	- Corporate Support Services Department
ETR	- Electronic Tax Register
GPRS	- General Packet Radio Service
GOK	- Government of Kenya
GIS	- Geographic Information System
HR	- Human Resource
HRM	- Human Resource Management
IHRM	- Institute of Human Resource Management
ICT	- Information Communication Technology
IBM	- International Business Machines
SPSS	- Statistical Package for the Social Sciences
i-TAX	- Integrated Tax
KPIs	- Key Performance Indicators
KRA	- Kenya Revenue Authority
KTDA	- Kenya Tea Development Agency
LTO	- Large Taxpayer Office
MST	- Medium and Small Taxpayer
MTO	- Middle Taxpayers Office
NSSF	- National Social Security Fund

- NACOSTI** - National Commission for Science, Technology & Innovation
- SRC** - Salaries and Remuneration Commission

CHAPTER ONE

INTRODUCTION

1.0 Overview

This chapter looked at the key issues that lay the foundation for this study as well as other significant factors. It contains the Background of the Study, Statement of the Problem, Objectives of the Study, Research Questions, Justification of the Study, Significance of the Study just as the Scope and Limitations.”

1.1 Background of the Study

Compensating and rewarding employees in an organization started in the 1920s in the US as a way of hiring, training and evaluating workers. However, globalization, deregulation and technological advancement particularly in the 1970’s increased competition in the corporate sphere. This prompted a more liberal approach to human resource management particularly compensation as organizations sought to recruit and retain the best according to (Aswathappa, 2005). Managing a human capital base that comprises of personnel with inherent differences in religion, age, gender, sexual orientation and socio-economic backgrounds requires a high degree of cultural competence (Baker *et. al.*, 2008).”

Compensation and reward system must be taken seriously to achieve a competitive advantage. Compensation is mostly in terms of monetary terms after a specified period or after a completion of a task. In addition, compensation is the output and benefit that employee receive in form of pay, that is salary, bonus wages among other to increase performance. A reward is award given to an individual employee or employees for their exceptional performance or when an organization attains its target or goals. The rewards exist as tangible and intangible financial benefits and services given to employees for playing their part in an organization. According to Gcabo

(2007), organizational rewards significantly influence employee performance in an organization. Compensation and reward system is an instrument used to increase employees' performance in any organization. The rationale behind the use of compensation and rewards in enhancing employee performance is that when the needs and wants of employees are met (both financial and otherwise), their job satisfaction improves and so does their morale. As a result, they are inspired to perform better. It was observed that employee commitment is affected by various aspects of remuneration.”

Katru (2006) asserts that compensation and reward system is an important tool of employee performance management as it enhances the motivation and job satisfaction levels of employees. The compensation and reward system ensures that both intrinsic and extrinsic needs of employees at all levels are adequately provided for it develops organizational integrity, policy, procedures and practices capable of improving organizational performance. Compensation and reward system is concerned with employee and organizational performance development through which better results can be achieved (Baker *et. al.* 2008).”

Employee performance refers to the conduct of the duties of the organization with regard to the policies and the rules of the firm. Employee performance is one of the main important aspect of the organization to attain the organizational goals. When the goals of the organization are met then the organization can continue in the operations of the firm but in case the goals are not met the firm can easily close down. Employee performance is normally compensated through salaries and wages or any other form of reward which is lawful like the benefits (Kamau, 2013).”

Employee performance is also referred to as the art of working towards a common goal for the monetary benefit. The art of working is guided by the general principles and the laid down rules, which can be changed from time to time. Employees are motivated by the monetary compensation or any other benefits which makes them work harder to earn more (Muraya, 2012). Baker *et. al.* (2008) proposes that employee compensation seeks to attract and retain suitable employees, encourages good management of employee relationship and commitment and minimizes tension and conflict as it deals with all forms of final returns, tangible service and mechanism for good relationship.”

Wide array of literature suggests that positive work-related behavior and attitudes largely depends on employee perceptions of their employer such as whether the employer values their contribution or even cares about their wellbeing (Ali, 2012). The world economy has become highly competitive. A strategic response from an organizational perspective requires a critical evaluation of organizational performance in all aspects. Employees are an organization's most reliable source of competitive advantage. The performance of an organization boils down to enhancing the individual performance of employees across the board. This requires motivation of all employees. Motivation is only achievable through better HRM practices in the area of managing compensation and rewards, which entails creating a perception of fairness through competitive wages and benefits (Ali, 2012).”

Regionally, Africa is said to be a continent on the move. However, this move is being constrained by many factors, chief among them being human resources. The region is grappling with the challenge of shortage of skilled manpower particularly in the public sector. One of the reasons behind this situation is unfavorable working environment particularly with regard to remuneration (Katru, 2006).

In East Africa, Kenyan organizations have been leading in developing employee compensation and reward systems in enhancing employee performance in public sectors (Baker *et al*, 2008). However, the country continues to face real challenges as evidenced by numerous industrial strikes that are witnessed so often on grounds of poor pay. The most recent is the doctors and nurses strike that lasted for quite some time and the university teaching and non-teaching staff who severally boycotted their duties over unmet needs with regard to remuneration. Kenya Revenue Authority junior staff were said to be on a go-slow in 2014 owing to what was termed as inequitable reward system. Bhartia (2009) observed that the best African countries to work in are Morocco, Libya and Namibia. This is because the countries have some of the most rewarding remuneration packages in both public and private sectors. KRA being our area of study, was established on 1st July 1995 by an Act of Parliament Cap 469 for the purpose of enhancing the mobilization of Government revenue while providing effective tax administration and sustainability of revenue collection. Presently the authority runs on a resource base of about 4600 staff working in fifty-nine (59) stations across the country on a permanent basis. In an effort to monitor the performance, the authority employs a number of tools, one of them being the formulation of development blueprints commonly known as Corporate Strategic Plans, (Kenya Revenue Authority, 2015). Structurally, KRA is divided into four main revenue departments for the purpose of revenue collection. According to the Sixth Corporate Plan (2015/16-2017/18), the departments are Customs and Border Control Department, Domestic Taxes Department, Corporate Support Services Department, Investigation and Enforcement Department. Evaluation entails measuring performance against target required by the government. For instance, in the Fiscal Year 2014/15 the Authority managed to collect Kshs.1,069.6 billion in revenue

against a target of Kshs.1,108.8 billion representing a shortfall of Kshs.39.2 billion. This seems to be the general trend as depicted by the performances of the previous periods according to the Sixth Corporate Plan for the period 2015/16-2017/18 (Kenya Revenue Authority, 2015). Therefore, the study focused on effect of organizational compensation and reward system on employee performance at Kenya Revenue Authority.

1.2 Statement of the Problem

Compensation and reward system can help spur commitment and passion for one's job provided it is planned. Incidentally, many organizations in both private and public sectors have not fully appreciated the importance of a planned compensation and reward system in enhancing employee performance. Correspondingly, Mutahi (2015) in a budgetary review, pointed out the need to improve compensation and reward systems in organizations as he observed that some employees in public sector were not adequately compensated and as a result the sector continued to post unsatisfactory outcomes with respect to their key performance indicators.

Kenya is a developing country, running on increased budgets since independence. For instance, according to the Sixth Corporate Plan 2015/16-2017/18, the budget for the Financial Year 2015/16 was Kshs.2.1 trillion, while the one for the Financial Year 2016/17 was Kshs.2.264 trillion. Notably, a greater proportion of the budget is funded using the tax revenues derived from economic activities of the country.

Consequently, KRA has been grappling with an increase in revenue targets each financial year although the actual increases in revenue are marginal. The organization has not been meeting the revenue targets set by the government in the previous years. To mitigate on this, the authority in the Fourth Quarter and July-June Revenue Report

2013/14, the authority has devised measures to deliver on its revenue targets as follows: innovative practices, leveraging technology and implementation of staff performance improvement measures. This notwithstanding, the authority has continued to post shortfalls in revenue targets. According to the report, this trend has attributed to the volatility of the macroeconomic environment and inefficiencies in human resource management (ICPAK,2016).

KRA is a Kenyan government parastatal and the principal revenue collection agency for the government. The Authority is assigned revenue collection targets from Treasury. According to Muraya, (2012) the authority cascades the targets by allocating individual employee. These targets must be met if the employees are to retain their jobs and or employment benefits particularly in this era of performance contracts in the public sector. While examining compensation at KRA, Muraya (2012) observed that KRA employees share the vision and mandate of the organization and as such, they always strive to meet their targets. He further noted that, KRA employees expected a pat on the back whenever they performed and delivered on their signed performance contract, but often times the HRM Practices in particular compensation and reward rarely met their expectations resulting to low morale and consequently poor performance for the whole organization.

In fact, the Sixth Corporate Plan enlists a pool of highly skilled and experienced staff as a major strength of KRA, (Kenya Revenue Authority, 2015). Incidentally, it also points out inadequate staff development and poor work environment as major constraints to good performance. A report on the work environment in the public sector pointed out that public institutions such as KRA are vulnerable to loss of talent

because of stiff competition for high caliber staff from the private sector (KIPPRA, 2016).

This raises a number of concerns on what is the effect of compensation and reward system on employee performance at KRA and how can the organization successfully deliver on its targets through planned compensation and reward systems.

1.3 General Objective of the Study

The main purpose of the study was to investigate the effects of compensation and reward system on employee performance at Kenya Revenue Authority.

1.4 Specific objectives

The specific objectives were;

- i. To establish the effect of salary on employee performance at Kenya Revenue Authority
- ii. To establish effect of promotion on employee performance at Kenya Revenue Authority
- iii. To determine the effect of recognition on employee performance at Kenya Revenue Authority
- iv. To determine the effect of fringe benefits on employee performance at Kenya Revenue Authority

1.5 Hypotheses

1. There is no statistically significant relationship between promotion and employee performance
2. There is no statistically significant relationship between salary and employee performance

3. There is no statistically significant relationship between fringe benefits and employee performance
4. There is no statistically significant relationship between recognition and employee performance

1.6 Significance of the study

This study can be of great importance to various stakeholders as stated below:

1.6.1 KRA Management

The study findings can assist the KRA Management to examine its compensation system so that it can foster an ambient working relationship between employees and the management to improve performance.

1.6.2 Regulatory Bodies

The Government through various organs such as Salaries and Remuneration Commission (SRC) which may harmonize the empirical compensation guidelines to be employed by the various state agencies and parastatals for optimal performance. It may be interested in knowing whether KRA has been employing these guidelines in their compensation and reward schemes, the effectiveness of the system and the challenges encountered.

The research study will also assist professional bodies in enhancing the practices and policies governing the HR profession in the country (IHRM).

1.6.3 Academicians

The study findings will contribute to the scholarly input towards human resource development. For example, the study will close the knowledge gap by establishing the

extent to which compensation and rewards affect the performance of employees in KRA.

1.7 Scope of the Study

This study was conducted at KRA Headquarters, Times Tower, Nairobi. It covered four major departments where both permanent/contract employees were represented. The departments covered were Customs and Boarder Control, Domestic Taxes, Investigations and Enforcement, and Corporate Support Services Departments. A sample of 120 respondents was selected through stratified sampling from the departments. The sample included top managers, supervisors, revenue officers and support staff.

1.8 Assumption of the study

KRA has about 59 stations spread across the country. The geographical and socio-economic aspect of each station presents a unique set of constraints with regard to compensation and performance. The study assumed that Compensation and Reward System in KRA is done centrally and that the factors affecting performance are similar in all the stations. As such, the findings obtained from the headquarters represented the situation in the entire Authority. The study also assumed that all the potential respondents were able and willing to respond to the questions sufficiently.

1.9 Limitations of the Study

Application of the study findings was limited to the public sector where KRA shared some performance indicators with other public institutions. This was because most public institutions faced similar compensation constraints since a significant proportion of compensation policies are recommended by the Salaries and Remuneration Commission. The availability and willingness of respondents was

limited because of the nature of their duties and other commitments. In this case the questionnaires were left with the respondents to be collected at an agreed date. Some respondents feared giving all information because they thought that they could be victimized. However, to curb the challenge, the researcher explained to the respondents that the work was for academic purpose and their names were not to appear anywhere in the document and that was to be treated with utmost confidentiality as stated in the questionnaire.

CHAPTER TWO

LITERATURE REVIEW

2.0 Overview

The chapter reviews the relevant literature regarding the relationship between compensation and reward systems and employee performance. The review incorporates both theoretical and empirical perspectives on how the former influences motivation consequently affecting productivity among employees. At the end, it conceptualizes a link among the variables.

2.1 Concept of Employee Performance

The performance of any given organization in the market is directly dependent on the output of its employees. Thus, the most crucial factor that strongly influences the motivation of the team members is the wages that the organization pays them. Therefore, it is imperative that different organizations create a comprehensive compensation practice that correctly rewards the efforts of their employees in a bid to increase their productivity (Pradhan & Jena, 2016). An organization's compensation practice involves designing and administering a salary structure which takes into consideration both the performance and the existing economic conditions. Furthermore, there are legal obligations that all the organizations must meet when developing their compensation strategies.

On the other hand, an organization sets the performance targets for individual staffs and the organization in general in hopes that the outcome will minimize wastes, offer greater value to customers, and increases efficiencies. At personal level, employee performance could refer to work quality, effectiveness, and efficiencies. For instance, performance of a salesperson could entail completing a specific quota of calls to potential leads in one hour with a certain percentage of those calls translating into

closed calls (Pradhan & Jena, 2016). Similarly, performance for a production worker involves meeting production requirements for hourly output and product quality. Overall, individual performance has direct influence on the entire team and organizational performance. The presence of an employee that performs at subpar increases the probability of other employees picking up the slack or having the work redone. Underperforming employees also impact on customer satisfaction and could lead to loss of business in the long-run if the management fails to address the underlying issues.

Organizations have the responsibilities of continuously improving the performances of their employees to safeguard the business and boost staff motivation. At the same time, organizations require solid performance improvement plans to fully meet their performance objectives. The plan will prioritize identifying the underlying factors that prevent employees from meeting their performance expectations. The plan will therefore proceed to formulate appropriate measures, based on the identified factors, to improve the overall performance of the organization (Pradhan & Jena, 2016). Furthermore, the plan should also set a clear roadmap on how the identified steps will be implemented as well how to achieve and enhance sustainability with regards to employee performance. Altogether, employee performance remains a critical aspect of the organization as it directly determines the degree of success of the organization.

2.2 Concept of Compensation and Reward

Compensation may be defined as money received for the performance of work plus many kinds of benefits and services that organizations provide their employee. Compensation is recompense, reward, wage or salary given by an organization to persons or a group of persons in return to a work done, services rendered, or a contribution made towards the accomplishment of organizational goals. Wage,

dearness allowance, bonus and other allowance are examples of monetary compensation, while good accommodation, children education, transport facilities, subsidized ration of essential commodities, etc. come under non-monetary compensation. In short, wage paid to collar workers or salaries paid to white collar employee can be classified as compensation (Kleiman 2000).

The impact of compensation and benefits on employee performance and organizational effectiveness depends on the existing compensation and performance management programs at an individual organization. Typically, most employees respond to increases in pay and benefits with a positive and more productive attitude. However, the opposite is true as well. Sometimes, employees only notice rewards of a salary increase the day the increase is communicated to them, and the day they receive the first paycheck that includes the salary increase (Wadhwa, & Tripathi, 2018).

In the long run, the effects of compensation and benefits diminish as employees begin to feel a sense of loyalty and organizational commitment. When employees begin to feel they are an indispensable part of the organization, they often become dissatisfied with their compensation and benefits. Finally, when employees feel they are a superior part of an organization, they typically believe that the organization owes them much more than what they are already receiving. At this point, compensation is simply the glue which holds many dissatisfied employees in place. Furthermore, it does not mean that there is a positive correlation between better compensation and better performance (Barrientons, 2004),

Employers and owners need to create organizations where excellent performance leads to competitive compensation for people throughout the organization. Without

rewards, an organization is planting seeds for high turnover, low productivity and long-term failure. However, to reward employees that are not performing saddles an organization with higher payroll cost and encourages poor performers to stay while discouraging the employees that go above and beyond expectations (Armstrong 2003)

In order to provide compensation, models predict the development of reward systems that arrange remuneration so that a worker's predicted utility improves with observed productivity. These rewards can take many various forms, including praise from supervisors and co-workers, tacit promises of future promotion possibilities, feelings of self-esteem that come from superior achievement and recognition, and current and future cash rewards related to performance. Economists, while recognizing that nonmonetary rewards for performance can be important, tend to focus on monetary rewards because individuals are willing to substitute nonmonetary for monetary rewards and because money represents a generalized claim on resources and is therefore in general preferred over an equal dollar-value payment in kind. (Lawler 1973)

2.3 Concept of Motivation

The key role of employee motivation in organizations has long been acknowledged in the relevant organizational behavior literature. While it is generally better for people's mental health to work (rather than not) because unemployment has been linked to depression, anxiety and even suicide, it is also clear that organizations (and employers) need motivated employees to achieve in any given goals set. Motivated employees are productive employees and help organizations to survive and prosper. In this context, one may define the notion of motivation as a psychological process that gives behavior purpose and direction or as an internal drive to satisfy an unsatisfied need, or as "internal processes and external forces that direct behavior" (It is actually

one of the management's key tasks to constantly motivate their employees, something difficult at times, as what motivates one person may not motivate another and certainly what motivates one do not necessarily remain static over time. For example, it has been argued that as income increases money becomes less of a motivator, or when employees get older, interesting work becomes more of a motivator (Salah, M., 2016).

2.4 Theoretical Perspective

Various theories have been devised to explain the impact of compensation and reward system on employee performance. These theories formed the foundation of the present study. Kotler and Gary (2005) described theoretical framework as a collection of interrelated concepts such as in a theory to guide a research work as it determines the items for measurement and the statistical relationships being studied.

2.4.1 Expectancy-reinforcement Theory

The theory was conceptualized by BF Skinner and Vroom (1974), in a bid to understand how the behavior of employees changes under different circumstances in the realm of motivation. The theory proposes that a behavior which has a rewarding experience is likely to be repeated. Consequently, as regards compensation, high employee performance that is accompanied with a monetary reward makes future performance of employees more likely. On the same note, a high performance that is not followed by a monetary reward makes its recurrence improbable in future (Sah, 2014). When employees are bombard with targets and work hard to achieve, they expect a reward from the employer. When the employer fails to reward or recognize them, then the behavior is not likely to be repeated. Reinforcement emphasizes on a person actually experiencing the reward (Gerhart and Rhyne, 2003).

Vroom's expectancy principle focuses on the connection between rewards and behaviour. According to this theory, motivation is the product of expectation (Sah, 2014). It proposes that different employees have different sets of goals and they can be motivated if they have certain expectations. Vroom reiterates that motivation narrows down to the decision of how much effort to apply in a certain task. Consequently, motivation is affected by an employee's expectation that a certain degree of effort will produce the intended performance goal (Hollenbeck *et. al.* 2007). Expectancy is defined as a momentary belief concerning the likelihood that a particular act will be followed by a particular outcome (reward).

For instance, if a KRA employee perceives that increasing the number of taxpayer visits will not increase revenue yields; they will probably not work any harder than usual. Motivation is also affected by an employee's perceived likelihood of getting various outcomes as a result of accomplishing his/her performance goal. Referring to the case of KRA employees employed on contract-basis; if they do not predict a reward for a high performance in the current fiscal year, they are unlikely to work harder than they did in the previous year. In-fact, demotivation resulting from the perceived discrimination in the compensation scheme might cause them to revert to go-slow strategies in protest.

Besides, employees are motivated to the extent that they value the outcomes received with regard to personal goals (Gerhart and Rhyne, 2003). For example, the goal of a KRA Commissioner may be different from those of a junior support staff. As such, the value they place on different monetary rewards is different. For example, there is a reward that will motivate the latter to work their tails off but the same reward will not persuade the former to apply extra effort in their work. This is because although they are working towards the fulfillment of common organizational goals, their

personal goals are different. Consequently, the value they attach to different rewards varies.

In conclusion, expectancy-reinforcement theory suggests that there is a positive correlation between efforts and performance which attracts a desirable reward. On these premises therefore, a high performance will be replicated in the subsequent periods because of the rewards enjoyed in the previous periods and also the rewards that employees expect to enjoy in future.

2.4.2 Equity theory

This theory is commonly referred to as Adam's equity theory of motivation (Sah, 2014). The theory proposes that the degree of an employee's motivation is affected by whether the employee believes that their employment benefits/rewards are at least equal to the amount of the effort that they put into their work. Consequently, a KRA employee will be motivated to apply extra effort in their work if they perceive that the benefits/rewards (outcomes) received compare with the amount of effort employed (input).

In a broader sense the theory postulates that an individual will feel fairly treated by the reward scheme in place if he/she perceives the ratio of his inputs to his/her outcomes to be equivalent to his/her colleagues'. Thus, all else being equal, it would be acceptable for a more senior colleague to receive higher compensation (outcome), since the value of his/her experience (input) is higher (Gerhart and Rhyne, 2003). It is typical to find employees basing their experience with satisfaction for their job by comparing themselves with colleagues in the same role or job group. The implication of this school of thought is important in shaping compensation schemes in organizations such as KRA. For example, if an employee discovers that a coworker

is receiving greater recognition and awards for their contributions, despite the fact that they have both done the same quantity and quality of work, the employee may become unsatisfied and underappreciated. Dissatisfaction will ultimately have a bearing on the amount of effort put towards the achievement of the organizational goals.

Equity theory advocates for organizations to match the rewards (outcomes) with the quality and quantity of the employee's contributions (inputs). According to KRA's Sixth Corporate Plan, KRA aims to create a staff establishment that is professional, ethical, courteous, accessible and willing to proactively solve customers' problems. To this end the Authority has enlisted employee satisfaction and management of high performing individuals as critical challenges. The 2013/14 employee satisfaction survey shows that a proportion of the workforce is dissatisfied with the remuneration scheme that is being employed by KRA. Perhaps the report would be different if all employees in the same job group were rewarded the same. Employing the concept of equity theory in the reward scheme would help the workforce in KRA realize that the organization is fair, observant, and appreciative (Sah, 2014). This way the rate of employee satisfaction would be very high and hence output would be enhanced.

The idea of Equity theory can be summarized into an equation as shown:

$$\frac{\textit{Individual employee's outcomes}}{\textit{Individual employee's inputs}} = \frac{\textit{relational colleague's outcomes}}{\textit{relational colleague's inputs}}$$

Equity theory categorizes employment benefits and rewards as output/outcomes and an employee's work effort as inputs. Examples of inputs include number of hours worked by the employee, an employee's work duties and/or responsibilities, employee's loyalty and the support they provide to the organization through colleagues and line managers. Examples of outcome/output include salary,

recognition, bonus, work promotions, pension, positive work appraisals, recognition for contributions made and other fringe benefits. Adam's theory proposes that when an employee assess the fairness of outcomes received by him comparing their colleague's work outcome and input with their own. Often the benchmarking is done with an employee in a similar role.

In conclusion, equity theory proposes that employees aim to maximize outcomes. When individuals find themselves participating in inequitable relationships, they become distressed or demotivated and this impacts their performance (Armstrong and Brown, 2011). The theory proposes that employees who perceive that they are in an inequitable relationship will attempt to eliminate their distress by restoring equity through dialogue with the management, industrial action or even resigning to seek greener pastures.

KRA is keen on raising employee performance. To this end, the human resource department is employing a compensation and reward scheme that incorporates salary, promotion, recognition and fringe benefits such as bonus. On the other hand, the effect of these rewards on employee performance is determined by the level of motivation derived (Armstrong and Brown, 2011). According to the equity theory of motivation, the degree of employee's motivation depends on their perception of the employment benefits. The employees will be motivated to work harder if the employment benefits received are at least equal to the amount of effort they put in their work.

2.4.3 Agency theory

According to Eisenhardt, (1989) the agency theory is the relationship between the principal who are the owners of the capital and the agents who are the managers of the

firms. The managers should ensure the interests of the principal are safeguarded at all times in order to achieve the common goal, the agents should ensure there are no conflicts of interest for smooth running of the firm. Eisenhardt, (1989) further says that various scholars have supported the agency theory but other scholars had disagreed with it claiming it is not important. The companies are owned by the owners and who always ensure there are no conflicts with the managers as they prefer their goals for profit maximisation are met and this has led to the growth and increase of employee satisfaction leading to high employee performance.

In supporting the theory, Jensen (1983) proposed that it is important for the organisation to implement and ensure there is always a healthy relationship among all the stakeholders who include management and employees. The author also suggested that the decisions of various stakeholders should safeguard the interests of other interested parties. Accordingly, organizational policies should take care of the welfare of employees. Similarly, the decisions of employees should advance the vision and mission of the organization.

The other scholars who disagreed with the Agency theory include Perrow (1989) who criticised the theory and said it is not important and should not be considered in making the decisions of the management and that it is outdated and irrelevant (Eisenhardt, 1989). Perrow (1989) was earlier given a response in the management review by Langton (1985) and his work was criticised and the agency theory was given further support and the importance was clearly seen since the shareholders are the owners of the organisations and when they receive high dividends they don't complain to the managers and the relationship is good.

The KRA is run by professionals who are qualified in collection of revenue and apply stringent measures to ensure the revenue collected reflect the actual revenue which has been collected from the companies together with other revenues collected is credited to the National treasury and received by the government of Kenya. The income tax is paid through the KRA *i-Tax* system after generating the payment slip and making the relevant payments to the financial institution.

2.5 The Role of Compensation System on Employee Motivation

There is abundant evidence to support the view that when compensation is tied to performance, it leads to improvement in both motivation and employee performance. Motivation theory argues that when important rewards are tied to performance, it is possible to have both high performance and satisfaction (Kwak and Lee, 2009). The overall goal of a performance-based compensation and reward system is to develop a productive, efficient, effective organization that enhances employee motivation. There is a direct relationship between employees' overall satisfaction with their jobs/employers and their intention to stay or leave. In connection with that Casson (2014) observed that in the case of employees whose performance is rewarded when they go "above and beyond", 90% are satisfied with their job, 88% are satisfied with the organization and just 12% consider leaving the organization. Amongst employees who say that their performance is not rewarded, 52% are satisfied with their jobs and 47% are satisfied with their organization, and 36% seriously consider leaving (Casson, 2014).

Many employers assume that employees are solely motivated by financial rewards. According to Hiam (2003), money in itself does not motivate; but rather moves a person to achieve a goal in order to obtain the reward. Other experts agree, noting that humans require both drive and ability. Highly motivated employees will not

produce outcomes unless they possess the skills, expertise, and attitude that the organization requires. Similarly, employees with expertise, knowledge and skills will not do well if they are unmotivated. He further says that the most widely accepted reason why people are motivated to work and perform is rooted in expectancy-reinforcement theory. Hiam, (2003) supports the view that if successful performance does in fact lead to organizational rewards, such performance could be a motivational factor for employees. Under such conditions, they can see that their efforts result in rewards. Consequently, they may be motivated to exert higher levels of effort on the job. In conclusion, not only can motivation influence performance, but also performance, if followed by rewards can significantly influence motivation (Hiam, 2003).

2.6 The Role of Compensation on Employee Performance

This section reviewed literature from other scholars regarding the effect of compensation and reward system on employee performance from different contexts and also from different scholars.

2.6.1 Effect of Salary and wages on Employee Performance

The organization has the main objective of ensuring the goals of the organizations are achieved by the employees who are considered as the important aspects of the organizational principles. Employees are valued so much by the organization such that the organization cannot perform its duties and regulations without them. When the organization is performing well the employees are motivated to work more and at the same time the employees are also motivated when there is an increase in salaries and wages. Salaries and wages improve the employee performance because the employee have more salaries to spend and their general welfare also changes to better

positions and they enjoy more lifestyles compared to when they were receiving less salaries (Simiyu, 2003).

A salary is a regular, set payment made on a monthly basis. What distinguishes salary and wages from other forms of compensation is the frequency of payment. The concept of salary continues to evolve as part of a system of the total compensation that employers offer to employees. Salary is also known as fixed pay, which is coming to be seen as part of a "total reward system" which includes bonuses, incentive pay, commissions, Benefits and perks that are linked to a worker's measurable performance. Salary is paid monthly, unlike the other types of pay, which are given infrequently. In Kenya, the salary structure of state officers is formulated by the SRC (KIPPRA, 2016).

According to Kenya Revenue Authority (2015), Salary is defined as the monthly payments that employers pay their employees for services rendered based on contractual agreements. The terms salaries and wages are often used interchangeably in reference to financial rewards given to employees by employers. However, salaries and wages are not one and the same. Salaries are payments or compensation to permanent employees, or long serving contractual employees. The hospitality sector, salaries and wages are sometimes used to enhance organizational competitiveness, equity and motivation for employee's performance (Mutahi, 2015).

The salaries and wages are used by hospitality sector firms to enhance equity and fairness in compensation of their employees, they are not strong enough as factors to enhance employee motivation towards enhanced performance (Krishnaswami and Satyaprasad, 2010). There are other scholars who equally argues that salaries and wages can only enhance employee performance to a certain threshold. Once the

threshold has been reached for individual employees, salaries and wages are no longer perceived as motivational, or having capability to enhance performance. Salaries and wages only enhance employee performance when they have security and financial stability. However, at the point when an employee feels financially stable and secure, salaries or wages are no longer a factor that motivates or enhances their level of commitment or performance (Kwak and Lee, 2009).

Salaries and wages have the capability to place an organization at a competitive level if the level offered by the organization are more competitive compared to what is being offered by other hospitality sector firms. To attract and retain highly qualified employees who have the ability and skills to enhance organizational performance, it is necessary that hospitality firms offer competitive salary and wage packages. According to hospitality firms just like other sector firms, have used salaries over many decades to reward not only employee performance, but skill, knowledge, and, ability (Kusi 1998).

There are other scholars who argue that salaries and wages do not enhance employee performance. Salary payment in the public sector is significant to employee performance. They go on to say that if organizations within the public and private sector do not pay their employees well, they become demotivated, resulting not only in poor performance, but in also high turnover. Salaries and wages significantly enhance employee performance, the effect is usually measured on low and middle cadre employees and rarely on top level management to who salaries are no longer a motivator for performance. They are motivated more by other benefits like vacation, insurance and mortgage (Kusi, 1998).

According to Kwak and Lee (2009), a good example to demonstrate the effect of salaries on worker performance by exploiting a natural experiment on which some workers in a particular occupation like football referees switched from short-term contracts to salaried contracts. Worker performance improved among those who moved onto salaried contracts relative to those who do not. The finding is robust to the introduction of worker fixed effects indicating that it is not driven by better workers being awarded salary contracts, nor is it sensitive to workers sorting into or out of the profession. Improved performance could arise from the additional effort workers exert due to career concerns, the higher income associated with career contracts for an efficiency wage effect or improvement on worker quality arising from off-the-job training which accompanies the salaried contracts (Merima, 2013).

Salaries and wages have the inherent capability of placing an organization at a higher competitive level. For instance, well-established private companies tend to have more competitive salary perks compared to organizations in the public sector. In Kenya for example, there is a shortage of personnel with specialized skills in certain fields such as ICT. Job seekers in these fields are likely to have an affinity towards private companies as opposed to public institutions because of the attractive salary packages. There is a significant proportion of employees in the public sector who feel that their welfare would be taken care of much better with more competitive salary packages. This as an opportunity for organizations to inspire passion and commitment among employees by recalibrating their salary packages to suit the financial expectations of employees (Woods, 2009).

While discussing the findings of their natural experiment, Torgler (2007) reiterated that a regular payment such as salary or wages is a critically important determinant of commitment to one's job adding that employers who are keen on improving employee

productivity should prioritize a pay raise for their employees. There are other scholars who propose that direct financial gains such as salary and wages do not guarantee increased motivation in all workers because different employees have different personal goals and financial obligations, according to (Baker *et. al.*, 2008). He therefore, recommends a multipronged approach when it comes to recalibrating the financial gains of employees.

2.6.2 Effect of Promotion on Employee Performance

A promotion can be defined as a movement from one grade of work to the higher grade in the same Industry or organization with increase in duties or responsibility. There are some organizations where change from one grade of work to a higher grade is always accompanied by an increase of salaries and this motivates the employees to work harder and attain the organizational goal in an efficient manner. The effect of promotion was indicated by some scholars who conducted the research and made a conclusion that there is a positive influence of promotion on employee performance. The promotion was considered hand in hand with the increase in salaries and the benefits (Kamau, 2013).

A promotion is the advancement of an employee within a company position or job tasks. According to Aswathappa (2005), promotion to the next grade in most organizations is through a competitive interview where employees have to show evidence of higher performance than their colleagues competing for the same promotion in order to qualify for the promotion. Hussain (2007) reiterates that grade structure provides promotion as a very strong motivation for employees to perform highly and attain the non-cash rewards such as recommendations, testimonials, certificates and other non-cash tangible awards which they accumulate to give them a better chance in promotion to the next job grade (Aswathappa, 2005).

According to Hussain (2007), the grade system is a source of non-ending rewards since employees remain motivated at all times and are out for opportunities to shine and attain a recognition which they would keep in order to attain a promotion. Job promotion may be the result of an employee's proactive pursuit of a higher ranking or as a reward by employers for good performance. Promotion can affect employee motivation. Mutahi (2015) observes that employees who are aware that they will never be promoted will degrade its performance, until they think there will be opportunities for promotion in the future. Accordingly, increasing the likelihood of promotion will increase or affect employee performance in an organization. Often, promotion is accompanied with additional benefits Mutahi (2015).

According to Aswathappa (2005) who is a great scholar defined promotion as the practice of placing employees from lower grades in the organization into higher grades with subsequent increase in salary and other benefits on one hand and responsibilities on the other. It can also be viewed as a reward for what an employee has contributed to the organization. Owing to the merit an employee has to the organization, promotion might be a necessity in order to retain that particular employee. However, as Casson (2014) point out, promotion should not only be considered as a means of merely rewarding employees but also should be taken as a means towards placement of employees in positions they fit. In this view, promotion touches not only the welfare of the employee but also that of an organization/employer. Consequently, promotion of employees in organizations should be carefully implemented by following specific policies and procedures. Otherwise, promotion could potentially impede optimal performance among employees (Casson 2014).

2.6.3 Effect of Recognition on Employee Performance

Employee recognition refers to the appreciation of the employees by confirming before other employees for their achievement and their contribution to the organization which has benefited the organization as a whole. The actions which the organization considers as recognition can be proved by the resulting increase in the benefits of the organizational goals example increase in profits resulting from the new market which was introduced by the employee and the new market is marketable and the profits of the organization has increased. The action which resulted to increase in profit is the one which is given recognition and sometimes an award and recognition speech is presented to the employee before the other employees (Tilahun, 2014).

Employee recognition implies acknowledging someone before their peers for specific accomplishments achieved, actions taken or attitudes exemplified through their behavior. Often, recognition takes the form of a public statement of appreciation in front of other employees, co-workers or team; citing specific examples of what they have done that has positively impacted the organization. It comes in many forms, such as employee of the month/year, perfect attendance, or other special awards. Organizations should retain their best employees by recognizing their contributions to the organization. Additionally, recognition motivates employees as it involves the acknowledgement of the efforts, creativity and willingness of employees to put extra effort (Gupta, 2008).

Recognition can reduce pessimism that hinders performance and productivity. According to Lai (2010), acknowledging employee's efforts more personally, more locally and more frequently through recognition can lift employee motivation and improve working morale. It inspires loyalty and commitment as well as encouraging better standards of performance. Public recognition is an important part of the reward

as the performance of the individual affects more than just one employee stating publicly why the person receives recognition and how it links to the organization goals can act as a motivator to other employees. Recognition does not have to be expensive but emphasize that it must be consistent and perceived as a long-term commitment by the organization. The high performing organizations have always understood the importance of offering awards and incentives that recognize, validate and value outstanding work (Katru, 2006).

Recognition programs have the purpose of keeping employees motivated and productive. For that reason, recognition is seen as an effective method of reinforcing company expectations and goals. After evaluating the motivational needs of employees and organizational performance. The recognition from managers to employees was a significant driver of performance in the hospitality industry of South Africa. The study also found that not only does recognition inspire motivation among employees but it also enhances employee-management relationship Gachiku (2015).

The use of social recognition such as compliments results in enhanced performance particularly when it is done consistently and equitably. The recognition as a return on an employee's effort and dedication at work, as well as his or her results. As such, an employee recognition program can potentially be a great morale-building tool for any organization, whether large or small. It can lead to innovation, higher productivity and greater job satisfaction for the workers (Katru, 2006).

2.6.4 Effect of Fringe Benefits on Employee Performance

Fringe benefits refer to the other loan benefits which an employee receives in the course of employment apart from the normal payments or salaries. Employees of the banking institution can get a loan from the employer to repay in a lower rate

compared to the organization rate which is charging the customers and this automatically leads to fringe benefit tax which is taxable benefit to employees in Kenya. Fringe benefit increases the employee performance and this automatically leads to the increase in the production of goods and services in the manufacturing sectors but in other sectors this leads to the achievement of the organization goals and objectives. Some researchers have attributed to the increase of fringe benefits which leads to the increase in employee performance (Hiam, 2003).

Fringe benefits imply compensation in addition to a salary. When companies base on salaries alone, they tend to be challenging to attract desired talent to the organization. There are many forms of fringe benefits including training, offering stock options to employees, company car, house allowance, medical insurance, paid holidays, pension plans, Time off and subsidized meals. While some fringe benefits are common to all employees, others such as company car and paid holiday are associated with positions held in the organization (Aswathappa, 2005).

A bonus is usually made to employees in addition to their base salary as part of their wages or salary. Thus bonus payments can act as incentives for managers attracting their attention and their personal interest towards what is seen as gainful for their companies' economic success. Fringe benefits are forms of indirect compensation given to an employee or group of employees as a part of organizational membership. According to Baker *et. al.*, (2008) the part of the total reward package provided to employees in addition to base or performance pay. In addition, they stated that an employer that provides a more attractive benefits package often enjoys an advantage over other employers in hiring and retaining qualified employees when the competing firms offered similar base pay. In fact, such benefits may create “golden handcuffs,”

making employees more reticent to move to other employers. Some common examples are; retirement or pension plans, medical and dental insurance, education reimbursement, time off, paid vacation and use of company car (Baker *et. al.*, 2008).

According to a study carried out by the U.S Chamber of Commerce fringe benefits in the US, were not a significant part of most employees' compensation packages until the mid-twentieth century. For example, in 1929, benefits comprised only about 3% of total payroll cost for companies. However, employee benefits in the U.S now comprise approximately 42% of total payroll cost. Several things account for the tremendous increase in the importance of employee benefits in the U.S. In the 1930s, the Wagner Act significantly increase the ability of labour unions to organize workers and bargain for better wages, benefits, and working conditions. Labour unions from the 1930s took advantage of the favorable legal climate and negotiated for new employee benefits that have since become common in both unionized and non-union companies. Federal and state legislation requires companies to offer certain benefits to employees (Parker, 1986).

According to Osoro (1993) employers may find themselves at a disadvantage in the labour market if they do not offer competitive benefits packages. Fringe benefits are also called perquisites and are either provided by the employer on his own initiative or they are the result of a collective bargaining agreement or state legislative. They are provided to motivate the workers and retain them for organizational efficiency and effectiveness. According to Kamau (2013), on the other hand states that, fringe benefits are used to reimburse an officer for the expenses incurred directly or indirectly in execution of his duties, or to compensate him for services rendered over and above the normal job requirements. The objective of these benefits is to attract

and retain qualified and competent employees. It works on the premise that people will give their best productivity if their personal non-work needs are taken care of (Kamau, 2013).

Fringe benefits were statistically significant to influence employee performance as follows; it established that, security benefits contributed to employee self-development implying that employment security benefits have a positive effect on employee performance in the public sector (Kamau, 2013). The study also revealed that an employee's health wellbeing is inextricably linked to their productivity. Accordingly, health protection benefits had a positive effect on employee performance. The study further established that pension strongly influenced employee productivity. The researcher observed that, pension gives younger workers a compelling reason to continue working for their employer. It also encourages older workers to retire on a timely basis. The retirement benefits positively affect employee performance (Kamau, 2013).

Fringe benefits represent a double-edged sword. On one hand, employers know that in order to attract, motivate and retain employees with the necessary capabilities and in order to enhance their performance they must offer appropriate fringe benefits. On the other hand, they know the importance of controlling or even cutting costs. Fringe benefits comprise a significant part of the total compensation package offered to employees. Kwak and Lee (2009) found out that some fringe benefits are significantly associated with performance; some are positively related and others are negatively related. The study noted that there were more negative signs than positive signs on the fringe-benefit variables, which caused them to question the compensation scheme designed by the Korean firms. They concluded that the negative connections between

some fringe benefits and performance did not necessarily mean that the Korean firms should remove those benefits immediately (Kwak and Lee, 2009).

According to Awa (2015), fringe benefits were statistically significant to influence employee productivity. The study established that security benefits contributed to employee self-development thus concluding that employment security benefits have a positive effect on employee productivity in the public sector. The study also revealed that health of the workforce is inextricably linked to the productivity of the workforce and the health of the nation's economy, thus concluding that health protection benefits had a positive effect on employee's productivity. Further, the study established that pension strongly influenced workers' behavior, giving younger workers a compelling reason to continue working for their employer and encouraging older workers to retire on a timely basis, thus concluding that retirement benefits positively affect employee productivity.

2.7 Dimensions of Employee Performance at KRA

The collection and accounting of tax revenues by the government of Kenya was delegated to KRA by an Act of parliament in 1995. The various departments at KRA are headed by commissioners who report to the Commissioner General who directly reports to the KRA Board and to the Treasury or any other authorized Government Body. KRA has employed qualified personnel who assists the Authority to achieve its mandate for revenue collection. The employees are dedicated to facilitate the collection of revenue in an efficient and economical method. Employee performance is crucially important because tax revenue is the primary mechanism of funding the national budget thereby making it possible to provide essential services such as infrastructure, healthcare and education (Simiyu, 2003).

Employee performance is the extent to which a worker contributes to achieving the goals and objectives of the organization. According to Aswathappa (2005) the employees are the primary source of competitive advantage particularly in service-oriented organizations. Organizational performance comprises the actual results or output of an organization measured against its intended outputs, goals or objectives. The organizational performance is the concept of measuring the output of a particular process or procedure to increase the output, increases efficiency and effectiveness of the process or procedure. The link between employee performance and organizational performance is apparent meaning that improved individual performance among employees ultimately leads to an improvement in the overall organizational performance (Aswathappa, 2005).

According to Kenya Revenue Authority (2015), the KRA Fifth Corporate Plan 2013/14-2015/16 had a total of 240 targets and 186 interventions. Overall, 140 out of the 240 targets were met, representing a performance rate of 58% against set targets. The highest level of underperformance was recorded in Strategic goal number 2 (on upgrading the work environment) where only 2 out of 7 targets were met. With respect to interventions, the overall completion rate of proposed interventions was 71%. The poorest performance was recorded under strategic goal 1 (ensuring the workforce adheres to KRA core values) with implementation rate of 63% from the report, it is evident that there is much room left for growth in the human resource system hence the purpose of this study. Employee performance in KRA is measured using a number of key performance indicators. The study focused on revenue collection against set targets and the number of taxpayers engaging with KRA on the *i-Tax* portal (Kenya Revenue Authority, 2015).

2.7.1 Revenue Collection

KRA was mandated by an Act of parliament to collect all income revenue on behalf of the Government of Kenya (GOK) which is transferred to treasury awaiting the national budget to allocate the funds to different government bodies or projects. Revenue collection is done online by KRA *i-Tax* system where the taxpayers file their returns and generates the payment slips then proceeds to pay in banking institutions or payments through online. Customs taxes and duties are also paid online using a different KRA software apart from *i-Tax* system which is an integrated system for the collection of Customs duties. KRA staff facilitate the collection of revenue by showing step by step online filing and payments of different taxes (Kenya Revenue Authority, 2017).

With regard to revenue targets, KRA aims at achieving the revenue targets through a revamped enforcement strategy, innovative approaches to enhance collection in sectors with low tax compliance and scaling up taxation of SME sector. The Fifth Corporate Plan 2013/14 - 2015/16 had a total of 56 targets in this area, out of which 46 were fully met, representing a performance rate of 82%. The interventions were 49, out of which 33 were implemented, a performance of 67% implementation of the enforcement strategy was incomplete with automated risk-based audit being delayed by the late roll-out of the audit module in *i-Tax*, and the General Packet Radio Service (GPRS) enabled Electronic Tax Registers (ETR's) suffering procurement delays and the implementation of the Geographic Information System (GIS) solution being hampered by legal hurdles (Kenya Revenue Authority, 2015). Implementation of the GIS technology would assist in collecting, storing, manipulating, and analyzing all geographical data relating to transactions thereby enhancing compliance.

2.7.2 Uptake of *i*-Tax by Taxpayers

The system *i*Tax is a computer-based application system that furnishes a fully-integrated and automated solution for administration of government revenue enhancements. Since 2014, revenue collection in Kenya has been done electronically through the *i*-Tax platform. This system was adopted to increase revenue collection, easy filing of returns, administration of tax, self-assessment and reduction cost of compliance while reducing tax gap through minimization of tax avoidance and evasion cases. In this case *i*-Tax system taxpayers are able to file the returns, view their general ledgers and generate the payments slips in order to make payments. When a taxpayer files a return an acknowledgment slip is generated and at the same time the ledger is updated. It is also used as data bank, monitoring mechanism and control over all taxpayers.

The KRA *i*-Tax system has received recommendation by various government organizations as an efficient and effective method of collecting revenue which is not prone to tax evasion. The East African community has given the special recognition of KRA *i*-Tax system KIPPRA (2016). Towards tax administration, *i*-Tax has improved in efficiency and effectiveness of tax collection. *i*-Tax is a convenient way of administering revenue collection because it is a fully integrated modular system. In addition, KRA is now able to identify taxpayers who traded within the period 2014/2015 to date. As a result, revenue collection has increased, the uptake of *i*-Tax system embraced by taxpayers and it has made it easy for staff to assess taxpayers' income hence increase in payment by them. However, deficits to exchequer's revenue targets are yet to be completely surpassed (Kenya Revenue Authority, 2015).

2.8 Motivation and Employee Performance

Management works with people to achieve the goals of the organization. Humankind being complex in nature implies that sometimes his actions are driven by his desires and needs. Managers or leaders must work with individual goals, and direct them to achieve organizational goals. Therefore, managers have to create an atmosphere where individuals work willingly to contribute to the achievement of the goals of the organization. It is important that the management should look at the employees as an important key or asset to the success of the organization and give them what motivates them to maximize their productivity (Vroom, 2005). Effective motivation therefore, is the willingness and ability to achieve the goal. Thus, motivation increases performance level, gives better image to customers, sustains high morale of employees, encourages employees' innovation and creativity, reduces labor turn-over and absenteeism, enhances goal attainment and hence better productivity (Hong *et al.*, 2013). Different theories have been advanced to show the relationship between motivation and employee performance. For instance, the expectancy principle proposes that peoples' behavior is influenced by the expected outcome of their actions. What one expects, determines his or her performance. The principal theory is therefore the degree of belief that a particular action will produce a particular outcome depending on the individual's perception of the situation. For instance, if an individual believes strongly that promotion is based on performance and merit, he will apply more effort to achieve high performance in order to be promoted. On the other hand, if one believes that promotion is based on age, experience and length of service, he or she will be less inspired to perform. The expectancy principle thus, contends that the perception of an employee is embedded in the perceived relationship between three concepts: effort, performance and reward.

For any organization to succeed in performance, the welfare of employees has to be given due attention. Successful organizations are increasingly realizing that employee-centred human resource management practices contribute to better employee performance. In fact, many scholars have observed that a competitive remuneration and performance management package is very critical in enhancing the morale of employees which ultimately results in improvements in the overall organizational performance.

Aswathappa (2015) proposes that irrespective of the size and nature of the organization, the activity it undertakes, and the environment in which it operates, its success largely depends on employee behavior or perception of the work environment. In a competitive environment of the modern era, organizations are seeking continuous improvement of the different functions including supportive management. The trend points to the significance of striking a balance between the needs, goals or wants of employees and organizational objectives thereby enhancing competitive advantage (Hiam, 2003). In conclusion, motivation of employees through salary increment, promotion, recognition, fringe benefits and other supportive management strategies contribute to better employee performance.

2.9 Research Gap

According to (Muraya, 2012) only a few investigations have been conducted in emerging markets and transitional economies such as Kenya. Previous studies focusing on Kenya have mainly looked at HRM Practices in public and private institutions in general. Most of the studies have addressed more than one HRM practice at once in relation to organizational performance. The most researched areas are training and development, recruitment, job design and performance management. For instance, Muraya (2012) examined how HRM practices impact performance in

Kenyan public universities in general. The study concluded that there was a clear link between HRM practices and organizational performance. However, the study did not underpin the extent to which respective HRM practices such as compensation and reward management influenced organizational performance. The author listed that as one of the limitations and went further to recommend that future studies should identify one HRM practice and analyze how it affects organizational performance. A similar conclusion and recommendation were made by Alm (1992) when they assessed the role of human resource management practices on performance of financial cooperatives in Nairobi. The latter also recommended that subsequent studies should narrow down to employee performance in order to understand how certain HRM practices affect individual performance of employees (Alm, 1992).

In an attempt to bridge some of the aforementioned gaps Osebe (2013) examined the effect of performance appraisal systems on employee performance at the Kenya Tea Development Agency, KTDA. The study established a relationship between the two variables but noted that employee performance is influenced by many other HRM practices which should be investigated. It particularly observed that HRM practices which directly impact the survival and security of employees are likely to impact their performance more directly as they can affect their motivation significantly. This study sought to bridge those gaps by investigating how organizational compensation and reward scheme influences employee performance and the extent to which specific aspects of the reward system promotion, recognition, salary and fringe benefits affect employee performance at KRA (Osebe, 2013).

Table 2.1: Summary Research Gap

Author	Title of the study	Research findings	Gap	Focus for your study
Kamau, H. N. (2013).	Fringe benefits effects on employee productivity in the public sector (a case of state department of water, Nairobi County, Kenya (Doctoral dissertation, Kenyatta University).	There were fringe benefits effects to employee productivity.	The effects for employee productivity with regard to fringe benefits were very minimal.	The effects of organisational compensation and reward system on employee performance.
Kwak and Lee, (2009).	An Empirical Study of “Fringe Benefits” and Performance of the Korean Firms. International Journal of business and Management.	The fringe benefits increased the employee productivity	The fringe benefits which increased productivity were not highlighted properly and there was need to conduct another research.	The effects of organisational compensation and reward system on employee performance.
Mutahi (2015)	Effects of Human Resource Management Practices on Performance of Public Universities in Kenya; International Journal of Economics, Commerce and Management.	There were positive effects of management practices on the overall performance of the firm.	The positive effects were not fully accepted by different firms.	The effects of organisational compensation and reward system on employee performance.
Muraya J. (2012)	Factors influencing the implementation of performance contracting at Kenya Revenue Authority (Doctoral dissertation).	The performance of the employee was influenced by remuneration.	The remuneration did not provide the reasons why there was an increase in employee performance.	The effects of organisational compensation and reward system on Employee performance.
Mutua S. M. (2012)	Role of human resource management practices on performance of financial cooperatives based in Nairobi County, Kenya. International Journal of Humanities and social science.	There are human resource practices which influence the employee performance by they are not acceptable in some organisations.	The human resource practices did not provide the sufficient evidence why the employee performance did not increase for all firms but some firms.	The effects of organisational compensation and reward system on employee performance.

Source: Author (2018)

2.10 Conceptual Framework

A conceptual framework represents the researcher's synthesis of literature on how to explain a phenomenon. It maps out the actions required in the course of the study given by his previous knowledge of other researchers' point of view and his observations on the subject of research. According to equity theory and the expectancy-reinforcement theory, compensation and reward system affect the performance of employees because they inspire motivation. Based on that understanding then, the performance of KRA employees is influenced by the compensation and reward system in place.

According to Mugenda and Mugenda (2003), a variable is a measurable characteristic that assumes different values among the subjects. The authors propose that any research investigating a relationship must have at least two variables-dependent and independent variables. They also maintain that additional variables such as intervening variables may come to play depending on the nature of the relationship under review. Krishnaswami and Satyaprasad (2010) point out that an independent variable is one that can be manipulated to affect the outcome or behaviour of another variable. On the other hand, a dependent variable is one that is as a consequence of other variables crucially the independent variables. Furthermore, Bhujanga (2008) identifies independent variables as inputs and dependent variables as outputs. The author also identifies an intervening/mediating variable as a hypothetical variable that is used to explain causal links between other variables. An intervening variable is actually a hypothetical variable because it cannot be observed in an experiment. The three types of variables were represented in the study. The compensation and reward system at KRA has a number of facets which include fringe benefits, salary, promotion, recognition and fringe benefits. The four elements are the independent

variables in the relationship. Employee performance is the dependent variable. As pointed out earlier, the performance of employees at KRA is mainly assessed on the basis of revenue collection against targets and the extent to which taxpayers are using the *i-Tax* portal to engage with the Authority. Additionally, motivation helps to explain the causal relationship between compensation and reward system on one hand and employee performance at KRA on the other as underpinned by the aforementioned theories. The relationship is conceptualized in Figure 2.1

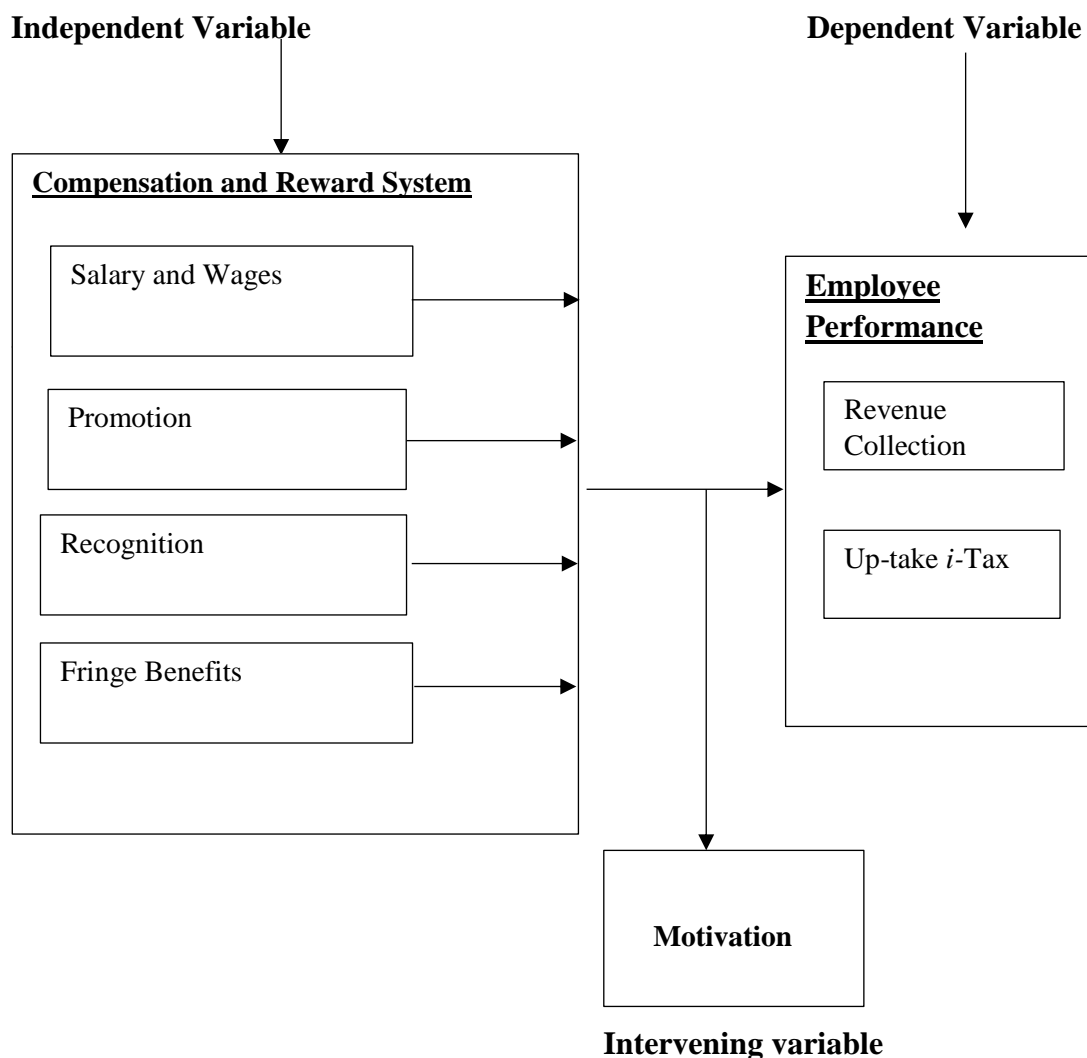


Figure 2.1: Conceptual Framework

Source: Researcher (2018)

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Overview

This chapter presents the research design, which was adopted by the researcher in the study. It also features the target population, sampling technique and sample size, data collection, validity and reliability of research instruments, data analysis and presentation. Lastly, it highlights the fundamental ethical considerations during the study.

3.1 Research Design

A mixed method of quantitative/qualitative approach was used to help better understand the relationship between the variables in the research problem. The study adopted a descriptive survey research design since it enabled the researcher to collect data without manipulating or changing the study subject or environment. It also enabled the researcher to describe the study findings using statistical methods such as mean, frequencies and regression among others, justifying the researcher's decision to adopt the study design. Principally it aimed to describe the present state of affairs or situation as it was, what employees currently believed, what they were doing at the very moment and their perspectives regarding the state of affairs. A descriptive survey design included surveys and fact-finding enquiries of different forms (Mugenda and Mugenda, 2003).

3.2 Target Population

According to the Sixth Corporate Plan 2015/16-2017/18, KRA's workforce is comprised of 4600 employees distributed across all the 59 stations in the country. The study however, focused on employees stationed at the KRA Headquarters-Times Tower, Nairobi. This involved all job cadres; top managers, supervisors, officers and

support staff. The total number of employees working at the headquarters is 1200 which became the target population upon which the findings of this study was inferred or generalized. The target population comprised four strata representing the four major departments of KRA.

3.3 Sampling Technique and Sample Size

This population was placed in various groups based on similar characteristics of the members of the group. This study adopted stratified sampling technique. The method was preferred because it represent the target population precisely since everyone in the entire population stood an equal chance of being selected. The employees/respondents were stratified into four strata which represented the four major departments of KRA. They included Customs and Border Control, Domestic Taxes, Corporate Support Service and Investigations and Enforcement Departments. Within each stratum, stratified sampling was used to select individual employee/respondent. The sample size for this study was 120 employees representing 10% of the target population of 1200 employees of KRA Headquarters. Mugenda and Mugenda (2006) reiterate that 10% of the target population is adequate sample in the case of a descriptive study.

Table 3.1 Sample Size Distribution

Stratum	Selected Population	Multiplier Effect (10%)	Proportionate Sampling (10% of each)	Percentage (%)
Custom and Boarder Control	230	10	23	19.17
Domestic Taxes	460	10	46	38.33
Corporative Support Service	380	10	38	31.67
Investigations and Enforcement	130	10	13	10.83
Total	1200		120	100

Source: (KRA 6th Corporate Plan)

3.4 Data Collection

The study utilized two sources of data, primary and secondary data. Data collection involved systematic gathering of information which was relevant to the research problem.

3.4.1 Primary Data

Primary data refers to data that is original and not yet published. In other words, it is fresh data that one collects from the field. Based on objectives of the study, (salary, promotion, recognition and Fringe benefits) data was collected using questionnaires. A questionnaire was an important instrument because the researcher was able to collect a lot of information within a short time. Additionally, it was able to yield unbiased responses. The questionnaire employed likert questions to measure employee perception of the organization, its performance and the reward system in place. The likert essentially measures the level of agreement or disagreement and it is ideal for measuring perception, attitude, values and behaviors. According to Kothari (2009), the likert scale assists in converting the qualitative responses into quantitative values. A part from questionnaire which was the main data collection instrument, the researcher employed observation as another tool. In this case, the researcher keenly observed the behaviors and interactions of the respondents at their respective areas of work and how they performed their duties and tasks. She also observed, how clients were being served and how the employees applied their professional skills and knowledge in handling the tax matters like facilitating online filling of returns to their clients and generally, how they viewed the organization as a whole. Subsequently, he took notes as per what she had observed.

3.4.2 Secondary Data

Secondary data is a data that is either published or unpublished but already exists. It can also be referred as data that has already been collected by someone else and readily available from other sources. Secondary data was collected through documentary review. The researcher used secondary data because it was economical and time saving. Secondary data also helped to improve the understanding of the phenomenon by providing a basis for comparison with the data that was collected by the researcher. The sources of secondary data included HRM Policy Manual, Monthly Reports, KRA Corporate Plans, and Library Journals.

3.5 Reliability and Validity of Research Instruments

Reliability and validity are the two most important quality control objects in research. The research was conducted in a way that ensured validity and reliability of the study.

3.5.1 Validity

Validity refers to whether or not an indicator or a set of indicators that are devised to gauge a concept really measures that concept (Bryman, A. & Bell, E., 2007). The validity of research instruments determines the quality of data collected and hence that of the whole research (Bartlett et al. 2001). To enhance the validity of the questionnaire the researcher sought the opinion and input of experts in the field of compensation and reward management including the supervisors. In addition, she conducted an extensive review of relevant theoretical and empirical literature. The activities helped her to revise and modify the questionnaire appropriately to ensure it actually measures what it purported to measure.

3.5.2 Reliability

Reliability on the other hand is the consistency of a measure of a concept (Bryman, A. & Bell, E., 2007). Bell (2014 further describes reliability as the degree to which an instrument measures the same way each time it is used under the same conditions with the same subjects. The research instrument was pre-tested on 10 respondents from National Social Security Fund, Headquarters in Nairobi. Mugenda and Mugenda (2003) advocates that the pre-test sample should be between 1% and 10% depending on the sample size.

Table 3.2 Results of Reliability Test

Research Variable	Cronbach's Alpha Index	Number of Items	Inference
Salary and Wages	0.801	4	Reliable
Promotion	0.768	4	Reliable
Recognition	0.823	4	Reliable
Fringe Benefits	0.792	5	Reliable
Employee Performance	0.765	3	Reliable
Aggregate	0.79	20	Reliable

Source: Pilot Data (2018)

From the results, all the five research variables were reliable as their Cronbach's alpha values were above the 0.7 threshold as recommended by (Kothari, 2009). In addition, collectively the five research variables had an aggregate alpha index of 0.79 for all the 20 items, which is within the recommended range for a reliable research instrument

3.5.3 Measurement of Variables

3.5.3.1 Dependent Variable (Employee Performance)

Employee performance is dependent on the output of its employees, hence measured using revenue collection and uptake i-tax, which results or the amount collected and responses determine the performance of employees.

3.5.3.2 Intervening/mediating variable (Motivation)

Motivation was measured by items adopted from Faragher et al, (2005) which only looked at the primary role in determining the overall performance of employees at KRA.

3.5.3.3 Independent Variable (Compensation and Reward)

Compensation and Reward was measured using four components which included salary and wages, promotion, recognition and fringe benefits. Salary and wages refer to form of pay received by employees for performance of their jobs. This was measured using earning same with others in same job grade, fair salary increase and inspiration. The second component was promotion measured using clear criterion, and equal chances for promotion. The third component was recognition which was measured through praise, criticism, information on progress and improvement of performance after recognition.

3.6 Data Analysis and Presentation

Data analysis entails processing of data to generate meaningful information which can then be evaluated against the research objectives. After the data was collected through questionnaires, it was prepared for analysis by editing, handling blank responses, coding and categorizing. Afterwards, it was keyed into the IBM SPSS Statistics 24 program for analysis to produce frequencies, descriptive and inferential statistics. The results were then presented using tables. In addition, a multiple linear regression model was used to test the significance of the influence of the independent variables on the dependent variable.

3.7 Regression Analysis Model

3.7.1 Assumptions of Regression Model

The multiple linear regression model specified below was used for analysis. The model explains how a unit increase in every aspect of compensation/independent variable affects the dependent variable/employees' performance.

$$Y = k + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon_i$$

Where : Y = Employees' Performance

k = Constant

X_1 = Salary, β_1 = Coefficient of variable X_1

X_2 = Recognition, β_2 = Coefficient of variable X_2

X_3 = Promotion, β_3 = Coefficient of variable X_3

X_4 = Fringe Benefits, β_4 = Coefficient of variable X_4

B_n = Beta Coefficients

ϵ_i = Error term

3.7.2 Assumptions of the model

Five key assumptions were considered to be able to effectively run the regression. The relationship between the independent and dependent variables was assumed to be linear. In the analysis checks were also conducted for outliers because multiple linear regression is sensitive to outlier effects. The linearity assumption was tested with scatter plots and established to exist before running the regression. All variables were assumed to be normal, meaning that data is normally distributed. This assumption was tested with a histogram and a goodness of fit test.

It was assumed that there was little or no multicollinearity in the data. Hence checks were conducted to ensure the independent variables were actually independent from each other. Correlation matrix was computed to check for multicollinearity. Pearson's Bivariate Correlation among all independent variables was checked and the correlation coefficients was found to be smaller than 0.08. It was also established that error of the mean was uncorrelated; that was, the standard mean error of the dependent variable was independent from the independent variables.

It was assumed that there was no auto-correlation. Variables were plotted on a scatterplot and it was established that there was no autocorrelation. It was also the case that autocorrelation was more of a problem in time series data. An assumption of homoscedasticity was made, meaning that the variance of errors was the same across all levels of the independent variables. This assumption was checked by visual examination of a plot of the standardized residuals (the errors) by the regression standardized predicted value.

3.8 Ethical Considerations

The researcher upheld the following fundamental principles of research ethics as recommended by (Camper *et. al.*,2017).

3.8.1 Confidentiality

The researcher ensured that the information obtained was used strictly for the fulfillment of the academic requirements. In that regard, all data was handled meticulously so that no piece of information was divulged to a third party at any cost.

3.8.2 Respect

The researcher learnt about the rules governing research undertakings with KRA and took practical security measures to ensure compliance with the requirements for

accessing any KRA office. For example, he sought introduction letter from the University, Authorizing letter and research permit from NACOSTI.

3.8.3 Equitable Treatment

The researcher ensured that all the parties impacted by the research were treated with equal respect and concern. In addition, the benefits of the research were shared, where practical outcome of all the parties affected were fully considered.

3.8.4 Objectivity

The researcher gathered all the information that was only relevant to the research topic and not any other

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.0 Overview

This chapter contains the data analysis, presentation and interpretation of the study. Quantitative data was presented in the form of tables. It was analyzed using descriptive statistics to generate frequencies of responses and inferential statistics to determine the relationship of the variables under study. Qualitative data on the other hand was presented using narrative themes.

4.1 Response Rate

The questionnaires were administered to the study sample of 120 employees working at Kenya Revenue Authority Head Office, Nairobi which was the sample of the study. However, the duly completed and returned questionnaires were 96 out of 120, which gave 80% response rate. According to Mugenda and Mugenda (2003), 50% response rate is adequate for analysis in a descriptive study.

4.2 Descriptive Analysis

Descriptive statistics were analysed in terms of frequencies and percentages for respondents' demographic characteristics and in terms of means and standard deviations for the variables under review.

4.3 Characteristics of Respondents

This section consists of information that describes basic characteristics such as gender, length of service, and education level among others.

4.3.1 Gender

According to the findings below, 51% of respondents were male, while 49% were female. A systematic viewing of the gender composition of KRA staff among the

different offices visited when issuing the questionnaires revealed that the Authority had employed the skills and talents of both genders fairly. These results revealed that KRA had fairly considered gender inclusivity in its recruitment. The result also implied that the study findings incorporate the views of both genders equitably. Therefore, the views concerning the effect of compensation and reward on employee performance at KRA are gender-neutral since both genders are represented adequately in the organization.

Table 4.1: Distribution of Respondents by Gender

Gender	Frequency	Percentage (%)
Male	49	51
Female	47	49
Total	96	100

Source: Field data (2018)

4.3.2 Level of Education `

As per the results below, it is visible that KRA has a well-developed human capital base as represented by 59.4% and 33.3% of first and second degree holders. This implies that majority of employees leverage high skills and knowledge in performing their tasks and are therefore justified to agitate for a compensation and reward system that adequately reimburses them for their input and effort. Sah (2014) asserts that, educational qualification is an input in the equity theory. For purposes of equity, the rewards must at least equal the input otherwise employees will be demotivated and their performance will decline. A favorable compensation and reward scheme therefore, should consider the educational qualification of workers.

Table 4.2: Respondents' Highest Academic

Highest Academic Qualification	Frequency	Percentage (%)
College Diploma	5	5.2
University Degree	57	59.4
Masters	32	33.3
PhD	2	2.1
Total	96	100

Source: Field data (2018)

4.3.3 Length of Service

As per the table below, the duration of service among KRA employees varies across the board. This means that the younger employees (represented by 21.9%) include millennials who bring valuable experience with respect to the use of technology. On the other hand, the older employees (represented by 78.1%) help induct the younger staff in their roles as they impart them with knowledge and work-related experience. Once more, equity theory conceptualizes work experience as an important aspect of inputs in the equation. A fair compensation and reward system should therefore, put into consideration the work-related experiences of the employees to induce motivation and ultimately inspire high performance.

Table 4. 3 Summary of Respondents according to work experience

Years Worked for KRA	Frequency	Percentage (%)
Less than 5 years	21	21.9
5-10	32	33.3
11-15	17	17.7
16-20	14	14.6
Over 21	12	12.5
Total	96	100

Source: Field data (2018)

4.3.4 Job Grade

Analysis of the job grades of employees revealed that the majority (60.4%) were from the lower cadre. About 27.1% of the respondents held supervisory or middle-level management positions while 12.5% of the respondents held top management positions. Therefore, majority responses were obtained from employees in the lower and middle cadres (87.5%). The observation was important in determining the impact of different aspects of compensation on the motivation of employees since different employees are inspired by different incentives depending on their individual goals. For instance, employees in the lower and middle cadres tend to have a similar goal i.e. realization of financial stability. On the other hand, employees in the top-most cadre (which includes chief managers, deputy commissioners and commissioners) are driven by incentives that preserve their status in the organization and the society. In conclusion, an effective compensation and reward system is one that considers the goals of individual employees because when the organization helps employees attain their goals, they are motivated to perform better as explained by the expectancy-reinforcement theory.

Table 4. 4 Respondents' Job Grade

Job Grade	Frequency	Percentage (%)
KRA 1-2	58	60.4
KRA 3-4	26	27.1
KRA 5-10	12	12.5
Total	96	100

Source: Field data (2018)

4.4 Descriptive Results

This section presents the descriptive results whereby the factors affecting employee performance in KRA are measured.

4.4.1 Employee Performance at KRA

It is evident that KRA has not met its revenue targets in the recent past as indicated by 75% response rate. However, the adoption and use of *i*-Tax among taxpayers has increased over the same period as indicated by 85% of respondents. Further results indicate that 90% of respondents considered motivation to be a key determinant of employee performance at KRA. With regard to the two KPIs (i.e. revenue collection and the adoption and use of *i*-Tax by taxpayers), the mean of the responses indicated from the results was 2.93 which means that the respondents were disagreeing on most of the statements. Through observation, the researcher noted that revenue officers and their supervisors were seen at work trying to serve as many customers as they could in a bid to meet their individual and divisional targets. One of the supervisors indicated that quarterly revenue reports were almost due and they were trying their level best to improve on the performance of the previous quarter.

Table 4. 5 Employee Performance at KRA

Statement	Indicator	Strongly Disagree	Disagree	Not Sure	Agree	Strongly Agree	Mean
KRA has met its revenue targets in the previous years	Frequency	27	45	2	14	8	
	Percentage	28.13	46.88	2.08	14.58	8.33	2.28
Uptake of <i>i</i> -Tax among taxpayers has increased in the previous years	Frequency	3	7	4	47	35	
	Percentage	3.13	7.29	4.17	48.96	36.46	4.08

Source: Field data (2018)

4.4.2 Intervening Variable – Motivation

With regard to motivation playing a significant role in influencing employee performance, the mean of the responses indicated from the results was 4.15 implying that most of the respondents agreed on the assertion. Meanwhile, the standard

deviation was 1.02, which indicated that the responses dispersed further from the mean implying that the answers received varied. The findings further emboldened the justification for the study. The researcher also observed that relatively younger employees projected a more zealous and spirited demeanor than the older employees. A similar observation was made with respect to the momentum and passion with which the two categories of employees discharged their duties. Going by the discovery, it was fairly inferred that different employees had different expectations which served as drivers of hard work. The younger employees could have perhaps been inspired by the success stories of their superiors in the Authority while the latter appeared to have attained much of their aspirations. This observation was likely to prove that different employees would be inspired to work harder by different incentives as regards compensation and rewards.

Table 4.6: Motivation

Statement	Indicator	Strongly Disagree	Disagree	Not Sure	Agree	Strongly Disagree	Mean
Motivation plays a primary role in determining the overall performance of employees at KRA	Frequency	3	7	0	49	37	
	Percentage	3.13	7.39	0	51.04	38.54	4.15

Source: Field data (2018)

4.4.3 Salary and Employee Performance

Analysis of employees' perception of the salary package revealed that 85% of respondents felt that the salary they received was commensurate with the effort they put in their work. However, 58% of respondents felt that their salary was not equivalent to that of other employees doing similar jobs. Salary increment was being done in a fair manner as indicated by 75% of respondents. Ninety three percent (93%)

of respondents indicated that a salary raise would inspire them to do better. Results from the correlation and regression analysis indicate that salary has a positive effect on employee performance as depicted by its positive correlations of 0.753. The results from this analysis showed the importance of salary increment in improving employee performance at KRA. On a five-point scale, the mean of the responses indicated from the results was 3.71 meaning that the respondents were agreeing on most of the statements while the standard deviation was 0.67 which indicated that the answers received were clustered closely around the mean. These findings concur with those of Milkovich *et al.* (2015), who found that organizations which employed a fair salary scheme with reasonable pay increases tended to perform better in terms of productivity, revenues, profitability, viability and prospects. Trevor *et. al.*, (2010) also found a positive relation between salary and productivity, profit, revenue and client satisfaction, a relation that is more significant when salary raises are pegged on employee performance.

Table 4.7: Salary and Employee Performance

Statement	Indicator	Strongly Disagree	Disagree	Not Sure	Agree	Strongly Agree	Mean
My salary is satisfactory in relation to what I do	Frequency	4	10	0	45	37	
	Percentage	4.17	10.42	0	46.88	38.54	4.05
I earn the same as other people in a similar job	Frequency	22	34	3	21	16	
	Percentage	22.92	35.42	3.14	21.88	16.67	2.74
Salary increases are decided in a fair manner	Frequency	9	12	2	41	32	
	Percentage	9.38	12.5	2.08	42.71	33.33	3.78
Salary increase will inspire me to perform better	Frequency	2	5	0	49	40	
	Percentage	2.08	5.21	0	51.04	41.67	4.25

Source: Field data (2018)

4.4.4 Promotion and Employee Performance

Results on the effect of promotion on employee performance at KRA indicated that the organization had put in place measures to ensure that employees have an equal chance to be promoted as represented by 81% of respondents. However, it seemed there were many employees who were not conversant with KRA's promotion framework as indicated by 64% of respondents. This observation was corroborated by the 12.5% of respondents who were not certain if they would be promoted in the next three years. Results further indicate that employee promotion had encouraged better performance as supported by 94% agreement level. The mean of the responses indicated from the results was 3.66 which implied that the respondents were agreeing on most of the statements while the standard deviation was 0.70 which shows that the answers received were closer to the mean. These results further confirmed the findings of Delaney and Huselid (2011) who state that a transparent and merit-based promotion scheme enhances job satisfaction besides developing talent, ultimately boosting employee performance.

Table 4.8: Promotion and Employee Performance

Statement	Indicator	Strongly Disagree	Disagree	Not Sure	Agree	Strongly Agree	Mean
Everyone has an equal chance to be promoted	Frequency	7	9	2	46	32	
	Percentage	7.29	9.38	2.08	47.92	33	3.91
I will be promoted in the next 3 years	Frequency	12	15	12	20	37	
	Percentage	12.5	15.63	12.5	20.83	38.54	3.57
The criterion for promotion is clear	Frequency	23	38	2	17	16	
	Percentage	23.96	39.58	2.08	17.71	16.67	2.64
My performance has improved since I was last promoted	Frequency	2	4	0	51	39	
	Percentage	2.08	4.16	0	53.13	40	4.26

Source: Field data (2018)

4.4.5 Recognition and Employee Performance

Analysis of employees' notion of recognition in the organization showed that majority (68%) felt they were not praised regularly for their work (Table 4.9). On the other hand, 64% of respondents indicated they receive constructive criticism about their work. Seventy four Percent (74%) of respondents indicated that they receive some notification whenever they register progress in their performance. Results further show that recognition enhances the performance of KRA employees as represented by 84% agreement level. The mean of the responses was 3.43 implying that the respondents were agreeing on most of the statements while the standard deviation was 0.67 which indicates that the responses were clustered relatively close to the mean. These descriptive results on employee recognition support those of Luthans and Stajkovic (2006) who show that there is a strong sense that recognizing employees for their contribution towards organizational success motivates employees to do much more in enhancing organizational performance.

Table 4. 9 Recognition and Employee Performance

Statement	Indicator	Strongly Disagree	Disagree	Not Sure	Agree	Strongly Agree	Mean
I am praised regularly for my work	Frequency	27	38	0	18	13	
	Percentage	28.13	39.58	0	18.75	13.54	2.5
I receive constructive criticism about my work	Frequency	13	21	1	29	32	
	Percentage	13.54	21.88	1.04	30.21	33.33	3.48
I am told when I am making progress	Frequency	11	14	0	41	30	
	Percentage	11.46	14.58	0	42.71	31.25	3.68
My performance has improved since I was last recognized	Frequency	4	7	4	44	37	
	Percentage	4.17	7.29	4.17	45.83	38.54	4.07

Source: Field data (2018)

4.4.6 Fringe Benefits and Employee Performance

Results on the effect of KRA's fringe benefits scheme on the performance of its employees revealed that employees could smoothly arrange for leave as supported by 90% of respondents. Results further indicated that employees were satisfied with the medical scheme as depicted by the 93% agreement level. With regard to bonus, 55% of respondents indicated that they always received a bonus when they met their targets while 60% revealed that employees received a bonus whenever the authority met its targets. That notwithstanding, 56% of respondents indicated they are not satisfied with the framework employed by KRA to award bonuses to employees. The mean of the responses indicated from the results was 3.55 which suggested that the respondents were agreeing on most of the statements while the standard deviation was 0.64 indicating the answers received were closer to the mean. The results confirmed what Kamau (2013) found after conducting a similar study on the public sector in Kenya. Baker and Huselid (2006) also observed that although employees may be enthusiastic about different employment benefits, they may not necessarily approve of the methodology utilized to award them.

Table 4.10: Fringe Benefits and Employee Performance

Statement	Indicator	Strongly Disagree	Disagree	Not Sure	Agree	Strongly Agree	Mean
I never encounter challenges when processing my leave	Frequency	3	7	0	45	41	
	Percentage	3.12	7.29	0	46.88	42.71	4.18
My medical scheme is satisfactory	Frequency	2	5	0	47	42	
	Percentage	2.08	5.21	0	48.96	43.75	4.27
I always receive a bonus whenever I meet my targets	Frequency	16	27	0	32	21	
	Percentage	16.67	28.13	0	33.33	21.87	3.16
I always receive a bonus when KRA meets its targets	Frequency	12	26	0	35	23	
	Percentage	12.5	27.08	0	36.46	23.96	3.32
I am satisfied with the basis used by KRA to award bonus to employees	Frequency	21	33	0	26	16	
	Percentage	21.88	34.37	0	27.08	16.67	2.82

Source: Field data (2018)

4.4.7 Compensation and Reward System at KRA

This section was an open-ended question, which sought to find the perception of KRA employees towards the compensation and reward system in place. It was observed that 56.2% of the respondents felt that the system was fair. One of the reasons they gave was that they felt adequately compensated for the effort they had put in their respective roles. This explanation resonates well with the basic principle of equity theory, which proposes that benefits should at least be equal to the effort invested in a job Sah (2014). Another reason they gave was that the compensation and reward system had enabled them to realize some personal goals. For instance, some respondents indicated that they had aspired to own a home and after some time their

expectations were realized through mortgage scheme at KRA. Others cited the Authority's staff medical scheme as the reason they deem the system to be fair. Clearly, different employees interpret fairness of the compensation and reward system differently depending on their needs and priorities.

The result also revealed that 43.8% of the respondents deemed the system unfair for a number of reasons. To begin with, some respondents expressed dissatisfaction with the manner in which bonuses were awarded saying the system excluded temporary staff yet they also contribute to the organization's performance. They also added that the medical cover of temporary staff had many restrictions yet they were exposed to similar risks as permanent staff. In addition, temporary employees were excluded from other benefits including housing and transport allowances. The respondents also pointed out unfairness with respect to promotion whereby some indicated they were stuck in the same role for more than five years and others even said they had not been promoted for ten years. Finally, yet importantly, some of the respondents who deemed the system unfair pointed at the manner in which mortgage was awarded saying they had applied many times and every time they inquired about the results of their applications, the feedback was that they were still in progress. Some even were heard saying that they had waited for several years with no success in sight. In any organization as it is always the case, the needs and wants of a given institution's employees are divers in nature. In the spirit of fairness and objectivity KRA management should not disregard the views of the 43.8% of its workforce who feel the system is not fair even if they are not the majority. Certainly, the percentage represents a significant proportion of the workforce.

While visiting KRA during distribution and collection of questionnaires, the researcher was able to listen to verbal comments that the staff made while conducting

their roles. The researcher also observed that the employees' commitment towards the tasks given were not per the laid down standards in terms of effectiveness, efficiency and output. This, they portrayed through either being slow in performing their tasks and or failing to follow the laid down procedures. The character portrayed by staff both in speech and actions represented a very high percentage of demotivated staff. This information complemented the results of the quantitative findings. However, the majority of those staff who were demotivated seemed to be of the lower cadre, namely staff on contract and casual terms

Table 4. 11: Employee Perception on Compensation and Reward System at KRA

Perception	Frequency	Percentage (%)
Fair	54	56.2
Not Fair	42	43.8
Total	96	100

Source: Field data (2018)

4.5 Inferential Results

Table 4.12 shows fitness of the regression model in explaining the study phenomena: salary, promotion, recognition and fringe benefits. This is supported by coefficient of multiple determination (also known as the R^2) of 68.06%. This means that salary, promotion, recognition and fringe benefits explain 68.06% of the variations in the performance of KRA employees. The results suggest that the model applied to link the relationship of the variables was satisfactory.

Table 4. 12 Model Fitness

Indicator	Coefficient
R^2	0.825
Adjusted R^2	0.6806
Std. Error of the Estimate	0.1672

4.5.1 Analysis of Variance (ANOVA)

ANOVA was conducted to establish the overall fitness of the model. To test the fitness of the model a 5% level of significance was set. Table 4.13 provides the ANOVA results. The results indicate that the overall model was a good fit for the relationship between the dependent variable and independent variables. This means that the independent variables were good predictors of employee performance measurement. This was supported by an F statistic of 26.1714 and the reported p-value of 0.045, which was less than the set significance level of 0.05.

Table 4. 13 Analysis of Variance, ANOVA

Indicator	Sum of squares	Degree of freedom, df	Mean Square	F	Sig.
Regression	2.931	4	0.7328	26.1714	0.045
Residual	2.544	91	0.028		
Total	5.475	95			

4.5.2 Regression Output and hypotheses testing

Regression results were used to test hypotheses set in the study. The hypotheses tested were; (i) there is no statistically significant relationship between promotion and employee performance, (ii) there is no statistically significant relationship between salary and employee performance, (iii) there is no statistically significant relationship between fringe benefits and employee performance and (iv) there is no statistically significant relationship between recognition and employee performance. Regression of coefficients results in Table 4.14 showed that there was a positive relationship between salary, promotion, recognition, fringe benefits and employee performance. The conclusion was supported by the respective beta coefficients of 0.512 for salary, 0.026 for recognition, 0.114 for fringe benefits and 0.386 for promotion. These results showed that a unit change in each of the four elements of compensation would produce a positive change in the performance of employees at KRA to the tune of

0.512 units in the case of salary, 0.026 units for recognition, 0.114 units for fringe benefits and 0.386 units for promotion.

The results also indicate that salary, promotion and fringe benefits were statistically significant in measuring employee performance as they had probability values of 0.000 (salary), 0.019 (promotion) and 0.037 (fringe benefits) which were lower than the probability conventional of 0.05. Recognition was the only insignificant variable whose (p) value was 0.511 a value higher than the 0.05 conventional value.

Table 4. 14 Regression Output

Variable	Beta	Std. Error	T	Sig.
Constant	1.673	0.451	3.693	0.000
Salary	0.512	0.072	7.097	0.000
Recognition	0.026	0.048	0.539	0.511
Fringe benefits	0.114	0.054	2.112	0.037
Promotion	0.386	0.061	6.326	0.019

The fitted model is as conceived in chapter 3 and illustrated below.

$$Y=1.673+0.512 X_1 +0.026 X_2 +0.114 X_3 + 0.386X_4.$$

4.6 Objective Test and Analysis

Inferential analysis was conducted to generate correlation results, model of fitness, analysis of the variance and regression coefficients. Additionally, it was conducted to show the relationship that exist between the depended and independent variables

4.6.1 Pearson's Bivariate Correlation Analysis

The Pearson's Bivariate analysis sought to find out whether there was any significant relationship between the independent variables: salary, promotion, recognition and fringe benefits with the dependent variable-employee performance at KRA. The results of this relationship were presented in Table 4.15. Pearson's bivariate results showed that salary, promotion, recognition and fringe benefits were significant in

determining employee performance at KRA. The inference was based on the measure of Pearson correlation significance whose value was less than 0.05. The results further showed that all the variables had strong and positive correlation despite recognition whose p- value was less than 0.05: salary (0.753), promotion (0.632), recognition (0.411) and fringe benefits (0.539) respectively. This meant that an increase in either of the variables positively influenced the performance of KRA employees.

Table 4.15: Bivariate Correlation Analysis

Variable	Correlation	Employee Performance mean	Salary	Promotion	Recognition	Fringe Benefits
Employee Performance	Pearson Correlation Sig. (2-tailed)	1				
Salary	Pearson Correlation Sig. (2-tailed)	0.753 0.000	1			
Promotion	Pearson Correlation Sig. (2-tailed)	0.632 0.000	0.134 0.331	1		
Recognition	Pearson Correlation Sig. (2-tailed)	0.411 0.040	0.713 0.000	0.058 0.675	1	
Fringe Benefits	Pearson Correlation Sig. (2-tailed)	0.539 0.007	0.149 0.279	0.686 0.000	0.528 0.000	1

4.7 Discussion of Findings

The results of the Pearson's Bivariate correlation analysis indicate there is a positive relationship between compensation and reward system and employee performance. The revelation supports the findings of various studies such as Luthans and Stajkovic (2006) and Kamau (2013) who found a positive connection between different forms of compensation and morale which ultimately affected employee performance. Also

Hong *et al.* (2012) observed a positive association between different employment benefits and employee performance arguing that an employee is bound to perform better when their wellbeing is adequately looked after. More importantly, the positive correlation supported the propositions of equity and expectancy-reinforcement theories most notably the idea that a fair reward and compensation scheme motivates employees to perform better in the subsequent periods (Sah *et. al.*, 2014; Gerhart and Rhynes, 2003).

In their study, Baker *et. al.*, (2008) found that organizations which had invested in competitive compensation and incentive programs attracted and retained highly talented personnel. According to the study, the employees were highly motivated by the reward scheme and their performance was exceptional in most cases. The findings that recognition was not significant in explaining the performance of KRA employees was not consistent with the argument of Luthans and Stajkovic (2006) who saw recognition as a tool of invoking better performance among employees. It did not also validate the proposition made by Katru (2006) that recognition was an incentive for improved performance because it increases motivation.

The researcher's view tends to agree that there is a relationship between compensation and reward system towards employee performance, motivation being a key factor which affects independent variables namely; Salary, Promotion, Fringe benefits and Recognition and the dependent variable which is Employee Performance. However, over emphasis upon fringe benefit being a key factor is not agreeable to the researcher's view because all the four indicators of compensation and reward system are significant. In addition, recognition is not only the key factor that affect employee performance, neither is it an intervening factor between in-dependent and dependent

variables as proposed by the above writers respectively. The findings helped the researcher to fulfill the study objectives by revealing the degree of influence each independent variable had on the dependent variable.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Overview

This chapter presents the summary of the findings, the conclusions and the recommendations. This was done in line with the objectives of the study. The study was carried to examine the effect of compensation and reward system at KRA Headquarters.

5.2 Summary of Findings

5.2.1 Research Objective 1: Salary and Employee Performance

One of the objectives of the study was to establish the effect of salary on employee performance at KRA. The correlation results indicated that salary increase positively affected performance. This therefore meant that a systematic pay raise tended to improve performance of KRA employees. A significant majority of respondents who indicated that; although the salary they received was commensurate with the input directed towards their jobs, they would perform much better if the payment was increased bolstered the finding. In fact, among the four independent variables, salary was the most statistically significant variable in determining employee performance with a p-value of 0.000 that is way below the conventional 0.05.

5.2.2 Research Objective 2: Promotion and Employee Performance

The results on the objective of whether promotion affects employee performance indicate a positive relationship between the two. This correlation results implied that increase in strategic promotions across the job cadres leads to an improvement in employee performance. The findings of the significance of promotion in determining employee performance are supported further by respondents' agreement that their performance improved since they were last promoted. Respondents supported further

that every employee stands an equal chance to be promoted but many were not quite sure if they would be promoted in the near future. The revelation is supported by a majority of respondents who indicated that they were not familiar with the promotion criterion.

5.2.3 Research Objective 3: Recognition and Employee Performance

Another objective of the study was to assess the effect of recognition on the performance of employees at KRA. Some respondents indicated that their performance had improved since they were last recognized. Additionally, few respondents also stated that they were notified when they made progress in their work. Correlation results indicated that recognition affects performance positively but was not a key factor of employee performance. The bottom-line is that KRA has fairly put in place a system of recognizing employees for their contribution towards organizational performance. However, regression and correlation results further showed that recognition is not statistically significant variable in determining the performance of employees at KRA.

5.2.4 Research Objective 4: Fringe Benefits and Employee Performance

Regression results indicated that fringe benefits affect the performance of employees positively. This is evident from the positive correlation results found from the analysis. Further descriptive results on views of respondents bring out the importance of fringe benefits. For instance, most respondents indicated they are satisfied with the organization's medical scheme and that they can seamlessly arrange for leave. However, majority of respondents expressed dissatisfaction with the basis used to award bonus to employees. These results indicate that fringe benefits if not well strategized and implemented, can potentially affect employee performance negatively.

5.3 Conclusion

5.3.1 Managerial Implication

High performing organizations tend to commit resources to enhancing their compensation and reward system in order to boost the morale of employees and enhance job satisfaction. From the study findings, conclusions made were that increasing the salary package is effective in determining performance and proper execution of the same increases the morale of employees leading to improved productivity. KRA has put in place a fair system of making staff promotions. However, the framework is not well-known to employees making it difficult for them to predict with certainty when they are likely to be promoted. More importantly, the deficiency in transparency with regard to promotion criterion may undermine the credibility of the promotion process which can in turn demotivate employees (Armstrong and Brown, 2011). KRA has put in place a framework of recognizing employees for their accomplishments and the strategy seems to resonate well with most employees. Notwithstanding, recognition is not a significant determinant of employee performance. KRA employees enjoy a wide range of fringe benefits including paid leave, bonuses and a medical cover Kenya Revenue Authority, (2016). The benefits have served to keep at bay any concerns which may constrain the productivity of an employee.

The scheme is largely satisfactory and employees are inspired to give their best in their roles. However, many of the respondents expressed discontentment with the policy employed in awarding bonuses to employees. Results from the regression analysis showed that compensation and reward scheme accounts for 68.06% of changes in the performance of KRA employees. Incidentally, the performance of KRA in terms of revenue collection and the adoption and usage of *i-Tax* by taxpayers

is below expectation. Having established a causal relationship between an organization's compensation and reward system and employee performance, it is evident that the system at KRA has not sufficiently inspired high employee performance to the fullest.

5.3.2 Theoretical Contribution

The study was informed by three theories. To begin with, expectancy-reinforcement theory underscores the importance of compensation and rewards in influencing employee behavior. A key tenet of the theory is motivation. For instance, at least 89% of respondents considered motivation to be an important determinant of performance. The implication is that any variable that enhances the motivation of employees will ultimately lead to better performance. The expectancy principle highlights the expectations that employees have for their employers; which is a demonstration of an important element of psychological contract in employment (Dabos and Rousseau, 2004). For instance, employees expect that an impressive performance would be accompanied by certain rewards such as salary increment, recognition, additional fringe benefits and possibly a promotion. The reinforcement principle affirms that behaviour that attracts rewards is likely to be repeated. However, different rewards inspire better performance at different scales because expectations of employees are heterogeneous (Coyle-Shapiro and Conway, 2005). Now majority of the responses came from employees in the lower and middle cadres (60.4% from employees in the lower cadre and 27.1% from those in the middle cadre). Understandably, those two categories of employees are more concerned about the security and survival that comes with employment. As a result, they tend to respond favourably to organizational change that guarantees a smooth income stream or improved financial wellbeing. Incidentally, the three statistically significant

variables (salary, promotion and fringe benefits) are associated with higher financial rewards. They also bode well for the present and future security of employees and their households. On the other hand, recognition is not necessarily accompanied with financial rewards hence it is less impactful on motivation. The insight would help organizations customize their compensation and reward systems to the needs and expectations of employees.

The equity theory of motivation postulates that an employee will be inspired to invest more into their jobs if they perceive that the benefits compare with the input. At an organizational level, equity theory proposes that an employee will view the reward scheme more favorably if the ratio of their benefits to input compare with that of colleagues in similar roles or job groups (Mowday, (2011). The comparison can result in either satisfaction or dissatisfaction. For instance, salary is a key driver of better performance as indicated by at least 92% of the respondents. However, more than 58% of respondents indicated that they did not earn the same salary as their fellow colleagues in similar jobs or roles in the organization. A similar inference can be made with respect to fringe benefits where more than 55% of the respondents expressed dissatisfaction with the framework employed in awarding bonuses to employees. A documentary review of KRA's HRM policy manual revealed that employees employed on a temporary basis received a smaller take-home pay compared to their colleagues in similar roles but on permanent and pensionable terms of employment. Also, every employee uniquely contributes to organizational performance depending on their roles. The formula employed in determining how to award bonuses tends to disenfranchise employees that are on temporary terms of employment (Muraya, 2012). Those gray areas have created dissatisfaction among many KRA employees. The two examples fall under salary and fringe benefits both

of which are primary determinants of employee performance. No wonder the Authority has failed to achieve its targets over the previous years.

The agency theory posits that agent (hereby represented by employee) should safeguard the interests of the principal (hereby represented by the employer) and avoid any conflict of interest in order that the organization achieves its goals. It proposes that safeguarding the interests of the organization ultimately results in good performance, which in turn enhances the job satisfaction of employees. According to Hill and Jones (2012), employees who are satisfied with their compensation package will be inspired to perform better in the interest of consolidating and securing the prospects of the employer. Agency theory is also concerned with resolving problems that can exist in agency relationships due to unaligned goals. Often the connection between the goals or desires of the principal and those of the agent is broken. The situation breeds dissatisfaction of either party inevitably constraining organizational performance. For instance, the dissatisfaction arising from the lack of equity in determining the salary and bonuses of employees at KRA has created discontentment particularly among those employed on a temporary basis thereby holding back their drive to perform better (Muraya, 2012). The overall result is the failure to achieve targets across the board. Conclusively, KRA should consider improving its employee compensation and rewards system

5.4 Recommendations

The researcher made the following recommendations based on the objectives of the Study:

5.4.1 HRM Policy and Practice

To begin with, KRA should consider harmonizing the salaries of employees across all cadres. This will help in ironing out any elements of inequality and close any unusual pay gaps. Based on the propositions of the equity theory, employees who are satisfied in their jobs will not only stay around for long but they will also be more productive. With regard to promotion, the Authority should sensitize its employees on the criterion used to promote employees. It is obvious that performance is a primary determinant of career progress not just in KRA but in many organizations. However, there are auxiliary factors which inform the decision to promote or demote including duration of engagement, leadership capabilities, and strategic knowledge among others. An elaborate framework on how promotions are done will reinforce the trust of employees in the process. Additionally, it will influence decisions concerning personal and career development.

Another recommendation for KRA and other public institution entails recognizing the achievements of employees regularly. The achievements could be related to the job but they could also involve other activities that might enhance the image of the organization. KRA should also streamline its fringe benefits scheme to make it fairer. For instance, according to KRA's HR Policy Manual, bonuses are only awarded to employees who are employed on a permanent basis (Kenya Revenue Authority, 2016). In addition, the amount awarded is pegged solely on the job scale. The

framework is not too popular and can potentially dampen the morale of junior employees and those employed on temporary basis.

5.4.2 Areas for further study

The current literature on compensation and rewards has not sufficiently dealt with the issue of diversity and the impact it could have on employee performance. Therefore, further research on the impact of compensation and reward systems on employee performance for diverse groups of people could be beneficial to organizations. Research should focus on the broad spectrum of diversity categories including, race, gender and disability among others. The studies could also explore the element of age and tenure of employees in that regard. The results of such studies could yield some interesting findings and could also significantly impact the delivery of meaningful compensation and rewards to diverse groups of people.

Kenya is a member of the East African community and there is a target of forming a customs union, which calls for establishing a similar study among the other revenue authorities of the East African region. Such a study will bring out the various HRM-related responses of the respective revenue authorities and the findings will come in handy at the time of customs integration. Further studies could consider other aspects of HRM practices that might influence employee performance including job design, training and development, and performance management. The study being a mixed method with the main approach being quantitative and the minor being qualitative, the researcher's observation that there is a need for qualitative research in the area of use of Human Resource tools as a means of providing information and knowledge to employees. This will be uncovering the real reasons for poor performance at KRA and determine appropriate compensation and reward system.

REFERENCES

- Alegana, H. (2014). *The Effect of Tax Incentives on Economic Growth in Kenya*. Nairobi: University of Nairobi.
- Ali, M. F. (2012). *Factors Affecting Tax Compliant Attitude in Africa*. Oxford: Centre for the study of African Economies.
- Allingham, M. G. (1972). Income tax evasion. *Journal of Public Economics*, 1, (4), 323-340.
- Alm, J. M. (1992). Why do people pay taxes? *Journal of Public Economics*, 21-38.
- Armstrong, R. P, & Brown D, (2011),” Increasing the Effectiveness of Reward Management,”. *Employee Relations, Emerald Group*,(33), 2, 106-120.
- Armstrong (2003) *A handbook for Human Resource Management Practice* ,2nd Edition Kogan
- Aswathappa, K. (2005). *Human resource and personel Management*. Nairobi: Tata Mcgraw-Hill Education.
- Atawodi, O. W. (2012). Factors that affect tax compliance among Small and Medium Enterprises (SMEs) in North Central Nigeria. *International Journal of Business and Management*, 87-96.
- Atika, G. (2012). A case study of intergrated tax management information system of the domestic taxes department of KRA. *An Investigation of the effect of online services on revenue collection*.
- Awa, F. &. (2015). Factors that affect Tax Compliance among Small and Medium Enterprises (SMEs) in Enugu, South-Eastern Nigeria. *International Journal of Research in Business Management*, 25-36.
- Baker, G., & et al. (2008). *Compensation and Incentive practices Vs Theory*.
- Bhartia, H. (2009). *Public Finance*. New Delhi: Vikas Publishing House PVT LTD.
- Bhujanga, A. (2008). *Research methodology*. New Delhi, New Delhi, India: Anurag jain for excel books.
- Bunyasi, G. N., Bwisa, H., & Namusonge, G. (2014). Effect of access to business information on the growth of small and medium enterprises in kenya. *International Journal of business social science*, 5-10.
- Barrientons (2004), *Employee Training and Development* ,2nd Edition ,Pearson Limited ,England, United Kingdom
- Bryman, A. And E, Bell (2007). *Business Research Methods*. Oxford University Press, Oxford
- Casson, M. (2014). The economic theory of the firm as a foundation for international business theory. *Multinational business review*, 22(3), pp 205-206. doi:http://dx.doi.org/10.1108/mbr-06-2014-0024
- Chandan, J. S. (2010). *Business Statistics*. Delhi: Vikas Publishing House PVT.

- Chilipunde R.L., & S. (2010). *Constarints and challenges faced by small,medium and micro enterprise contractors; A case study of malawi*. Nelson Metropolitan University, Department of construction management. Lilongwe: Nelson metropolitan University.
- Connell, C. (2007). The influence of fritz machlup on Edith Penrose and the Theory of the Growth of the Firm. *Journal of management history*, 13(3), pp 228-239. Retrieved from <http://dx.doi.org/10.1108/17511340754680>
- Eisenhardt, K. (1989). Agency theory: An Assesement and Review. *Academy of management journal*, Pp 57-74.
- Faragher, E. B, Cass, M., and Cooper, C. L. (2005). The Relationship between Job Satisfaction and Health. A Meta Analysis, *Occup Environ Med*, 62, 105-112
- Gachiku, w. (2015). *Tax compliance by Small and medium Enterprises in Nairobi North Tax region, Kenya*. Nairobi: Kenyatta Unviversity.
- Gcabo, R. &. (2007). Tax Compliance and Behavioral Responses in South Africa:An alternative investigation. *SAJEMS*, 357-370.
- Gitaru, K. (2017). *Effects of taxpayers education on tax compliance in Kenya*. Nairobi: University of Nairobi, School of Economics.
- Gupta, A. (2008). Adoption of ICT in a Government in a developing country; An empirical study. *Journal of strategic information system*, Pp 140-154.
- Harper, M. (1991). *Statistics* (Vol. 6 Edition). London, London, U.K: Pitman Publishing.
- Hiam, A. (2003). *Motivational management inspiring people for maximum performance*. New york: Miami Publication.
- Hussain, A. (2007). *General principles and commercial law in kenya New edition* (Vol. 1). Nairobi, Nairobi, Kenya: EA Publishers.
- Ibrahim, K. (2017, July 31). Why income tax compliance levels are low in Kenya. *Daily Nation Business News*, pp. Pp 5-6.
- ICPAK. (2016, July Monday). Kenya Revenue Analysis 2010-2015. *Journal*, pp. Pp5-20.
- Jensen, M. (1983, April 1). Organisational theory and methodology. *Tha accounting Review*, 58(2), 319-339. Retrieved from <http://www.jstor.org/stable/246836>
- Kamau, H. (2013). *Fringe benefits effects on employee productivity in the public sector. A case of state department water nairobi county*. Nairobi: Jomo kenyatta university.
- Karanja, E. K. (2014). *Factors Affecting Voluntary Tax Compliance on Rental Income: A case study of Nairobi Landlords*. Nairobi: United States International University.
- Karanja, E. K. (2014). *Factors Affecting Voluntary Tax Compliance on SME's: A case study of Nairobi SME's*. Nairobi: United States International University.

- Katru, A. (2006). Human resource management system in an Organisation performance. *Interantional Journal of Human resource management.*, Pp 18-53.
- Kenya Bureau of National Statistics. (2015). *Economic Survey*. Nairobi: Government Press.
- Kenya National Bureau of statistics. (2016). *Economic Survey*. Nairobi: Kenya National Bureau of Statistics.
- Kenya Revenue Authority. (2005). *Annual Revenue Performance Report FY 2004/05*. Nairobi: Government Press.
- Kenya Revenue Authority. (2015). *The sixth Corporate Plan*. Nairobi: Government Press.
- Kinyua, k. (2014). *Factors affecting voluntary tax compliance on rental income*. Nairobi: Unites states international university.
- KIPPRA. (2016, January). Lessons for Kenya Tax Reforms Experience in Nairobi. *Newsletter*, pp. Pp 5-20.
- Kirimi, W. p. (2015). Influence of automation of revenue collection processes on organisational performance; A case of county government of meru,kenya. Nairobi.
- Kothari, C. R. (2009). *Research Methodology: Methods & Techniques*. New Delhi: New Age International Publishers.
- KRA. (2017). *Kenya Revenue Authority 6th Corporate plan*. KRA. Nairobi: Kenya Revenue Authority.
- Krishnaswami, o., & Satyaprasad, B. (2010, january 1). *Kca university*. Retrieved from <http://www.ebrary.com>.
- Kusi, N. (1998). Tax reform and revenue productivity in Ghana. *AERC Research pp No 74*.
- Kwak, J., & Lee, E. (2009). An empirical study of fringe benefits and performance of the Korean firms. *International journal of business management.*, Pp 38-56.
- Lai, M. L. (2010). Electronic tax filing system: Benefits and barriers to Adoption of system. *Journal of Malaysian Institute of chartered secretaries and administrators*, 14-16.
- Langton, J. (1985, june 1). Reply to perrow. *Administrative science quartely*, 30(2), 284-288. Retrieved from <http://www.jstor.org/stable/2393110>
- Law, K. (2015). *Tax procedures Act*. Nairobi: National council for the law reporting with the Authority of Attoney general.
- Ling, L. N. (2010). Integrating ICT skills in and tax software in tax education. *A survey of Malaysian tax practioners*, 303-317.
- Lumumba, O., Migwi, S., & Obara, M. (2010, April 8). Taxpayers Attitude and Tax compliance behaviour in Kenya. *African journal of business management*, Pp 113-120.

- Merima, A. O.-H. (2013). Factors affecting tax compliant attitude in Africa: Evidence from Kenya, Tanzania, Uganda and South Africa. *Centre for the Study of African Economics Conference*. Oxford: Centre for the Study of African Economics.
- Miller, W. (1960). The Theory of the growth of the firm by Edith Tilton. *The Business history review*, 34(4), 508-509. Retrieved from <http://www.jstor.org/stable/stable/3111440>
- Mugenda, O. a. (2006). *Research Methods*. Nairobi: Africa Centre for Technology Studies.
- Mugenda, O. M., & Mugenda, A. G. (2003). *Research methods Quantitative and Qualitative approaches*. Nairobi, Nairobi, Kenya: African centre for technology studies.
- Muita, E. W. (2011). Factors that influence adoption and use of e-filing system of kenya revenue Authority among the large taxpayers.
- Mukumu, I. (2016, January Thursday). What you need to know about rental tax. *Daily Nation Business News*, pp. 3-5.
- Muraya, J. (2012). *Factors influencing the implementation of performance contracting at Kenya Revenue Authority*. Nairobi: University of Nairobi.
- Muriithi, M. K. (2005). Tax reforms and financial mobilization in kenya.
- Murphy, H. A. (2007). Shaming,shame and recidivism. *British Journal of Criminology*, 900-917.
- Mutahi, N. (2015). Effects of Human Resource Management practices on performance of public universities in Kenya. *International Journal of Economics commerce and Management*, Pp 56-76.
- Mutegi, M. (2017, July Tuesday). KRA moves to enforce payments of rental income tax. *Daily nation Business news*, p. 3.
- Muthoni, D. (2014, September 7). Register for VAT if annual turnover is over Shs.5 m. *Business News Daily Nation*, p. Business News Pp 5.
- Muturi, W., & Ng'ang'a. (2015). *Factors that influence compliance with tax laws among small and medium sized enterprises in Kenya*. JKUAT, School of Business. Nairobi: Jomo kenyatta university of Agriculture and Technology.
- Mwirigi, F. M. (2011). *Role of Supply Chain Relationships in the Growth of Small Firms in Kenya*. Thika: Jomo Kenyatta University of Science and Technology
- Ndirangu, M. (2014). *The effect of Taxpayer education on Value Added Tax compliance by Motor vehicle part dealer in Nairobi central business district*. UON. Nairobi: University of Nairobi.
- Ngugi, A. (2016, December 19). Cheap Imports, high costs; Why many businesses are closing shop? *Daily Nation News paper*, Business News Pp 3. Nairobi, Nairobi, Kenya: Daily Nation Press.

- Nyarero, J. O. (2017, December 1). Factors influencing implementation and utilization of Electronic Tax Registers by small and medium enterprises in Nakuru town, Kenya. *International journal of economics commerce and management*, Vol V(Issue 12), Pp 728-760.
- Osebe, R. (2013). *An Analysis of Factors Affecting Tax Compliance in the Real Estate Sector in Kenya: A Case Study of Real Estate Owners in Nakuru Town*. Nakuru: Kabarak University.
- Osoro, N. (1993). Revenue Productivity implications of tax reforms in Tanzania. *Research paper No 20*.
- Parker, D. (1986). The Classical model of control in the accounting literature. *The accounting historian journal*, 13(1), Pp 71-92. Retrieved from <http://www.jstor.org/stable/40697886>
- Philips. (2013, September 6). Conglomerate firms .Internal capital markets and the theory of the firm. *Annual review of financial Economics*, 2, Pp 225-235. doi:10.1146/anurer-financial 110112-120933
- Pigou, A. C. (1903). The great Inquest. *An Examination of Mr. Chamberlain's Fiscal Proposals*.
- Pitelis, C. (2009, March 13). Edith Penrose's The Theory of the growth of the firm fifty years later. *Economic Journal*, 1, 1-28. Retrieved from <http://ssrn.com/abstract=1477885>
- PWC. (2013, July 1). Shifting the balance from direct to indirect taxes. *Management*, pp. Pp 5-10.
- Pradhan, R. K., & Jena, L. K. (2016). Employee Performance at Workplace: Conceptual Model and Empirical Validation. *Business Perspectives and Research*, 5(1), 69–85. <https://doi.org/10.1177/2278533716671630>
- Pyatt, G. (1971, June 1). Profit Maximisation and the Threat of new entry. *The Economic Journal*, 81(322), Pp 242-255. Retrieved from <http://www.Jstor.org/stable/2230068>
- Ramayah, T. V. (2008). Profiling online and manual tax filers. *A test of completing models, information systems research*, 144-157.
- Sandmo, A. (2006, July 1). The theory of tax evasion, A retrospective view. *National tax journal*, Pp 642-663.
- Saris, W. E., & Gallhofer, I. N. (2014, January 1). *Wiley series in survey methodology; Design, Evaluation and analysis of Questionnaires for survey research*. Somerset : Somerset US. Retrieved from Kca E Library: <http://www.ebrary.com>
- Seelmann, J. D. (2011). Benefits of a computerised integrates system of taxation. *iTAX Case Study*.
- Salah, M. (2016). The impact of training and development on employees performance and productivity. *International Journal of Management Sciences and Business Research*, 5(7), 36-70

- Simiyu, N. (2003). *Taxation in kenya*. nairobi: Foundation institute of professionals.
- Tilahun, A. T. (2014). Determinants of Tax Compliance Behavior in Ethiopia: The Case of Bahir Dar City Taxpayers. *Journal of Economics and Sustainable Development*, 268-273.
- Torgler, B. (2007). *Tax Compliance and Tax Morale*. Cheltenham: Edward Elgar Publishing Ltd.
- Venkatesh, V. (2016, May 1). Unified Theory of Acceptance and Use of Technology; A synthesis and the road ahead. *Journal for association for information systems*, Pp 328-376.
- Wanjau, K. L. (2010). *The Role of Quality in Growth of Small and Medium Enterprises in kenya*. Thika: Jomo Kenyatta University of Science and Technology.
- Wasao, D. (2014). The effect of online tax system on tax compliance among small taxpayers.
- Woods, M. (2009, June 1). A contingency theory perspective in the risk management control system within Birmingham city council. *Management accounting research*, pp. Pp 69-81.
- Wadhwa, S., & Tripathi, R. (2018). Driving employee performance through talent management. *International Journal of Environment, Workplace and Employment*, 4(4), 288. <https://doi.org/10.1504/ijewe.2018.093412>
- Yarrow, G. (1975). Growth maximisation and the firms investment function. *Southern Economic Journal*, 41(4), pp 580-592. Retrieved from <http://www.jstor.org/stable/1056476>

APPENDICES

Appendix I: Introduction Letter

Moi University- Nairobi Campus,

P. O. Box 34289-00100,

NAIROBI.

April, 2019

TO WHOM IT MAY CONCERN

Dear Respondent,

I am a postgraduate student in the School of Human Resource Development, at Moi University, currently undertaking my Research Study titled “The Effect of Organizational Compensation and Reward System on Employee Performance at Kenya Revenue Authority”. This is in partial fulfillment of the requirements for Masters of Science degree in Human Resource Development Programme.

The attached questionnaire is for gathering data, which will be useful in this research proposal. In view of the responsibilities, you hold in this organization, you have been selected as one of the respondents in this study. I therefore, request you to kindly facilitate the collection of the required data by answering the questions herein. Please note that the information sought is purely for academic purposes and will be treated with utmost confidentiality.

I look forward to your co-operation. Thanks in advance

Yours faithfully,

Jemimah Okutu

Reg.No. SHRD/PGH/032/16

Appendix II: Questionnaire

Introduction

It is fairly obvious that people differ from one another in what they need and expect to get from different areas of their lives. Please think about the work you do, bearing in mind that some jobs are not perfect while others are relatively perfect. For non-perfect, consider what would make it better from your point of view. **Please Answer the Questions Below;**

SECTION 1: BASIC INFORMATION

1. Gender of the respondent: Male [] Female []
2. Highest Academic Qualification: College Diploma [] University Degree []
Masters [] PhD []
3. How long have you been employed at KRA? Less than 5 years []
5– 10 years [] 11- 15 years [] 16 - 20 years [] Over 21 years []
4. Job Grade : KRA 1-2 [] KRA 3-4 [] KRA 5-10 []

SECTION 2: EFFECT OF ORGANIZATIONAL COMPENSATION AND REWARD SYSTEM ON EMPLOYEE PERFORMANCE

Section A: Employee Performance

This section is concerned with assessing performance at KRA. Please put a mark in the box which best describes your position on each of the following statements.

Statement	Strongly Disagree	Disagree	Not Sure	Agree	Strongly Agree
	1	2	3	4	5
KRA has met its revenue targets in the previous years					
Uptake of i-Tax among taxpayers has increased in the previous years					
Motivation plays a primary role in determining the overall performance of employees at KRA					

Section B: Compensation and Reward System

(i) Salary and Wages

This subsection investigates whether salary influences employee performance at KRA. Please put a mark in the box which best describes your position on each of the following statements.

Statement	Strongly Disagree	Disagree	Not Sure	Agree	Strongly Agree
	1	2	3	4	5
My salary is satisfactory in relation to what I do					
I earn the same as other people in a similar job					

Salary increases are decided in a fair manner					
Salary increase will inspire me to perform better					

(ii) **Promotion**

This subsection investigates whether promotion influences employee performance at KRA. Please put a mark in the box which best describes your position on each of the following statements.

Statement	Strongly Disagree	Disagree	Not Sure	Agree	Strongly Agree
	1	2	3	4	5
Everyone has an equal chance to be promoted					
I will be promoted in the next 3 years					
The criterion for promotion is clear					
My performance has improved since I was last promoted					

(iii) **Recognition**

This subsection investigates whether recognition influences employee performance at KRA. Please put a mark in the box which best describes your position on each of the following statements.

Statement	Strongly Disagree	Disagree	Not Sure	Agree	Strongly Agree
	1	2	3	4	5
I am praised regularly for my work					
I receive constructive criticism about my work					
I am told when I am making progress					

My performance has improved since I was last recognized					
---	--	--	--	--	--

(iv) Fringe Benefits

This subsection investigates whether fringe benefits influence employee performance at KRA. Please put a mark in the box which best describes your position on each of the following statements.

Statement	Strongly Disagree	Disagree	Not Sure	Agree	Strongly Agree
	1	2	3	4	5
My medical scheme is satisfactory					
I never encounter challenges when processing my leave					
I always receive a bonus whenever I meet my targets					
I always receive a bonus when KRA meets its targets					
I am satisfied with the basis used by KRA to award bonuses to the various job groups					

(v) Compensation and Reward System at KRA

How do you feel about Compensation and Reward System in the organization as at present?

(a) Fair (Give reasons)

.....

.....

.....

.....

(b) Not fair (Give reasons)

.....

.....

.....

Thank you for participating.

Appendix III: Observation Check-List

Job Grade:

Level of Education.....

Gender: (Male/Female)

Age:

Work Experience

SERIAL NO.	ITEM	YES	NO
1.	Does the respondent appear confident as she/he engages with their duties?		
2.	Does the body language conform to the written message of the participant?		
3	Is the environment conducive for information gathering?		
4	Is the participant fully focused on completing the questionnaire?		
5	Does the participant have good reading skills and writing abilities?		
6	Is the participant able to control his/her emotions?		
7	Does the participant's current situation affect the data collecting exercise?		

Appendix IV: Budget

No.	ITEM	AMOUNT (KSHS.)
1	Stationery, Typing, Printing, disseminating and Binding of the documents	20,000
2	Transport for Delivering hard copies to the supervisors.	10,000
3	Meeting expenses and Transport (researcher and Research Assistant)	10,000
4	Research Assistant Fee@ 1,000/= per day 1000 x 15 days	15,000
5	Miscellaneous	20,000
	TOTAL	75,000

Appendix V: Research Authorization Letter



NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION

Telephone: +254-20-2213471,
2241349, 2210571, 2219420
Fax: +254-20-318245, 318249
Email: dg@nacosti.go.ke
Website: www.nacosti.go.ke
When replying please quote

NACOSTI, Upper Kabete
Off Waiyaki Way
P.O. Box 30623-00100
NAIROBI-KENYA

Ref. No. **NACOSTI/P/18/86765/21970**

Date: **20th March, 2018**

Jemima Andeyo Okutu
Moi University
P.O. Box 3900-30100
ELDORET.

RE: RESEARCH AUTHORIZATION

Following your application for authority to carry out research on *“Effect of organizational compensation and reward systems on employee performance at Kenya Revenue Authority,”* I am pleased to inform you that you have been authorized to undertake research in **Nairobi County** for the period ending **20th March, 2019**.

You are advised to report to the **Commissioner General, Kenya Revenue Authority, the County Commissioner and the County Director of Education, Nairobi County** before embarking on the research project.

Kindly note that, as an applicant who has been licensed under the Science, Technology and Innovation Act, 2013 to conduct research in Kenya, you shall deposit a **copy** of the final research report to the Commission within **one year** of completion. The soft copy of the same should be submitted through the Online Research Information System.

DR. STEPHEN K. KIBIRU, PhD.
FOR: DIRECTOR-GENERAL/CEO

Copy to:


The Commissioner General
Kenya Revenue Authority.

The County Commissioner
Nairobi County.


Appendix VI: Research Permit Clearance

CONDITIONS

1. The License is valid for the proposed research, research site specified period.
2. Both the Licence and any rights thereunder are non-transferable.
3. Upon request of the Commission, the Licensee shall submit a progress report.
4. The Licensee shall report to the County Director of Education and County Governor in the area of research before commencement of the research.
5. Excavation, filming and collection of specimens are subject to further permissions from relevant Government agencies.
6. This Licence does not give authority to transfer research materials.
7. The Licensee shall submit two (2) hard copies and upload a soft copy of their final report.
8. The Commission reserves the right to modify the conditions of this Licence including its cancellation without prior notice.



REPUBLIC OF KENYA



**National Commission for Science,
Technology and Innovation**

**RESEARCH CLEARANCE
PERMIT**


Serial No.A 18024

CONDITIONS: see back page

THIS IS TO CERTIFY THAT:
MS. JEMIMA ANDEYO OKUTU
of MOI UNIVERSITY, NAIROBI CAMPUS,
0-100 Nairobi, has been permitted to
conduct research in *Nairobi County*



on the topic: **EFFECT OF
ORGANIZATIONAL COMPENSATION AND
REWARD SYSTEMS ON EMPLOYEE
PERFORMANCE AT KENYA REVENUE
AUTHORITY.**

for the period ending:
20th March, 2019



.....
**Applicant's
Signature**

Permit No : NACOSTI/P/18/86765/21970
Date Of Issue : 20th March, 2018
Fee Received : Ksh 1000

.....
**Director General
National Commission for Science,
Technology & Innovation**